

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

FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2012**

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM TO
COMMISSION FILE NUMBER: 001-33097**

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

MARYLAND
(State or other jurisdiction of incorporation or organization)

02-0681276
(I.R.S. Employer Identification No.)

**1521 WESTBRANCH DRIVE, SUITE 200
MCLEAN, VIRGINIA**
(Address of principal executive offices)

22102
(Zip Code)

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

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 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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

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

The number of shares of the registrant's Common Stock, \$0.001 par value, outstanding as of April 30, 2012 was 10,945,379.

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GLADSTONE COMMERCIAL CORPORATION
FORM 10-Q FOR THE QUARTER ENDED
MARCH 31, 2012

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Gladstone Commercial Corporation
Condensed Consolidated Balance Sheets
(Dollars in Thousands, Except Share and Per Share Amounts)
(Unaudited)

	March 31, 2012	December 31, 2011
ASSETS		
Real estate, at cost	\$ 452,161	\$ 442,521
Less: accumulated depreciation	<u>56,572</u>	<u>53,784</u>
Total real estate, net	395,589	388,737
Lease intangibles, net	39,878	37,670
Cash and cash equivalents	5,689	3,329
Restricted cash	3,054	2,473
Funds held in escrow	4,555	4,086
Deferred rent receivable, net	12,666	12,403
Deferred financing costs, net	5,540	3,473
Other assets	<u>1,003</u>	<u>976</u>
TOTAL ASSETS	<u>\$ 467,974</u>	<u>\$ 453,147</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Mortgage notes payable	\$ 282,065	\$ 285,350
Borrowings under line of credit	—	18,700
Series C mandatorily redeemable preferred stock, par value \$0.001 per share; \$25 per share liquidation preference; 1,700,000 shares and no shares authorized; and 1,540,000 shares and no shares issued and outstanding at March 31, 2012 and December 31, 2011, respectively	38,500	—
Deferred rent liability, net	3,593	3,851
Asset retirement obligation liability	3,329	3,289
Accounts payable and accrued expenses	3,305	1,956
Due to Adviser ⁽¹⁾	1,046	1,188
Other liabilities	<u>4,465</u>	<u>3,499</u>
Total Liabilities	<u>336,303</u>	<u>317,833</u>
Commitments and contingencies ⁽²⁾		
STOCKHOLDERS' EQUITY		
Series A and B redeemable preferred stock, par value \$0.001 per share; \$25 per share liquidation preference; 2,300,000 shares authorized and 2,150,000 shares issued and outstanding at March 31, 2012 and December 31, 2011, respectively	2	2
Senior common stock, par value \$0.001 per share; 7,500,000 shares authorized and 78,063 and 60,290 shares issued and outstanding at March 31, 2012 and December 31, 2011, respectively	—	—
Common stock, par value \$0.001 per share, 38,500,000 shares authorized and 10,945,379 shares issued and outstanding at March 31, 2012 and December 31, 2011, respectively	11	11
Additional paid in capital	211,755	211,553
Notes receivable - employees	(421)	(422)
Distributions in excess of accumulated earnings	<u>(79,676)</u>	<u>(75,830)</u>
Total Stockholders' Equity	<u>131,671</u>	<u>135,314</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 467,974</u>	<u>\$ 453,147</u>

⁽¹⁾ Refer to Note 2 *Related-Party Transactions*

⁽²⁾ Refer to Note 7 *Commitments and Contingencies*

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

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Gladstone Commercial Corporation
Condensed Consolidated Statements of Operations
(Dollars in Thousands, Except Per Share Data)
(Unaudited)

	For the three months ended March 31,	
	2012	2011
Operating revenues		
Rental income	\$ 12,014	\$ 10,435
Tenant recovery revenue	86	84
Total operating revenues	<u>12,100</u>	<u>10,519</u>
Operating expenses		
Depreciation and amortization	3,904	3,370
Property operating expenses	333	297
Due diligence expense	160	(138)
Base management fee ⁽¹⁾	393	352
Incentive fee ⁽¹⁾	899	832
Administration fee ⁽¹⁾	310	256
General and administrative	383	454
Total operating expenses before credits from Adviser	<u>6,382</u>	<u>5,423</u>
Credit to incentive fee ⁽¹⁾	<u>(585)</u>	<u>(486)</u>
Total operating expenses	<u>5,797</u>	<u>4,937</u>
Other income (expense)		
Interest income - employee loans	9	10
Other income	18	44
Interest expense	(4,572)	(4,156)
Distributions attributable to mandatorily redeemable preferred stock	(457)	—
Total other expense	<u>(5,002)</u>	<u>(4,102)</u>
Net income	<u>1,301</u>	<u>1,480</u>
Distributions attributable to preferred stock	(1,023)	(1,023)
Distributions attributable to senior common stock	(19)	(15)
Net income available to common stockholders	<u>\$ 259</u>	<u>\$ 442</u>
Earnings per weighted average share of common stock - basic & diluted		
Income from continuing operations (net of dividends attributable to preferred stock)	<u>\$ 0.02</u>	<u>\$ 0.05</u>
Net income available to common stockholders	<u>\$ 0.02</u>	<u>\$ 0.05</u>
Weighted average shares of common stock outstanding		
Basic	<u>10,945</u>	<u>9,258</u>
Diluted	<u>11,006</u>	<u>9,310</u>
Earnings per weighted average share of senior common stock	<u>\$ 0.27</u>	<u>\$ 0.25</u>
Weighted average shares of senior common stock outstanding - basic	<u>70</u>	<u>59</u>

⁽¹⁾ Refer to Note 2 *Related-Party Transactions*

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

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Gladstone Commercial Corporation
Condensed Consolidated Statements of Cash Flows
(Dollars in Thousands)
(Unaudited)

	For the three months ended March 31,	
	2012	2011
Cash flows from operating activities:		
Net income	\$ 1,301	\$ 1,480
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,904	3,370
Amortization of deferred financing costs	320	231
Amortization of deferred rent asset and liability, net	(168)	(176)
Amortization of discount and premium on assumed debt	16	33
Asset retirement obligation expense	40	38
Decrease (increase) in other assets	73	(44)
Increase in deferred rent liability	—	988
Increase in deferred rent receivable	(354)	(344)
Increase (decrease) in accounts payable, accrued expenses, and amount due Adviser	1,208	(626)
Increase (decrease) in other liabilities	388	(209)
Leasing commissions paid	(1,101)	—
Net cash provided by operating activities	<u>5,627</u>	<u>4,741</u>
Cash flows from investing activities:		
Real estate investments	(11,863)	(521)
Receipts from lenders for funds held in escrow	316	187
Payments to lenders for funds held in escrow	(785)	(465)
Receipts from tenants for reserves	726	526
Payments to tenants from reserves	(278)	(30)
Increase in restricted cash	(581)	(445)
Deposits on future acquisitions	—	—
Net cash used in investing activities	<u>(12,565)</u>	<u>(1,048)</u>
Cash flows from financing activities:		
Proceeds from issuance of equity	234	15,543
Offering costs	(33)	(984)
Proceeds from issuance of mandatorily redeemable preferred stock	38,500	—
Payments for deferred financing costs	(2,387)	(11)
Principal repayments on mortgage notes payable	(3,302)	(837)
Principal repayments on employee notes receivable	—	531
Borrowings from line of credit	13,800	19,200
Repayments on line of credit	(32,500)	(25,300)
Increase (decrease) in security deposits	133	(51)
Distributions paid for common, senior common and preferred stock	(5,147)	(4,523)
Net cash provided by financing activities	<u>9,298</u>	<u>3,568</u>
Net increase in cash and cash equivalents	2,360	7,261
Cash and cash equivalents, beginning of period	3,329	7,062
Cash and cash equivalents, end of period	<u>\$ 5,689</u>	<u>\$ 14,323</u>
NON-CASH OPERATING, INVESTING AND FINANCING INFORMATION		
Senior common dividend issued in the dividend reinvestment program	<u>\$ 1</u>	<u>\$ —</u>

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

Gladstone Commercial Corporation
Notes to Condensed Consolidated Financial Statements (Unaudited)
(Dollars in Thousands, Except Share and Per Share Data or Unless Otherwise Indicated)

1. Organization and Significant Accounting Policies

Gladstone Commercial Corporation, (the “Company”), is a real estate investment trust (“REIT”), that was incorporated under the General Corporation Laws of the State of Maryland on February 14, 2003 primarily for the purpose of investing in and owning net leased industrial, commercial and retail real property and selectively making long-term industrial and commercial mortgage loans. Subject to certain restrictions and limitations, our business is managed by Gladstone Management Corporation, a Delaware corporation (the “Adviser”).

Subsidiaries

We conduct substantially all of our operations through a subsidiary, Gladstone Commercial Limited Partnership, a Delaware limited partnership (the “Operating Partnership”). As we currently own all of the general and limited partnership interests of the Operating Partnership through GCLP Business Trust I and II, as discussed in more detail below, the financial position and results of operations of the Operating Partnership are consolidated with those of the Company.

Gladstone Commercial Lending, LLC, a Delaware limited liability company (“Gladstone Commercial Lending”) and a subsidiary of ours, 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 our real estate portfolio. There has been no such income 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, each a subsidiary and business trust of the Company, were formed under the laws of the Commonwealth of Massachusetts on December 28, 2005. We transferred our 99% limited partnership interest in the Operating Partnership to GCLP Business Trust I in exchange for 100 trust shares. Gladstone Commercial Partners, LLC transferred its 1% general partnership interest in the Operating Partnership to GCLP Business Trust II in exchange for 100 trust shares.

Interim Financial Information

Our interim financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and pursuant to the requirements for reporting on Form 10-Q and in accordance with Article 10 of Regulation S-X. Accordingly, certain disclosures accompanying annual financial statements prepared in accordance with GAAP are omitted. In the opinion of our management, all adjustments, consisting solely of normal recurring accruals, necessary for the fair statement of financial statements for the interim period have been included. The interim financial statements and notes thereto should be read in conjunction with the financial statements and notes thereto included in our Form 10-K for the year ended December 31, 2011, as filed with the Securities and Exchange Commission on February 28, 2012.

Out of Period Adjustment

During the three months ended March, 31 2011, we recorded adjustments to due diligence expense, depreciation and amortization expense and to certain balance sheet accounts in connection with the property we acquired in December 2010. As a result of these errors, we understated net income by \$0.3 million for the year ended December 31, 2010, or \$0.03 per share. We concluded that these adjustments were not material to the 2010 or 2011 results of operations. As such, these adjustments were recorded during the three months ended March 31, 2011.

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Use of Estimates

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

Reclassifications

Certain line items on the condensed consolidated balance sheets, condensed consolidated statements of operations and condensed consolidated statements of cash flows from prior years' financial statements have been reclassified to conform to the current year presentation. These reclassifications had no effect on previously reported total assets, total liabilities, stockholders' equity or net income.

Real Estate and Lease Intangibles

We record investments in real estate at cost and capitalize improvements and replacements when they extend the useful life or improve the efficiency of the asset. We expense costs of repairs and maintenance as such costs are incurred. We compute depreciation using the straight-line method over the estimated useful life or 39 years for buildings and improvements, 5 to 7 years for equipment and fixtures, and the shorter of the useful life or the remaining lease term for tenant improvements and leasehold interests.

We account for our acquisitions of real estate in accordance with Accounting Standards Codification ("ASC") 805, "Business Combinations," which requires that the purchase price of real estate be recorded at fair value and 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 lease origination costs, the value of tenant relationships and the value of capital lease obligations, based in each case on their fair values. ASC 805 also requires that all expenses related to the acquisition be expensed as incurred, rather than capitalized into the cost of the acquisition, as had been the previous accounting.

Management's estimates of fair 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 hypothetical 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.

We allocate 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 was \$2.8 million and \$2.4 million for the three months ended March 31, 2012 and 2011, 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)

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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. When determining the non-cancelable term of the lease, we evaluate if fixed-rate renewal options, if any, should be included. 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 \$0.1 million for both the three months ended March 31, 2012 and 2011, respectively. The capitalized below-market lease values, included in the accompanying condensed consolidated balance sheets as part of 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 \$0.3 million and \$0.2 million for the three months ended March 31, 2012 and 2011, respectively.

The total amount of the remaining intangible assets acquired, which consists 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 our overall relationship with that respective tenant. Characteristics to be considered by management in determining 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 our 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 us 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 was \$1.1 million and \$1.0 million for the three months ended March 31, 2012 and 2011, respectively.

Impairment

We account for the impairment of real estate, including intangible assets, in accordance with ASC 360-10-35, "Property, Plant, and Equipment," which requires us to periodically review the carrying value of each property to determine if circumstances indicate impairment of the carrying value of the investment exists or that depreciation periods should be modified. If circumstances support the possibility of impairment, we prepare 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, we will write down the carrying value of the property to its estimated fair value.

In light of current economic conditions, we evaluate our entire portfolio each quarter for any impairment indicators and perform an impairment analysis on those select properties that have an indication of impairment. In performing the analysis, we consider 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 fair value of the real estate has decreased. We concluded that none of our properties were impaired as of March 31, 2012, and will continue to monitor our portfolio for any indicators that may change this conclusion. There have been no impairments recognized on real estate assets since inception.

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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 secured financing. We made payments of \$2.4 million and \$11 for deferred financing costs during the three months ended March 31, 2012 and 2011, respectively. The payments incurred during the three months ended March 31, 2012 were primarily related to the issuance of the 7.125% Series C Term Preferred Stock, the ("Term Preferred Stock"), discussed in further detail in Note 6 "Mandatorily Redeemable Preferred Stock". Total amortization expense related to deferred financing costs is included in interest expense and was \$0.3 million and \$0.2 million for the three months ended March 31, 2012 and 2011, 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 our leases contain rental increases at specified intervals. We recognize such revenues on a straight-line basis. Deferred rent receivable in the accompanying condensed consolidated 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 and below-market in-place lease values of certain acquired properties. Accordingly, we determine, in our judgment, to what extent the deferred rent receivable applicable to each specific tenant is collectable. We review 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 geographic 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, we record an allowance for uncollectable accounts or record a direct write-off of the specific rent receivable. No such reserves or direct write-offs have been recorded as of March 31, 2012.

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

Comprehensive Income

For the three months ended March 31, 2012 and 2011, comprehensive income equaled net income; therefore, a separate statement of comprehensive income is not included in the accompanying condensed consolidated financial statements.

Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, 2011-04 which results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between GAAP and International Financial Reporting Standards, or IFRS. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011 and as such we have increased our disclosures related to Level 3 fair value measurement of our mortgage notes payable, in addition to other required disclosures. There were no related impacts on our financial position or results of operations.

2. Related-Party Transactions

We are externally managed pursuant to contractual arrangements with our Adviser and Gladstone Administration, LLC (the "Administrator"), which collectively employ all of our personnel and pays their salaries, benefits, and general expenses directly. We have an advisory agreement with our Adviser (the "Advisory Agreement") and an administration agreement with our Administrator (the "Administration

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Agreement”). The management services and administrative fees under the Advisory and Administration Agreements are described below. As of March 31, 2012 and December 31, 2011, respectively, \$1.0 million and \$1.2 million were due to the Adviser and Administrator.

Advisory Agreement

The Advisory Agreement provides for an annual base management fee equal to 2% of our total stockholders’ equity, less the recorded value of any preferred stock (“common stockholders’ equity”), and an incentive fee based on funds from operations (“FFO”). For both the three months ended March 31, 2012 and 2011, we recorded a base management fee of \$0.4 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 and senior common stock, but FFO does not include any unrealized capital gains or losses. The incentive fee rewards the Adviser if our quarterly FFO, before giving effect to any incentive fee (“pre-incentive fee FFO”), exceeds 1.75%, or 7% annualized (the “hurdle rate”), of total common stockholders’ equity. 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 our common stockholders’ equity. The Adviser also receives an incentive fee of 20% of the amount of our pre-incentive fee FFO that exceeds 2.1875% of common stockholders’ equity.

For the three months ended March 31, 2012 and 2011 we recorded an incentive fee of \$0.9 million and \$0.8 million, respectively, offset by a credit related to an unconditional, voluntary and irrevocable waiver issued by the Adviser of \$0.6 million and \$0.5 million, respectively, resulting in a net incentive fee for both the three months ended March 31, 2012 and 2011 of \$0.3 million, respectively. Our Board of Directors accepted the Adviser’s offer to waive on a quarterly basis a portion of the incentive fee for the three months ended March 31, 2012 and 2011, in order to support the current level of distributions to our stockholders. This waiver may not be recouped by the Adviser in the future.

Administration Agreement

Pursuant to the Administration Agreement, we pay for our allocable portion of the Administrator’s overhead expenses in performing its obligations to us, including, but not limited to, rent and the salaries and benefits of its personnel, including our chief financial officer and treasurer, chief compliance officer, internal counsel, investor relations and their respective staffs. Our allocable portion of expenses is derived by multiplying the Administrator’s total allocable 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 the Adviser under similar agreements. For both the three months ended March 31, 2012 and 2011, we recorded an administration fee of \$0.3 million, respectively.

Dealer Manager Agreement

In connection with the offering of our senior common stock (see Note 8, “Stockholders’ Equity,” for further details) we entered into a Dealer Manager Agreement, dated March 25, 2011 (the “Dealer Manager Agreement”), with Gladstone Securities, LLC (the “Dealer Manager”), pursuant to which the Dealer Manager agreed to act as our exclusive dealer manager in connection with the offering. The Dealer Manager is an affiliate of ours, as its parent company is controlled by Mr. David Gladstone, our Chairman and Chief Executive Officer. Pursuant to the terms of the Dealer Manager Agreement, the Dealer Manager is entitled to receive a sales commission in the amount of 7.0% of the gross proceeds of the shares of senior common stock sold, plus a dealer manager fee in the amount of 3.0% of the gross proceeds of the shares of Senior Common Stock sold. The Dealer Manager, in its sole and absolute discretion, may re-allocate all of its selling commissions attributable to a participating broker-dealer and may also re-allocate a portion of its Dealer Manager fee earned in respect of the proceeds generated by the participating broker-dealer to any participating broker-dealer as a non-accountable marketing allowance. In addition, we have agreed to indemnify the Dealer Manager against various liabilities, including certain liabilities arising under the federal securities laws. We made \$21 of payments during the three months ended March 31, 2012 to the Dealer Manager pursuant to this agreement. There were no payments made during the three months ended March 31, 2011.

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3. Earnings per Share of Common Stock

The following tables set forth the computation of basic and diluted earnings per share of common stock for the three months ended March 31, 2012 and 2011. We computed basic earnings per share for the three months ended March 31, 2012 and 2011 using the weighted average number of shares outstanding during the periods. Diluted earnings per share for the three months ended March 31, 2012 and 2011, reflects additional shares of common stock, related to our convertible senior common stock, that would have been outstanding if dilutive potential shares of common stock had been issued, as well as an adjustment to net income available to common stockholders as applicable to common stockholders that would result from their assumed issuance.

	For the three months ended March 31,	
	2012	2011
Calculation of basic earnings per share of common stock:		
Net income available to common stockholders	\$ 259	\$ 442
Denominator for basic weighted average shares of common stock (in thousands)	10,945	9,258
Basic earnings per share of common stock	<u>\$ 0.02</u>	<u>\$ 0.05</u>
Calculation of diluted earnings per share of common stock:		
Net income available to common stockholders	\$ 259	\$ 442
Add: Income impact of assumed conversion of senior common stock	19	15
Net income available to common stockholders plus assumed conversions	\$ 278	\$ 457
Denominator for basic weighted average shares of common stock (in thousands)	10,945	9,258
Effect of convertible senior common stock (in thousands)	61	52
Denominator for diluted weighted average shares of common stock (in thousands)	<u>11,006</u>	<u>9,310</u>
Diluted earnings per share of common stock	<u>\$ 0.02</u>	<u>\$ 0.05</u>

4. Real Estate and Intangible Assets

Real Estate

The following table sets forth the components of our investments in real estate as of March 31, 2012 and December 31, 2011:

	March 31, 2012	December 31, 2011
Real estate:		
Land	\$ 61,308	\$ 60,602
Building and improvements	375,232	367,605
Tenant improvements	15,621	14,314
Accumulated depreciation	(56,572)	(53,784)
Real estate, net	<u>\$ 395,589</u>	<u>\$ 388,737</u>

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During the three months ended March 31, 2012, we acquired one property, which is summarized below:

<u>Location</u>	<u>Acquisition Date</u>	<u>Square Footage</u>	<u>Lease Term</u>	<u>Renewal Options</u>	<u>Total Purchase Price</u>	<u>Acquisition Expenses</u>	<u>Annualized Straight Line Rent</u>
Ashburn, VA	1/25/2012	52,130	15 years	2(5 years each)	\$10,775	\$ 96	\$ 989

In accordance with ASC 805, we determined the fair value of acquired assets and liabilities assumed related to the property acquired during the three months ended March 31, 2012 as follows:

	<u>Land</u>	<u>Building</u>	<u>Tenant Improvements</u>	<u>In-place Leases</u>	<u>Leasing Costs</u>	<u>Customer Relationships</u>	<u>Total Purchase Price</u>
Ashburn, Virginia	\$706	\$6,551	\$ 1,307	\$ 804	\$ 908	\$ 499	\$ 10,775

Below is a summary of the total revenue and net income recognized on the property acquired during the three months ended March 31, 2012:

<u>Location</u>	<u>Acquisition Date</u>	<u>Rental revenue for the three months ended March 31, 2012</u>	<u>Net income for the three months ended March 31, 2012⁽¹⁾</u>
Ashburn, VA	1/25/2012	\$ 183	\$ 116

(1) Does not include interest expense or acquisition related costs that are required to be expensed under ASC 805.

The weighted average amortization period for the intangible assets acquired during the three months ended March 31, 2012, were as follows:

<u>Intangible assets</u>	<u>Years</u>
In-place leases	15.0
Leasing costs	15.0
Customer relationships	20.0
All intangible assets	16.7

Future operating lease payments from tenants under non-cancelable leases, excluding tenant reimbursement of expenses, for the remainder of 2012 and each of the five succeeding fiscal years and thereafter is as follows:

<u>Year</u>	<u>Tenant Lease Payments</u>
Nine months ending December 31, 2012	\$ 34,553
2013	42,494
2014	39,280
2015	35,518
2016	31,197
2017	28,980
Thereafter	185,140

In accordance with the lease terms, substantially all tenant expenses are required to be paid by the tenant; however, we would be required to pay property taxes on the respective properties in the event the tenants fail to pay them. The total annualized property taxes for all properties owned by us at March 31, 2012 were \$7.7 million.

On February 13, 2012, we extended the lease with the tenant occupying our property located in South Hadley, Massachusetts. The lease covering this property was extended for an additional one-year period,

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through January 2013. The lease was originally set to expire in February 2012. The lease provides for annual rents of approximately \$0.3 million. Furthermore, the lease grants the tenant one option to extend the lease for an additional year.

On February 14, 2012, we extended the lease with the tenant occupying our property located in San Antonio, Texas. The lease covering this property was extended for an additional eight-year period, through November 2021. The lease was originally set to expire in February 2014. The lease provides for prescribed rent escalations over the life of the lease, with annualized straight line rents of approximately \$0.8 million. Furthermore, the lease grants the tenant two options to extend the lease for a period of five years each. In connection with the extension of the lease and the modification of certain terms under the lease, we provided a tenant allowance of \$0.6 million, payable over two years, and paid \$0.3 million in leasing commissions.

On February 27, 2012, we extended the lease with the tenant occupying our property located in Roseville, Minnesota. The new lease covers approximately one-third of this property and was extended for an additional five year period, through December 2017. The lease was originally set to expire in December 2012. The tenant in this property will pay rent on the entire building through the end of 2012, and we continue to search for new tenants to lease the remainder of the building. The new lease provides for prescribed rent escalations over the life of the lease, with annualized straight line rents of \$2.9 million for the remainder of 2012 and annualized straight line rents beginning in 2013 of \$1.2 million. Furthermore, the lease grants the tenant one option to extend the lease for a period of five years. In connection with the extension of the lease and the modification of certain terms under the lease, we provided a tenant allowance of \$0.4 million, payable over two years, and paid \$0.8 million in leasing commissions.

Intangible Assets

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

	March 31, 2012		December 31, 2011	
	Lease Intangibles	Accumulated Amortization	Lease Intangibles	Accumulated Amortization
In-place leases	\$ 25,424	\$ (10,649)	\$ 24,620	\$ (10,181)
Leasing costs	17,034	(5,971)	15,013	(5,663)
Customer relationships	21,224	(7,184)	20,725	(6,844)
	<u>\$ 63,682</u>	<u>\$ (23,804)</u>	<u>\$ 60,358</u>	<u>\$ (22,688)</u>

The estimated aggregate amortization expense for the remainder of 2012 and each of the five succeeding fiscal years and thereafter is as follows:

Year	Estimated Amortization Expense
Nine months ending December 31, 2012	4,324
2013	4,737
2014	4,234
2015	3,841
2016	3,253
2017	3,088
Thereafter	16,401

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5. Mortgage Notes Payable and Line of Credit

Our mortgage notes payable and line of credit (the “Line of Credit”) as of March 31, 2012 and December 31, 2011 are summarized below:

	Date of Issuance/ Assumption	Principal Maturity Date	Stated Interest Rate at March 31, 2012 ⁽¹⁾	Principal Balance Outstanding	
				March 31, 2012	December 31, 2011
Fixed-Rate Mortgage Notes Payable:					
	09/15/08	10/01/12 ⁽²⁾	4.76%	\$ 45,233	\$ 45,233
	02/21/06	12/01/13	5.91%	8,799	8,845
	02/21/06	06/30/14	5.20%	18,242	18,345
	08/25/05	09/01/15	5.33%	20,342	20,431
	09/12/05	09/01/15	5.21%	11,970	12,019
	12/21/05	12/08/15	5.71%	18,375	18,448
	09/06/07	12/11/15	5.81%	4,199	4,219
	03/29/06	04/01/16	5.92%	16,821	16,871
	04/27/06	05/05/16	6.58%	13,328	13,409
	08/29/08	06/01/16	6.80%	5,982	6,019
	06/20/11	06/30/16	6.08%	11,464	11,505
	11/22/06	12/01/16	5.76%	13,711	13,761
	12/22/06	01/01/17	5.79%	20,961	21,037
	02/08/07	03/01/17	6.00%	13,775	13,775
	06/05/07	06/08/17	6.11%	14,240	14,240
	10/15/07	11/08/17	6.63%	15,227	15,278
	11/18/11	11/01/18	4.50%	4,328	4,352
	12/06/11	12/06/19	6.00%	8,438	8,500
	10/28/11	11/01/21	6.00%	7,158	7,190
	12/15/10	12/10/26	6.63%	10,300	10,402
	03/16/05	04/01/30	6.33%	—	2,314
Contractual Fixed-Rate Mortgage Notes Payable:				\$ 282,893	\$ 286,193
Premiums and Discounts, net:				(828)	(843)
Total Fixed-Rate Mortgage Notes Payable:				\$ 282,065	\$ 285,350
Variable-Rate Line of Credit:	12/28/10	12/27/13	LIBOR+2.75%	\$ —	\$ 18,700
Total Mortgage Notes Payable and Line of Credit				\$ 282,065	\$ 304,050

⁽¹⁾ The weighted average interest rate on all debt outstanding at March 31, 2012 was approximately 5.72%.

⁽²⁾ This note has one annual extension option remaining, which gives the Company the ability to extend the term of the note until October 1, 2013.

Mortgage Notes Payable

As of March 31, 2012, we had 20 fixed-rate mortgage notes payable, collateralized by a total of 58 properties. The parent company has limited recourse liabilities that could result from any one or more of the following circumstances: 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, or physical waste or damage to the property resulting from a borrower’s gross negligence or willful misconduct. We will also indemnify 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 March 31, 2012 was 5.72%.

We had \$45.2 million of balloon principal payments maturing under one of our long-term mortgages in 2011; however, the mortgage has two annual extension options through 2013, and we exercised one of these options on September 30, 2011. In connection with the exercise of the option, the interest rate reset from 4.58% to 4.76% through September 30, 2012. At the time of notification of the extension, we remitted a fee of 0.25% of the outstanding principal balance, or approximately \$0.1 million, which is

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recorded as a deferred financing cost in our condensed consolidated balance sheet. We also remitted a certification to the lender that our aggregate debt service coverage ratio is not less than 1.2, thus we were in compliance with all covenants under the mortgage loan. The interest rate for the one additional extension period will adjust based upon the one-year swap rate at the time of extension and a fixed spread of 4.41% and we would be required to remit another fee of 0.25% of the current outstanding principal balance.

On February 1, 2012, we repaid in full the mortgage on our property located in Canton, North Carolina in the amount of \$2.3 million. We did not incur any prepayment penalties associated with the early repayment. The original maturity date of this mortgage was April 2030.

The fair value of all fixed-rate mortgage notes payable outstanding as of March 31, 2012 was \$274.8 million, as compared to the carrying value stated above of \$282.9 million. We evaluate the underlying collateral of the mortgage notes payable to ascertain the fair value of the collateral is not impaired. The fair value is calculated based on a discounted cash flow analysis, using interest rates based on management's estimate of market interest rates on long-term debt with comparable terms. The fair value was calculated using Level 3 inputs of the hierarchy established by ASC 820, "Fair Value Measurements and Disclosures".

Scheduled principal payments of mortgage notes payable for the remainder of 2012 and each of the five succeeding fiscal years and thereafter are as follows:

Year	Scheduled principal payments
Nine months ending December 31, 2012	\$ 48,281 ⁽¹⁾
2013	12,850
2014	21,475
2015	55,294
2016	58,854
2017	61,774
Thereafter	24,365
	<u>\$ 282,893</u>

⁽¹⁾ The \$45.2 million mortgage note issued in September 2008 was extended to September 30, 2012. We expect to exercise the additional option to extend the maturity date until October 2013.

Line of Credit

In December 2010, we procured a \$50.0 million Line of Credit (with Capital One, N.A. serving as a revolving lender, a letter of credit issuer and an administrative agent and Branch Banking and Trust Company serving as an additional revolving lender and letter of credit issuer), which matures on December 28, 2013. The Line of Credit originally provided for a senior secured revolving credit facility of up to \$50.0 million with a standby letter of credit sublimit of up to \$20.0 million. On January 31, 2012, the Line of Credit was expanded to \$75.0 million and Citizens Bank of Pennsylvania was added as a revolving lender and letter of credit issuer. Currently, seven of our properties are pledged as collateral under our Line of Credit. The interest rate per annum applicable to the Line of Credit is equal to the London Interbank Offered Rate, or LIBOR, plus an applicable margin of up to 3.00%, depending upon our leverage. The leverage ratio used in determining the applicable margin for interest on the Line of Credit is recalculated quarterly. We are subject to an annual maintenance fee of 0.25% per year. Our ability to access this source of financing is subject to its continued ability to meet customary lending requirements, such as compliance with financial and operating covenants and its meeting certain lending limits. One such covenant requires us to limit distributions to our stockholders to 95% of our FFO, with acquisition-related costs required to be

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expensed under ASC 805 added back to FFO. 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.

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 released property. Conversely, as we purchase new properties meeting the eligibility standards, we may pledge these new properties to obtain additional availability 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.

At March 31, 2012, there was \$0 outstanding under the Line of Credit and \$6.1 million outstanding under letters of credit at a weighted average interest rate of 2.8%. At March 31, 2012, the maximum amount we may draw was \$22.1 million. We were in compliance with all covenants under the Line of Credit as of March 31, 2012. The amount outstanding on the Line of Credit as of March 31, 2012 approximates fair value, because the debt is short-term.

6. Mandatorily Redeemable Preferred Stock

On February 1, 2012, we completed a public offering of 1,400,000 shares of 7.125% Series C Term Preferred Stock, par value \$0.001 per share ("Term Preferred Stock"), at a public offering price of \$25.00 per share. Gross proceeds of the offering totaled \$35.0 million and net proceeds, after deducting underwriting discounts and offering expenses borne by us, were \$33.3 million and were used to repay a portion of outstanding borrowings under our Line of Credit, for acquisitions of real estate and working capital. On February 8, 2012, the underwriters notified us of their intent to exercise their option to purchase an additional 140,000 shares of Term Preferred Stock to cover over-allotments, which resulted in additional gross proceeds of \$3.5 million and net proceeds, after deducting underwriting discounts, of \$3.4 million. The Term Preferred Stock is traded under the ticker symbol GOODN on the NASDAQ. The Term Preferred Stock is not convertible into our common stock or any other security of ours. Generally, we may not redeem shares of the Term Preferred Stock prior to January 31, 2016, except in limited circumstances to preserve our status as a REIT. On or after January 31, 2016, we may redeem the shares at a redemption price of \$25 per share, plus any accumulated and unpaid dividends to and including the date of redemption. The shares of the Term Preferred Stock have a mandatory redemption date of January 31, 2017. We incurred \$1.8 million in total offering costs related to these transactions, which have been recorded as deferred financing fees on the *Condensed Consolidated Balance Sheet* and will be amortized over the redemption period ending January 31, 2017.

The Term Preferred Stock will be recorded as liability in accordance with ASC 480, "Distinguishing Liabilities from Equity," which states that mandatorily redeemable financial instruments should be classified as liabilities and therefore the related dividend payments are treated as a component of interest expense in the statement of operations.

7. Commitments and Contingencies

Ground Leases

We are obligated as lessee under three ground leases. Future minimum rental payments due under the terms of these leases as of March 31, 2012 are as follows:

Location	Lease End Date	For the nine months ending December 31, 2012	For the year ended December 31,					Thereafter
			2013	2014	2015	2016	2017	
Tulsa, OK	Dec-12	\$ 114	\$ 153	\$ 153	\$ 153	\$ 153	\$ 534	
Springfield, MA	Feb-30	64	86	86	86	88	1,154	
Dartmouth, MA	May-36	131	174	174	174	174	3,648	

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8. Stockholders' Equity

The following table summarizes the changes in our stockholders' equity for the three months ended March 31, 2012:

	Preferred Stock	Senior Common Stock	Common Stock	Capital in Excess of Par Value	Notes Receivable from Employees	Distributions in Excess of Accumulated Earnings	Total Stockholders' Equity
Balance at December 31, 2011	<u>\$ 2</u>	<u>\$ —</u>	<u>\$ 11</u>	<u>\$211,553</u>	<u>\$ (422)</u>	<u>\$ (75,830)</u>	<u>\$ 135,314</u>
Issuance of senior common stock and common stock, net	—	—	—	202	—	—	202
Repayment of principal on employee notes receivable	—	—	—	—	1	—	1
Distributions declared to common, senior common and preferred stockholders	—	—	—	—	—	(5,147)	(5,147)
Net income	—	—	—	—	—	1,301	1,301
Balance at March 31, 2012	<u>\$ 2</u>	<u>\$ —</u>	<u>\$ 11</u>	<u>\$211,755</u>	<u>\$ (421)</u>	<u>\$ (79,676)</u>	<u>\$ 131,671</u>

Distributions

Our Board of Directors declared the following distributions per share for the three months ended March 31, 2012 and 2011:

	For the three months ended March 31,	
	2012	2011
Common Stock	\$ 0.375	\$ 0.375
Senior Common Stock	\$ 0.2625	\$ 0.2625
Series A Preferred Stock	\$ 0.4843749	\$ 0.4843749
Series B Preferred Stock	\$ 0.4688	\$ 0.4688
Series C Preferred Stock	\$ 0.296875	\$ —

Recent Activity

We have 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 to sell shares of our common stock with an aggregate sales price of up to \$25.0 million on the open market through Jefferies, as agent, or to Jefferies, as principal. As of March 31, 2012, we had sold 192,365 shares with net proceeds of \$3.4 million, and have a remaining capacity to sell up to \$21.6 million of common stock under the Open Market Sale Agreement with Jefferies. There were no sales under the Open Market Sale Agreement during the three months ended March 31, 2012.

In March 2011, we commenced an offering of an aggregate of 3,500,000 shares of our senior common stock, par value \$0.001 per share, at a price to the public of \$15.00 per share, of which 3,000,000 shares are intended to be offered pursuant to the primary offering and 500,000 shares are intended to be offered pursuant to our senior common distribution reinvestment plan (the "DRIP"). We, however, reserve the right to reallocate the number of shares being offered between the primary offering and the DRIP. To date we have sold 19,006 shares of senior common stock in this ongoing offering.

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Notes to Employees

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 March 31, 2012	Outstanding Balance of Employee Loans at December 31, 2011	Maturity Date of Note	Interest Rate on Note
Sep 2004	25	\$ 15.00	\$ 375	\$ 10	\$ 11	Sep 2013	5.00%
Apr 2006	12	16.10	193	4	4	Apr 2015	7.77%
May 2006	2	16.10	32	32	32	May 2016	7.87%
Nov 2006	25	15.00	375	375	375	Nov 2015	8.15%
	<u>64</u>		<u>\$ 975</u>	<u>\$ 421</u>	<u>\$ 422</u>		

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 full recourse loans to employees and are included in the equity section of the accompanying condensed consolidated balance sheets. As of March 31, 2012, each loan maintained its full recourse status.

9. Pro Forma Financial Information

We acquired one property during the three months ended March 31, 2012. The following table reflects pro-forma condensed consolidated statements of operations as if the property was acquired as of the beginning of the periods presented:

	For the three months ended March 31,	
	2012	2011
Operating Data:		
Total operating revenue	\$ 12,167	\$ 10,769
Total operating expenses	(5,852)	(5,146)
Other expense	(5,017)	(4,156)
Net income	1,298	1,467
Dividends attributable to preferred and senior common stock	(1,042)	(1,039)
Net income available to common stockholders	<u>\$ 256</u>	<u>\$ 428</u>
Share and Per Share Data:		
Basic earnings per share of common stock	\$ 0.02	\$ 0.05
Diluted earnings per share of common stock	\$ 0.02	\$ 0.05
Weighted average shares outstanding-basic	10,945	9,258
Weighted average shares outstanding-diluted	11,006	9,310

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10. Subsequent Events

On April 5, 2012, through wholly-owned subsidiaries, we borrowed \$19.0 million pursuant to a long-term note payable from KeyBank National Association, which is collateralized by security interests in four of our properties. The note accrues interest at a rate of 6.1% per year and we may not repay this note prior to the last three months of the term, or we would be subject to a substantial prepayment penalty. The note has a maturity date of May 1, 2022. We intend to use the proceeds from the note for future acquisitions and working capital.

On April 11, 2012, our Board of Directors declared the following monthly distributions:

<u>Record Date</u>	<u>Payment Date</u>	<u>Common Stock Distributions per Share</u>	<u>Series A Preferred Distributions per Share</u>	<u>Series B Preferred Distributions per Share</u>	<u>Series C Preferred Distributions per Share</u>
April 20, 2012	April 30, 2012	\$ 0.125	\$ 0.1614583	\$ 0.15625	\$ 0.1484375
May 18, 2012	May 31, 2012	\$ 0.125	\$ 0.1614583	\$ 0.15625	\$ 0.1484375
June 20, 2012	June 29, 2012	\$ 0.125	\$ 0.1614583	\$ 0.15625	\$ 0.1484375

Senior Common Stock Distributions

<u>Payable to the Holders of Record During the Month of:</u>	<u>Payment Date</u>	<u>Distribution per Share</u>
April	May 7, 2012	\$ 0.0875
May	June 7, 2012	\$ 0.0875
June	July 6, 2012	\$ 0.0875

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Dollars in Thousands, Except Share and Per Share Data or Unless Otherwise Indicated)

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, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, or 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 business, financial condition, liquidity, results of operations, funds from operations or prospects to be materially different from any future business, financial condition, liquidity, results of operations, funds from operations or prospects expressed or implied by such forward-looking statements. For further information about these and other factors that could affect our future results, please see the captions titled "Risk Factors" in this report and in our Annual Report on Form 10-K for the year ended December 31, 2011. We caution readers not to place undue reliance on any such forward-looking statements, which are made pursuant to the Private Securities Litigation Reform Act of 1995 and, as such, 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 Quarterly Report on Form 10-Q, or Report.

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

OVERVIEW

General

We are a real estate investment trust, or REIT, that was incorporated under the General Corporation Law of the State of Maryland on February 14, 2003, primarily for the purpose of investing in and owning net leased industrial, commercial and retail real property and selectively making long-term industrial and commercial mortgage loans. Our portfolio of real estate 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 historically 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 rate 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. We currently own 73 properties totaling 7.1 million square feet, which have a total gross and net carrying value, including intangible assets, of \$515.8 million and \$435.5 million, respectively. We do not currently have any mortgage loans outstanding.

Business Environment

The United States continues to feel the lingering impact of the recession that began in late 2007; while the unemployment rate has decreased over the last several months, it still remains higher than pre-recessionary levels. In addition, housing starts remain low, there continues to be a large inventory of homes that need to be sold, and the economic situation in Europe will need to further stabilize for the economy to fully recover. As a result, conditions within the U.S. capital markets generally, and the U.S. real estate capital markets particularly, continue to experience certain levels of dislocation and stress.

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These economic conditions could materially and adversely impact the financial condition of one or more of our tenants and, therefore, could increase the likelihood that a tenant may declare bankruptcy or default upon its payment obligations arising under a related lease. For example, the tenant occupying our building located in Hazelwood, Missouri declared bankruptcy in October 2010. The tenant did not confirm our lease in its bankruptcy proceedings in March 2011, and the final rent payment was received in April 2011. We are currently working to re-tenant this property. In addition, our building located in Richmond, Virginia remains vacant. The leases on these two vacant buildings comprised 2.0% of our annualized rental income as of March 31, 2012 and the annual carrying costs are \$0.3 million. We are actively seeking new tenants for these properties. All of our remaining properties are occupied and the tenants are paying in accordance with their leases.

Moreover, our ability to make new investments is highly dependent upon our ability to procure external financing. Our principal sources of external financing generally include the issuance of equity securities, long-term mortgage loans secured by properties and borrowings under our line of credit, or the Line of Credit. The market for long-term mortgages has been limited for some time; however, we have recently seen mid-to-long-term (5 to 10 year) mortgages become more obtainable. The collateralized mortgage backed securities, or CMBS, market has made a comeback in recent months, but it is more conservative than it was prior to the recession and the pricing in the market remains somewhat volatile. Consequently, we continue to look primarily to regional banks, insurance companies and other non-bank lenders, and, to a lesser extent, the CMBS market to issue mortgages to finance our real estate activities.

Despite the challenges in the marketplace, we issued 2.2 million common shares during 2011 for gross proceeds of \$39.4 million. In addition, in January 2012 we closed on \$38.5 million of 7.125% Series C Cumulative Term Preferred Stock, or Term Preferred Stock, which is mandatorily redeemable in five years. We also assumed or issued \$31.7 million in mid-term mortgages from regional banks during 2011 to finance some of our new properties. In April 2012, we closed a 10-year mortgage loan, collateralized by four properties, in the collateralized mortgage backed securities, or CMBS, marketplace.

Recent Developments

Investment Activities

The following is a summary of our recent acquisitions:

Ashburn, Virginia: On January 25, 2012, we acquired a 52,130 square foot office building located in Ashburn, Virginia for \$10.8 million, excluding related acquisition expenses of \$0.1 million. We funded this acquisition using borrowings from our Line of Credit. Independent Project Analysis, Inc., an energy consultant, is the tenant in this building and has leased the property for 15 years and has 2 options to renew the lease for additional periods of 5 years each. The lease provides for prescribed rent escalations over the life of the lease, with annualized straight line rents of \$1.0 million.

Financing Activities

Line of Credit

Expansion: On January 31, 2012, we amended our Line of Credit to increase the current maximum availability of credit under our Line of Credit from \$50.0 million to \$75.0 million. The Line of Credit was arranged by Capital One, N.A. as administrative agent, and Branch Banking and Trust Company as an additional lender. Citizens Bank of Pennsylvania joined the Line of Credit as an additional lender. All other terms of the agreement remained the same.

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Debt

KeyBank: On April 5, 2012, through wholly-owned subsidiaries, we borrowed \$19.0 million pursuant to a long-term note payable from KeyBank National Association, which is collateralized by security interests in four of our properties. The note accrues interest at a rate of 6.1% per year and we may not repay this note prior to the last three months of the term, or we would be subject to a substantial prepayment penalty. The note has a maturity date of May 1, 2022. We intend to use the proceeds from the note for future acquisitions and working capital.

Leasing Activities

The following is a summary of leases that have been recently extended:

South Hadley, Massachusetts: On February 13, 2012, the tenant in our building located in South Hadley, Massachusetts signed a new lease with a term expiring in January 2013, with a one-year extension option.

San Antonio, Texas: On February 14, 2012, we extended the lease with the tenant occupying our property located in San Antonio, Texas. The lease covering this property was extended for an additional eight-year period, through November 2021. The lease was originally set to expire in February 2014. The lease provides for prescribed rent escalations over the life of the lease, with annualized straight line rents of approximately \$0.8 million. Furthermore, the lease grants the tenant two options to extend the lease for a period of five years each. In connection with the extension of the lease and the modification of certain terms under the lease, we provided a tenant allowance of \$0.6 million, payable over two years, and paid \$0.3 million in leasing commissions.

Roseville, Minnesota: On February 27, 2012, we extended the lease with the tenant occupying our property located in Roseville, Minnesota. The new lease covers approximately one-third of this property and was extended for an additional five year period, through December 2017. The lease was originally set to expire in December 2012. The tenant in this property will pay rent on the entire building through the end of 2012, and we continue to search for new tenants to lease the remainder of the building. The new lease provides for prescribed rent escalations over the life of the lease, with annualized straight line rents of \$1.2 million. Furthermore, the lease grants the tenant one option to extend the lease for a period of five years. In connection with the extension of the lease and the modification of certain terms under the lease, we provided a tenant allowance of \$0.4 million, payable over two years, and paid \$0.8 million in leasing commissions.

Equity Activities

The equity issuances summarized below were all issued under our effective shelf registration statement on file with the Securities and Exchange Commission, or SEC.

Preferred Equity: On February 1, 2012, we completed a public offering of 1,400,000 shares of our Term Preferred Stock, at a public offering price of \$25.00 per share. Gross proceeds of the offering totaled \$35.0 million and net proceeds, after deducting underwriting discounts and offering expenses borne by us, were \$33.3 million and were used to repay a portion of outstanding borrowings under our Line of Credit, for acquisitions of real estate and working capital. On February 8, 2012, the underwriters notified us of their intent to exercise their option to purchase an additional 140,000 shares of the Term Preferred Stock to cover over-allotments, which resulted in gross proceeds of \$3.5 million and net proceeds, after deducting underwriting discounts, of \$3.4 million received by us on February 10, 2012. The shares are traded under the ticker symbol GOODN on the NASDAQ. The Term Preferred Stock is not convertible into our common stock or any other security. Generally, we may not redeem shares of the Term Preferred Stock prior to January 31, 2016, except in limited circumstances to preserve our status as a REIT. On or after January 31, 2016, we may redeem the shares at a redemption price of \$25 per share, plus any accumulated and unpaid dividends to and including the date of redemption. The

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shares of the Term Preferred Stock have a mandatory redemption date of January 31, 2017. In accordance with ASC 480, "Distinguishing Liabilities from Equity," mandatorily redeemable financial instruments should be classified as liabilities in the balance sheet and therefore we recorded the Term Preferred Stock as a liability and the related dividend payments as a component of interest expense in the statement of operations.

Senior Common Equity: During 2011 and 2012, we have issued 18,933 shares of our senior common stock at \$15.00 per share in an ongoing best-efforts public offering. The net proceeds, after deducting the underwriting discount and commission were \$0.3 million. We can issue up to 3,000,000 shares of senior common stock and the offering will continue until the earlier of March 28, 2013 or the date on which 3,000,000 shares of senior common stock are sold. We have used the proceeds of the offering for general corporate purposes.

Diversity of Our Portfolio

Gladstone Management Corporation, or our Adviser, seeks to diversify our portfolio to avoid dependence on any one particular tenant, geographic market 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 market. Our largest tenant at March 31, 2012 comprised 6.6% of our total rental income, and our largest concentration of properties was located in Ohio, which accounted for 16.1% of our total rental income. The table below reflects the breakdown of our total rental income by tenant industry classification for the three months ended March 31, 2012 and 2011, respectively:

Industry Classification	For the three months ended March 31, 2012		For the three months ended March 31, 2011	
	(Dollars in Thousands)		(Dollars in Thousands)	
	Rental Income	Percentage of Rental Income	Rental Income	Percentage of Rental Income
Telecommunications	\$ 1,819	15.2%	\$ 1,361	13.2%
Electronics	1,515	12.7	1,543	14.8
Healthcare	1,247	10.4	985	9.5
Diversified/Conglomerate Manufacturing	914	7.6	916	8.8
Chemicals, Plastics & Rubber	789	6.6	783	7.5
Beverage, Food & Tobacco	609	5.1	547	5.1
Personal & Non-Durable Consumer Products	606	5.0	543	5.1
Containers, Packaging & Glass	586	4.9	583	5.6
Machinery	565	4.7	563	5.4
Buildings and Real Estate	534	4.4	526	5.1
Printing & Publishing	473	3.9	533	5.1
Education	450	3.7	443	4.2
Personal, Food & Miscellaneous Services	421	3.5	144	1.4
Oil & Gas	318	2.6	318	3.0
Diversified/Conglomerate Services	311	2.6	77	0.7
Automobile	292	2.4	292	2.8
Banking	287	2.4	—	0.0
Childcare	146	1.2	146	1.4
Home & Office Furnishings	132	1.1	132	1.3
	<u>\$ 12,014</u>	<u>100.0%</u>	<u>\$ 10,435</u>	<u>100.0%</u>

Our Adviser and Administrator

Our Adviser is led by a management team which has extensive experience purchasing real estate and originating mortgage loans. Our Adviser is controlled by Mr. 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 as well as 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 and treasurer, chief compliance officer, internal counsel, investor relations department and their respective staffs.

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Our Adviser and Administrator also provide investment advisory and administrative services, respectively, to our affiliates, including, but not limited to, 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 and treasurer, 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 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. Our Adviser and Administrator employ all of our personnel and pay their payroll, benefits, and general expenses directly. We have an advisory agreement with our Adviser, or the Advisory Agreement, and an administration agreement with our Administrator, or 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 three months ended March 31, 2012 and 2011, none of these third party 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 that we acquire, the aggregate amount of mortgage loans that we make and the extent to which we are able to pass on such fees to our tenants and borrowers pursuant to the terms of the agreements. 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

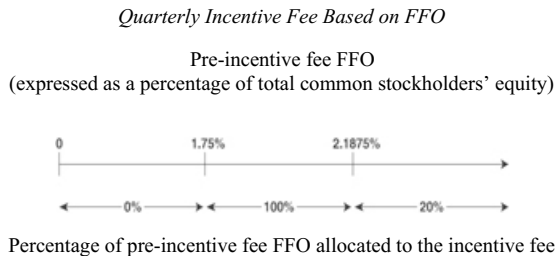
The Advisory Agreement provides for an annual base management fee equal to 2.0% of our total stockholders' equity, less the recorded value of any preferred stock, or total common stockholders' equity, and for an incentive fee based on funds from operations, or FFO. Our Adviser does not charge acquisition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

For purposes of calculating the incentive fee, FFO includes any realized capital gains and capital losses, less any distributions paid on preferred stock and senior common 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 common stockholders' equity. 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

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- 20% of the amount of our pre-incentive fee FFO that exceeds 2.1875% in any calendar quarter (8.75% annualized).



The incentive fee may be reduced because of a covenant which exists in our Line of Credit agreement which limits distributions to our stockholders to 95% of FFO less those acquisition-related costs that are required to be expensed under Accounting Standards Codification, or ASC, 805, Business Combinations. 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 three months ended March 31, 2012 and 2011, which allowed us to maintain the current level of distributions to our stockholders. These 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 such waiver, either in whole or in part.

Administration Agreement

Pursuant to the Administration Agreement, we pay for our allocable portion of our Administrator's overhead expenses incurred while performing its obligations to us, including, but not limited to, rent and the salaries and benefits expenses of our personnel, including our chief financial officer and treasurer, chief compliance officer, internal counsel, investor relations department and their respective staffs. Our allocable portion of expenses is generally 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. Our Adviser relies on its experience, collects historical 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 regarding 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 condensed consolidated financial statements included elsewhere in this Form 10-Q. Below is a summary of accounting policies involving estimates and assumptions that require complex, subjective or significant judgments in their application and that materially affect our results of operations.

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Allocation of Purchase Price

When we acquire real estate, we allocate the purchase price, less any expenses related to the acquisition, to (i) the acquired tangible assets and liabilities, consisting of land, building, tenant improvements, long-term debt and (ii) the identified intangible assets and liabilities, consisting of the value of above-market and below-market leases, in-place leases, unamortized lease origination costs, tenant relationships and capital lease obligations, based in each case on their fair values. All expenses related to the acquisition are expensed as incurred, rather than capitalized into the cost of the acquisition as had been required by the previous accounting.

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 hypothetical 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 management's 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 condensed 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, depending on the amounts allocated between land and other depreciable assets, changes in the purchase price allocation among our assets could have a material impact on our FFO, a metric which is used by many REIT investors to evaluate our operating performance; and
- The period of time over which tangible and intangible assets are depreciated 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. Also, we depreciate our buildings over 39 years, but do not depreciate our land. 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 histories, the financial condition of our tenants, including calculating the current leverage ratios of tenants, the likelihood of lease renewal, business conditions in the industries 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 of such property is recoverable. In preparing the projection of undiscounted future cash flows, we estimate the holding periods of the properties and cap

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rates using information that we obtain from market comparability studies and other comparable sources. If impairment were 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 from 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 that we would recognize.

Using the methodology discussed above and in light of the current economic conditions discussed above in "Overview—Business Environment," we evaluated our entire portfolio as of March 31, 2012 for any impairment indicators and performed an impairment analysis on those select properties that had an indication of impairment. As a result of this analysis, we concluded that none of our properties were impaired and we will continue to monitor our portfolio for any indicators that may change our conclusion.

Results of Operations

The weighted-average yield on our total portfolio, taking into account vacant properties, was 9.3% as of March 31, 2012. If all properties in the portfolio were fully occupied, the weighted-average yield would have been 9.4%, assuming returns on our vacant buildings remained steady, as of March 31, 2012. The weighted-average yield on our portfolio is calculated by taking the annualized straight-line rents, reflected as rental income on our condensed consolidated statements of operations, of each acquisition as a percentage of the acquisition. The weighted-average yield does not account for the interest expense incurred on the mortgages placed on our properties.

A comparison of our operating results for the three months ended March 31, 2012 and 2011 is below:

	For the quarter ended March 31,			
	2012	2011	\$ Change	% Change
	(Dollars in Thousands)			
Operating revenues				
Rental income	\$12,014	\$10,435	\$ 1,579	15%
Tenant recovery revenue	86	84	2	2%
Total operating revenues	<u>12,100</u>	<u>10,519</u>	<u>1,581</u>	<u>15%</u>
Operating expenses				
Depreciation and amortization	3,904	3,370	534	16%
Property operating expenses	333	297	36	12%
Due diligence expense	160	(138)	298	NM
Base management fee	393	352	41	12%
Incentive fee	899	832	67	8%
Administration fee	310	256	54	21%
General and administrative	383	454	(71)	-16%
Total operating expenses before credit from Adviser	<u>6,382</u>	<u>5,423</u>	<u>959</u>	<u>18%</u>
Credit to incentive fee	<u>(585)</u>	<u>(486)</u>	<u>99</u>	<u>20%</u>
Total operating expenses	<u>5,797</u>	<u>4,937</u>	<u>860</u>	<u>17%</u>
Other income (expense)				
Interest income - employee loans	9	10	(1)	-10%
Other income	18	44	(26)	-59%
Interest expense	(4,572)	(4,156)	416	10%
Distributions attributable to mandatorily redeemable preferred stock	(457)	—	457	NM
Total other expense	<u>(5,002)</u>	<u>(4,102)</u>	<u>(900)</u>	<u>22%</u>
Net income	<u>1,301</u>	<u>1,480</u>	<u>(179)</u>	<u>-12%</u>
Distributions attributable to preferred stock	(1,023)	(1,023)	—	0%
Distributions attributable to senior common stock	(19)	(15)	4	27%
Net income available to common stockholders	<u>\$ 259</u>	<u>\$ 442</u>	<u>\$ (183)</u>	<u>-41%</u>

NM = Not meaningful

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Operating Revenues

Rental income increased for the three months ended March 31, 2012, as compared to the three months ended March 31, 2011, because of the eight properties acquired subsequent to March 31, 2011.

Tenant recovery revenue remained relatively flat for the three months ended March 31, 2012, as compared to the three months ended March 31, 2011. There was an increase in insurance premiums from 2011, resulting in increased reimbursements from our tenants; however, this was partially offset by a decrease in franchise taxes owed in certain states that are reimbursable by our tenants.

Operating Expenses

Depreciation and amortization expenses increased for the three months ended March 31, 2012, as compared to the three months ended March 31, 2011, because of the eight properties acquired subsequent to March 31, 2011.

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 for the three months ended March 31, 2012, as compared to the three months ended March 31, 2011, primarily because of ground lease payments we are responsible for paying at two of our properties acquired subsequent to March 31, 2011.

Due diligence expense primarily consists of legal fees and fees incurred for third-party reports prepared in connection with potential acquisitions and our due diligence analyses related thereto. Due diligence expense increased for three months ended March 31, 2012, as compared to the three months ended March 31, 2011, as a result of costs incurred related to the property acquired during the three months ended March 31, 2012 coupled with costs incurred for other potential acquisitions. Due diligence expense was negative for the three months ended March 31, 2011 because of an out of period adjustment of \$250,000 recorded during March 31, 2011 related to the acquisition of the property in Orange City, Iowa in December 2010. See Note 1 to our condensed consolidated financial statements included elsewhere in this Form 10-Q for further information regarding the out of period adjustment.

The base management fee increased for the three months ended March 31, 2012, as compared to the three months ended March 31, 2011, due to an increase in total common stockholders' equity from the issuance of common stock during 2011, the main component of the calculation. The calculation of the base management fee is described in detail above under "*Advisory and Administration Agreements.*"

The incentive fee increased for the three months ended March 31, 2012, as compared to the three months ended March 31, 2011, because of an increase in pre-incentive fee FFO from the eight acquisitions subsequent to March 31, 2011. The incentive fee credit increased for the three months ended March 31, 2012, as compared to the three months ended March 31, 2011, because of the increase in the amount of common stock dividends paid during the three months ended March 31, 2012, which resulted in a larger portion of the incentive fee required to be credited. The calculation of the incentive fee is described in the detail above under "*Advisory and Administration Agreements.*"

The administration fee increased for the three months ended March 31, 2012, as compared to the three months ended March 31, 2011, primarily as a result of an increase in the amount of the total expenses our Administrator incurred during the periods, coupled with an increase in our allocable portion of the total expenses. The calculation of the administration fee is described in detail above under "*Advisory and Administration Agreements.*"

General and administrative expenses decreased for the three months ended March 31, 2012, as compared to the three months ended March 31, 2011, primarily due to a decrease in accounting fees from a decrease in fees charged for tax preparation, coupled with a decrease in our shareholder related expenses due to timing of expenses related to our annual report and proxy.

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Other Income and Expense

Interest income on employee loans decreased during the three months ended March 31, 2012, as compared to the three months ended March 31, 2011. This decrease was a result of principal repayments made by employees of our Adviser over the past 12 months.

Other income decreased during the three months ended March 31, 2012, as compared to the three months ended March 31, 2011, because of settlement income received in 2011 from the previous tenant in our South Hadley, Massachusetts property related to repairs needed for the parking lot at the building.

Interest expense increased for the three months ended March 31, 2012, as compared to the three months ended March 31, 2011. This increase was primarily a result of an increase in the rate on our \$45.2 million mortgage loan in October 2011 of 0.18% when the mortgage loan was renewed coupled with interest on the \$31.7 million of mortgage debt assumed and issued during 2011. This was partially offset by reduced interest expense on our long-term financings from amortizing principal payments made during 2011 and the first three months of 2012.

Net Income Available to Common Stockholders

Net income available to common stockholders decreased for the three months ended March 31, 2012, as compared to the three months ended March 31, 2011, primarily because of increased interest expense and increased distributions to our preferred stockholders from the issuance of our Term Preferred Stock, partially offset by an increase in rental income earned from the eight properties acquired subsequent to March 31, 2011.

Liquidity and Capital Resources

Overview

Our sources of liquidity include cash flows from operations, cash and cash equivalents, borrowings under our Line of Credit, obtaining mortgages on our unencumbered properties and issuing additional equity securities. Our available liquidity at March 31, 2012 was \$27.8 million, including \$5.7 million in cash and cash equivalents and an available borrowing capacity of \$22.1 million under our Line of Credit.

Future Capital Needs

We actively seek conservative investments that are likely to produce income in order to pay distributions to our stockholders. We intend to use the proceeds of future equity raised and debt capital borrowed to continue to invest in industrial, commercial and retail real property, make mortgage loans, or pay down outstanding borrowings under our Line of Credit. Accordingly, to ensure that we are able to effectively execute our business strategy, we routinely review our liquidity requirements and continually evaluate all potential sources of liquidity. Our short-term liquidity needs include proceeds necessary to fund our distributions to stockholders, pay the debt service costs on our existing long-term mortgages, and fund our current operating costs. Our long-term liquidity needs include proceeds necessary to grow and maintain our portfolio of investments.

We believe that our available liquidity is sufficient to fund our distributions to stockholders, pay the debt service costs on our existing long-term mortgages and fund our current operating costs in the near term. We further believe that our cash flow from operations coupled with the financing capital available to us in the future are sufficient to fund our long-term liquidity needs. Additionally, to satisfy either our short-term or long-term obligations or both, we may require credits to our management fees that are issued from our Adviser, although our Adviser is under no obligation to provide any such credits, either in whole or in part.

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Equity Capital

Equity capital markets continue to improve. As a result, we raised, net of offering costs, \$37.0 million of common equity during 2011. We also raised \$36.7 million of preferred equity, net of offering costs, in February 2012. We used these proceeds to repay a portion of the outstanding balance of the Line of Credit, to acquire additional properties and the remainder for general corporate and working capital needs.

Currently, we have the ability to raise up to \$218.7 million of additional equity capital through the sale of securities that are registered under our universal shelf registration statement on Form S-3, or the Universal Shelf, in one or more future public offerings. Of the \$218.7 million of available capacity under our Universal Shelf, \$21.6 million of common stock is reserved for additional sales under our Open Market Sale Agreement and \$52.2 million is reserved for sales of our Senior Common Stock.

Debt Capital

As of March 31, 2012, we had 20 fixed-rate mortgage notes payable in the aggregate principal amount of \$282.9 million, collateralized by a total of 58 properties with terms at issuance ranging from 2 years to 25 years. The weighted-average interest rate on the mortgage notes payable as of March 31, 2012 was 5.72%.

Generally banks are recommencing their general lending practices and the CMBS market is slowly returning, see the discussion in "Overview – Business Environment" above. Specifically, we are seeing banks and other non-bank lenders that are willing to issue medium to long-term mortgages, between 5 and 10 years, albeit on less favorable terms than were previously available. Consequently, we are focused on obtaining mortgages through both regional banks, non-bank lenders and CMBS.

We have mortgage debt in the aggregate principal amount of \$3.0 million payable during the remainder of 2012 and \$58.1 million payable during 2013. The 2012 principal amount payable does not include \$45.2 million of balloon principal payments maturing on one of our long-term mortgages in 2012; however, this mortgage has one remaining annual extension option through 2013, and we intend to exercise this option in 2012. As long as we are in compliance with certain covenants under the mortgage loan, we will be able to exercise the renewal option and will be required to pay a fee of 0.25% of the current outstanding principal balance, or approximately \$0.1 million. The mortgage payments due in 2012 are solely comprised of debt amortization payments. We have no balloon principal payments due under any of our other mortgage loans until 2013 and these are not due until the fourth quarter of 2013; however, we are initiating conversations with lenders in advance of these maturities and anticipate being able to extend the maturity dates or refinance with new lenders. We intend to pay the 2012 debt amortization payments from operating cash flow and borrowings under our Line of Credit.

Operating Activities

Net cash provided by operating activities during the three months ended March 31, 2012 was \$5.6 million, as compared to net cash provided by operating activities of \$4.7 million for the three months ended March 31, 2011. This increase was primarily a result of rental income received from the eight properties acquired subsequent to March 31, 2011, partially offset by \$1.1 million of leasing commissions paid for renewing existing leases. The majority of cash from operating activities is generated from the rental payments that we receive from our tenants. 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 three months ended March 31, 2012 was \$12.6 million, which primarily consisted of the acquisition of one property during the three months ended March 31, 2012, coupled with tenant improvements performed at certain of our properties and net payments to our lenders for reserves, as compared to net cash used in investing activities during the three months ended March 31, 2011 of \$1.0 million, which primarily consisted of tenant improvements performed at certain of our properties, net payments to our lenders for reserves and deposits placed on future acquisitions.

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Financing Activities

Net cash provided by financing activities during the three months ended March 31, 2012 was \$9.3 million, which primarily consisted of proceeds from the sale of our Term Preferred Stock, partially offset by distributions paid to our stockholders, principal repayments on mortgage notes payable and net repayments on our Line of Credit. Net cash provided by financing activities for the three months ended March 31, 2011 was \$3.6 million, which primarily consisted of proceeds from the sale of common stock, partially offset by distributions paid to our stockholders, principal repayments on mortgage notes payable and net repayments on our Line of Credit.

Line of Credit

In December 2010, we procured a \$50.0 million Line of Credit maturing on December 28, 2013, with Capital One, N.A. serving as a revolving lender, a letter of credit issuer and as an administrative agent and Branch Banking and Trust Company serving as a revolving lender and letter of credit issuer. The Line of Credit originally provided for a senior secured revolving credit facility of up to \$50.0 million, with a standby letter of credit sublimit of up to \$20.0 million. In January 2012, the Line of Credit was expanded to \$75.0 million and Citizens Bank of Pennsylvania was added as a revolving lender and letter of credit issuer. Currently, seven of our properties are pledged as collateral under our Line of Credit. The interest rate per annum applicable to the Line of Credit is equal to the London Interbank Offered Rate, or LIBOR, plus an applicable margin of up to 3.00% depending upon our leverage. Our leverage ratio used in determining the applicable margin for interest on the Line of Credit is recalculated quarterly. We are subject to an annual maintenance fee of 0.25% per year. Our ability to access this source of financing is subject to our continued ability to meet customary lending requirements such as compliance with financial and operating covenants and our meeting certain lending limits. One such covenant requires us to limit distributions to our stockholders to 95% of our FFO, with acquisition-related costs required to be expensed under ASC 805 added back to FFO for covenant purposes. In addition, the maximum amount that 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.

When we are able to procure mortgages 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 released property. Conversely, as we purchase new properties meeting the eligibility standards, we may pledge these new properties to obtain additional advances under this agreement. Our 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.

At March 31, 2012, there was \$0 outstanding under the Line of Credit and \$6.1 million outstanding under letters of credit at a weighted average interest rate of 2.8%. At March 31, 2012, the remaining borrowing capacity available under the Line of Credit was \$22.1 million. Our ability to increase the availability under our Line of Credit is dependent upon our 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 11 of our properties do not have long-term mortgages, and 7 of those are pledged as collateral under our Line of Credit. Accordingly, we have only 4 properties which are unencumbered, and which may be pledged as collateral to increase the borrowing capacity available under the Line of Credit. We were in compliance with all covenants under the Line of Credit as of March 31, 2012.

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Contractual Obligations

The following table reflects our material contractual obligations as of March 31, 2012:

Contractual Obligations	Payments Due by Period (Dollars in Thousands)				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Debt Obligations ^{(1) (2)}	\$321,393	\$ 49,395	\$34,280	\$185,070	\$ 52,648
Interest on Debt Obligations ⁽³⁾	\$ 77,813	\$ 18,059	\$31,394	\$ 21,646	\$ 6,714
Operating Lease Obligations ⁽⁴⁾	7,710	412	825	825	5,648
Total	<u>\$406,916</u>	<u>\$ 67,866</u>	<u>\$66,499</u>	<u>\$207,541</u>	<u>\$ 65,010</u>

- (1) Debt obligations represent borrowings under our Line of Credit, which represents \$0 of the debt obligation due in 2013, mortgage notes payable that were outstanding as of March 31, 2012 and amounts due under our Term Preferred Stock. The \$45,233 mortgage note issued in September 2008 matures in October 2012, and we expect to exercise our option to extend the maturity date until October 2013.
- (2) Subsequent to March 31, 2012 we borrowed \$19.0 million on a mortgage note payable, which will be due in 2022. This amount is not reflected in the table above.
- (3) Interest on debt obligations includes estimated interest on our borrowings under our Line of Credit and interest due under our Term Preferred Stock. 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 March 31, 2012.
- (4) Operating lease obligations represent the ground lease payments due on our Tulsa, Oklahoma, Dartmouth, Massachusetts, and Springfield, Missouri properties.

Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of March 31, 2012.

Funds from Operations

The National Association of Real Estate Investment Trusts, or 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 same 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 and impairment losses on 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, which, unlike FFO, generally reflects all cash effects of transactions and other events in the determination of net income and should not be considered an alternative to net income as an indication of our performance or to cash flows from operations as a measure of liquidity or ability to make distributions. Comparison of FFO, using the NAREIT definition, 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 distributions made to holders of preferred and senior common stock. 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 the number of weighted average shares of common stock outstanding and FFO available to common stockholders divided by the number of weighted average shares of common stock 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, because 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 when 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.

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The following table provides a reconciliation of our FFO for the three months ended March 31, 2012 and 2011, to the most directly comparable GAAP measure, net income, and a computation of basic and diluted FFO per weighted average share of common stock and basic and diluted net income per weighted average share of common stock:

	For the three months ended March 31,	
	2012	2011
	(Dollars in Thousands, Except Per Share Data)	
Net income	\$ 1,301	\$ 1,480
Less: Distributions attributable to preferred and senior common stock	(1,042)	(1,038)
Net income available to common stockholders	259	442
Add: Real estate depreciation and amortization	3,904	3,370
FFO available to common stockholders	\$ 4,163	\$ 3,812
Weighted average shares outstanding - basic	10,945	9,258
Weighted average shares outstanding - diluted	11,006	9,310
Basic & diluted net income per weighted average share of common stock	\$ 0.02	\$ 0.05
Basic FFO per weighted average share of common stock	\$ 0.38	\$ 0.41
Diluted FFO per weighted average share of common stock	\$ 0.38	\$ 0.41
Distributions declared per share of common stock	\$ 0.375	\$ 0.375

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Item 3. 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 are and will be exposed to is interest rate risk. 5 of our 58 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 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 three months ended March 31, 2012, we have performed the following analysis, which assumes that our balance sheet remains constant and that no further actions beyond a minimum interest rate or escalation rate are taken to alter our existing interest rate sensitivity.

We analyzed the impact of a 1%, 2% and 3% increase in the one month LIBOR for the three months ended March 31, 2012. Due to the fact that our line of credit balance was \$0 as of March 31, 2012, thus there was no impact to interest expense from the stress testing. In addition, there was no impact on rental income because of the interest rate floors present in our LIBOR leases. As of March 31, 2012, our effective average LIBOR was 0.24%; thus, a 1%, 2% or 3% decrease could not occur.

As of March 31, 2012, the fair value of our fixed rate debt outstanding was \$274.8 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 March 31, 2012, had been one percentage point higher or lower, the fair value of those debt instruments on that date would have decreased or increased by \$8.7 million and \$9.1 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, which we use 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 these objectives, 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 4. Controls and Procedures.

a) Evaluation of Disclosure Controls and Procedures

As of March 31, 2012, 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 (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)). 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 March 31, 2012 in providing a reasonable level of assurance that information we are required to disclose in reports that we file or submit under the Exchange Act 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) Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

Neither we nor any of our subsidiaries are currently subject to any material legal proceedings, nor, to our knowledge, is any material legal proceeding threatened against us or our subsidiaries.

Item 1A. Risk Factors

Our business is subject to certain risks and events that, if they occur, could adversely affect our financial condition and results of operations and the trading price of our common stock. For a discussion of these risks, please review the risk below and refer to the section captioned “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2011, filed by us with the Securities and Exchange Commission on February 28, 2012.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

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Item 6. Exhibits

Exhibit Index

<u>Exhibit Number</u>	<u>Exhibit Description</u>
3.1	Articles of Restatement (filed herewith).
3.2	Bylaws of the Registrant, incorporated by reference to Exhibit 3.2 to the Registration Statement on Form S-11 (File No. 333-106024), filed June 11, 2003.
3.2.1	First Amendment to Bylaws of the Registrant, incorporated by reference to Exhibit 99.1 of the Registrant's Current Report on Form 8-K, (File No. 001-33097) filed July 10, 2007.
4.1	Form of Certificate for Common Stock of the Registrant, incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form S-11 (File No. 333-106024), filed August 8, 2003.
4.2	Form of Certificate for 7.75% Series A Cumulative Redeemable Preferred Stock of the Registrant, incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-A12G (File No. 000-50363), filed January 19, 2006.
4.3	Form of Certificate for 7.50% Series B Cumulative Redeemable Preferred Stock of the Registrant, incorporated by reference to Exhibit 4.2 of the Registrant's Form 8-A12B (File No. 001-33097), filed October 19, 2006.
4.4	Form of Certificate for 7.125% Series C Cumulative Term Preferred Stock of Gladstone Commercial Corporation, incorporated by reference to Exhibit 4.4 of the Registrant's Current Report on Form 8-A12B (File No. 001-33097), filed January 31, 2012.
10.1	Second Amendment to Credit Agreement and Omnibus Amendment of Loan Documents dated as of January 31, 2012 by and among Gladstone Commercial Limited Partnership as Borrower, the Committed Lenders named therein, and Capital One Bank, N.A. as Administrative Agent, incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K (File No. 001-33097), filed January 31, 2012.
10.2	Second Amendment to First Amended and Restated Agreement of Limited Partnership of Gladstone Commercial Limited Partnership, incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K (File No. 001-33097), filed February 3, 2012.
10.3	Gladstone Commercial Limited Partnership Schedule 4.2 (a) (4) to First Amended and Restated Agreement of Limited Partnership: Designation of 7.125% Series C Cumulative Term Preferred Units, incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K (File No. 001-33097) filed February 3, 2012.
11	Computation of Per Share Earnings from Operations (included in the notes to the unaudited financial statements contained in this Report.
12	Statements re: computation of ratios (filed herewith).
31.1	Certification of Chief Executive Officer pursuant to Section 302 of The Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification of Chief Financial Officer pursuant to Section 302 of The Sarbanes-Oxley Act of 2002 (filed herewith).

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32.1	Certification of Chief Executive Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 (furnished herewith).
32.2	Certification of Chief Financial Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 (furnished herewith).
101.INS***	XBRL Instance Document
101.SCH***	XBRL Taxonomy Extension Schema Document
101.CAL***	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB***	XBRL Taxonomy Extension Label Linkbase Document
101.PRE***	XBRL Taxonomy Extension Presentation Linkbase Document

*** The following financial information of the Registrant is included for the three months ended March 31, 2012, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets (Unaudited), (ii) Condensed Consolidated Statements of Operations (Unaudited), (iii) Condensed Consolidated Statements of Cash Flows (Unaudited) and (iv) Notes to Condensed Consolidated Financial Statements (Unaudited).

Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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: April 30, 2012

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

Date: April 30, 2012

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

GLADSTONE COMMERCIAL CORPORATION

ARTICLES OF RESTATEMENT

Gladstone Commercial Corporation, a Maryland corporation (the "CORPORATION"), hereby certifies to the State Department of Assessments and Taxation (the "SDAT") that:

ONE: The Corporation desires to restate in its entirety the charter of the Corporation (the "CHARTER") as is currently in effect pursuant to Section 2-608 of the MARYLAND CORPORATION LAW (the "MGCL").

TWO: The following provisions, together with the descriptions of the preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends and other distributions, qualifications and terms and conditions of redemption of the 7.75% Series A Cumulative Redeemable Preferred Stock, the 7.5% Series B Cumulative Redeemable Preferred Stock, the Senior Common Stock and the 7.125% Series C Cumulative Term Preferred Stock of the Corporation attached hereto, respectively, as Exhibits A, B, C and D, all of which are incorporated herein by reference and made a part hereof, are all of the provisions of the Charter currently in effect:

FIRST: The name of the Corporation is Gladstone Commercial Corporation (which is hereafter called the "CORPORATION").

SECOND: The purpose for which the Corporation is formed is to engage in any lawful business and activity, including, without limitation, but subject to any contrary requirements necessary to qualify the Corporation as a real estate investment trust (a "REIT") under Part II of Subchapter M of the Internal Revenue Code of 1986, as amended (and any successor provisions and as those rules may be modified for purposes of REITs) (collectively, the "CODE"):

1. To purchase, acquire, hold, own, improve, develop, sell, convey, assign, release, finance, refinance, mortgage, encumber, use, lease, hire, manage, deal in and otherwise dispose of real property and personal property of every kind and nature or any interest therein, improved or otherwise, including without limitation mortgage loans, promissory notes, collateralized certificates, stocks and securities of other corporations or entities; to lend money; to take real estate, securities and other collateral as security for the payment of all sums due the Corporation; and to sell, assign and release such securities;

2. To equip, furnish, improve, develop and manage any property, real or personal; to invest, trade and deal in any property, real or personal; to encumber or dispose of any such property at any time held or owned by the Corporation; and

3. To have and exercise any and all powers and privileges now or hereafter conferred by the general laws of the State of Maryland upon corporations formed under such laws.

The foregoing enumeration of the purposes of the Corporation is made in furtherance and not in limitation of the powers conferred upon the Corporation by law. The mention of any particular purpose is not intended in any manner to limit or restrict the generality of any other purpose mentioned, or to limit or restrict any of the powers of the Corporation. The Corporation shall have, enjoy and exercise all of the powers and rights now or hereafter conferred by the laws of the State of Maryland upon corporations of a similar character, it being the intention that the purposes set forth in each of the paragraphs of this Article shall, except as otherwise expressly provided, in nowise be limited or restricted by reference to or inference from the terms of any other clause or paragraph of this or any other Article of these Articles of Incorporation, or of any amendment thereto, and shall each be regarded as independent and construed as powers as well as purposes; provided, however, that nothing herein contained shall be deemed to authorize or permit the Corporation to carry on any business or exercise any power, or do any act, which a corporation formed under the general laws of the State of Maryland may not at the time lawfully carry on or do.

THIRD: The post office address of the principal office of the Corporation in this State is c/o The Corporation Trust Incorporated, 351 West Camden Street, Baltimore, Maryland 21201. The name of the Resident Agent of the Corporation in this State is The Corporation Trust Incorporated whose address is 351 West Camden Street, Baltimore, Maryland 21201.

FOURTH: The total number of shares of capital stock which the Corporation has the authority to issue is thirty-eight million five hundred thousand (38,500,000) shares of common stock, with a par value of \$0.001 per share, one million one hundred fifty thousand (1,150,000) shares of 7.75% Series A Cumulative Redeemable Preferred Stock, with a par value of \$0.001 per share, one million one hundred fifty thousand (1,150,000) shares of 7.5% Series B Cumulative Redeemable Preferred Stock, with a par value of \$0.001 per share, seven million five hundred thousand (7,500,000) shares of Senior Common Stock, with a par value of \$0.001 per share, and one million seven hundred thousand (1,700,000) shares of 7.125% Series C Cumulative Term Preferred Stock, with a par value of \$0.001 per share, with such capital stock having an aggregate par value of \$50,000.00.

FIFTH: The number of directors of the Corporation shall be three (3), subject to change in accordance with the Bylaws of the Corporation. The current directors are: David Gladstone and Terry L. Brubaker. The third seat on the board of directors is currently vacant, to be filled in accordance with the Bylaws of the Corporation.

SIXTH: Except as may otherwise be provided by the Board of Directors, no holder of any shares of the stock of the Corporation shall have any pre-emptive right to purchase, subscribe for, or otherwise acquire any shares of stock of the Corporation of any class now or hereafter authorized, or any securities exchangeable for or convertible into such shares, or any warrants or other instruments evidencing rights or options to subscribe for, purchase or otherwise acquire such shares. The shares have no cumulative voting rights and, except as provided in Article EIGHTH below, are not subject to redemption.

SEVENTH: The following provisions are hereby adopted for the purpose of defining, limiting and regulating the powers of the Corporation and of the directors and stockholders:

1. The Board of Directors of the Corporation is hereby empowered to authorize the issuance from time to time of shares of its stock of any class or classes, whether now or hereafter authorized.

2. The Board of Directors of the Corporation may classify or reclassify any unissued stock by setting or changing in any one or more respects, from time to time before issuance of such stock, the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications and terms and conditions of redemption of such stock. A majority of the entire Board of Directors, without action by the stockholders, may amend the Charter to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class that the Corporation has authority to issue.

3. The Corporation reserves the right to amend its Charter so that such amendment may alter the contract rights, as expressly set forth in the charter, of any outstanding stock, and any objecting stockholder whose rights may or shall be thereby substantially adversely affected shall not be entitled to demand and receive payment of the face value of his stock.

The enumeration and definition of a particular power of the Board of Directors included in the foregoing shall in no way be limited or restricted by reference to or inference from the terms of any other cause of this or any other article of the Charter of the Corporation, or construed as or deemed by inference or otherwise in any manner to exclude or limit any powers conferred upon the Board of Directors under the Maryland General Corporation Law now or hereafter in force.

4. The Corporation shall indemnify (1) its directors and officers, whether serving the Corporation or at its request any other entity, to the full extent required or permitted by the General Laws of the State of Maryland now or hereafter in force, including the advance of expenses under the procedures and to the full extent permitted by law, and (2) other employees and agents (including Corporation's advisers) to such extent as shall be authorized by the Board of Directors or the Corporation's Bylaws and be permitted by law. The foregoing rights of indemnification shall not be exclusive of any other rights to which those seeking indemnification may be entitled. The Board of

Directors may take such action as is necessary to carry out these indemnification provisions and is expressly empowered to adopt, approve, and amend from time to time such Bylaws, resolutions, or contracts implementing such provisions or such further indemnification arrangements as may be permitted by law. No amendment of the Charter or repeal of any of its provisions shall limit or eliminate the right to indemnification provided hereunder with respect to acts or omissions occurring prior to such amendment or repeal.

5. No director or officer of the Corporation shall be liable to the Corporation or to its stockholders for money damages except (1) to the extent that it is proved that such director or officer actually received an improper benefit or profit in money, property or services actually received, or (2) to the extent that a judgment or other final adjudication adverse to such director or officer is entered in a proceeding based on a finding in the proceeding that such director's or officer's action, or failure to act, was (a) the result of active and deliberate dishonesty, or (b) intentionally wrongful, willful or malicious and, in each such case, was material to the cause of action adjudicated in the proceeding.

6. Notwithstanding any provision of law to the contrary, the affirmative vote of a majority of all the votes entitled to be cast on the matter shall be sufficient, valid and effective, after due authorization, approval or advice of such action by the Board of Directors, as required by law, to approve and authorize the following acts of the Corporation:

- (a) The amendment of the Charter of the Corporation;
- (b) the consolidation of the Corporation with one or more corporations to form a new consolidated corporation;
- (c) the merger of the Corporation into another corporation or the merger of one or more other corporations into the Corporation;
- (d) the sale, lease, exchange or other transfer of all, or substantially all, of the property and assets of the Corporation, including its goodwill and franchises;
- (e) the participation by the Corporation in a share exchange (as defined in the Corporation and Associations Article of the Annotated Code of Maryland) as the corporation the stock of which is to be acquired; and
- (f) the voluntary or involuntary liquidation, dissolution or winding-up of the Corporation.

EIGHTH: The following provisions are hereby adopted for the purpose of restricting the transfer and acquisition of shares, and providing a redemption right:

1. Whenever it is deemed by the Board of Directors to be prudent in protecting the tax status of the Corporation as a REIT, the Board of Directors may require to be filed with the Corporation a statement or affidavit from each proposed transferee of shares of capital stock of the Corporation setting forth the number of such shares already owned, or deemed to be owned under rules of constructive ownership, by the transferee and any other person(s) specified in the form prescribed by the Board of Directors for that purpose and such other information as the Board of Directors deems relevant for this purpose. Any contract for the sale or other transfer of shares of capital stock of the Corporation shall be subject to this provision.

2. Prior to any transfer or transaction which would cause a person to own, directly, indirectly or constructively, shares in excess of the Limit (as defined in Section 4 of this Article EIGHTH), and in any event upon demand of the Board of Directors or its designee, such stockholder shall file with the Corporation an affidavit setting forth the number of shares of capital stock of the Corporation (i) owned directly and (ii) owned indirectly (for purposes of this Section, shares of capital stock not owned directly shall be deemed to be owned indirectly by a person if that person would be the beneficial owner of such shares for purposes of Rule 13d-3, or any successor rule thereto, promulgated under the Securities Exchange Act of 1934, as amended (the "EXCHANGE ACT"), or would be considered to own such shares by reason of the attribution rules in Section 544 of the Code or the regulations issued thereunder or any successor provision and as those rules may be modified for purposes of the REIT provisions of the Code) by the person filing the affidavit. Such affidavit shall contain such additional information as

deemed relevant by the Board of Directors for purposes of carrying out its duties hereunder. The affidavit to be filed with the Corporation shall set forth all information required to be disclosed by stockholders under Treasury Regulation Section 1.857-9 issued under the Code or similar provisions of any successor regulation, and in reports to be filed under Section 13(d) of the Exchange Act. The affidavit, or an amendment thereto, shall be filed with the Corporation within ten (10) days after demand therefor and at least fifteen (15) days prior to any transfer or transaction which, if consummated, would cause the filing person to hold a number of shares of capital stock of the Corporation in excess of the Limit (as defined in Section 4 of this Article EIGHTH below). The Board of Directors or its designee shall have the right, but shall not be required, to refuse to transfer any shares of capital stock of the Corporation purportedly transferred other than in compliance with the provisions of this Section.

3. Any acquisition of shares of capital stock of the Corporation that would result in the disqualification of the Corporation as a REIT under the Code shall be void ab initio to the fullest extent permitted under applicable law and the intended transferee of such shares shall be deemed never to have had an interest therein. If the foregoing provision is determined to be void or invalid by virtue of any legal decision, statute, rule or regulation, then the transferee of such shares shall be deemed, at the option of the Corporation, to have acted as agent on behalf of the Corporation in acquiring such Excess Shares (as defined below) and to hold such Excess Shares on behalf of the ultimate owner of such Excess Shares. Any person who receives dividends, interest or any other distribution paid on account of Excess Shares shall hold and retain these dividends, interest or any other distribution as an agent for the Corporation.

While the Excess Shares are so held on behalf of the ultimate owner of such Excess Shares, such Excess Shares shall not have any voting rights and shall not be considered for purposes of any stockholder vote or determining a quorum for such a vote. The Excess Shares shall not be treasury stock but shall continue as issued and outstanding Shares under the General Corporation Law of Maryland.

Upon discovering the ownership of any Excess Shares, the Board of Directors may (i) cause the Corporation to immediately redeem such Excess Shares pursuant to Section 6 of this Article EIGHTH or (ii) grant the stockholder thirty (30) days to transfer such Excess Shares to any person or group whose ownership of such Excess Shares would not result in a violation of this Article EIGHTH. Upon such permitted transfer, the Corporation shall pay or distribute to the transferee any dividends on the Excess Shares not previously paid or distributed. If such Excess Shares are not transferred within such thirty (30)-day period, the Corporation will be deemed to have redeemed such Excess Shares pursuant to Section 6 of this Article EIGHTH.

4. Notwithstanding any other provision hereof to the contrary and subject to the provisions of Section 5 of this Article EIGHTH, no person or persons acting as a group shall at any time own (directly or under constructive ownership rules relevant for purposes of qualifying the Corporation as a REIT) in the aggregate more than nine and eight-tenths percent (9.8%) of the outstanding shares of capital stock of the Corporation (the "LIMIT"). Shares which but for this Article EIGHTH would be owned by a person or persons acting as a group and would, at any time, be in excess of the Limit shall be deemed Excess Shares. For the purpose of determining ownership of Excess Shares, "OWNERSHIP" of shares shall be deemed to include shares constructively owned by a person under the provisions Sections 542, 544 and 856 of the Code (and any successor provision and as those rules may be modified for purposes of the REIT provisions of the Code) and also shall include shares beneficially owned under the provisions of Rule 13d-3 promulgated under the Exchange Act. For purposes of determining persons acting as a group, "GROUP" shall have the same meaning as such term has for purposes of Section 13(d)(3) of the Exchange Act. All shares of capital stock of the Corporation which any person or persons acting as a group have the right to acquire upon exercise of outstanding rights, options and warrants, and upon conversion of any securities convertible into such shares, if any, shall be considered outstanding for purposes of determining the applicable Limit if such inclusion will cause such person or persons acting as a group to own more than the Limit. The Board of Directors shall have the right, but shall not be required, to refuse to transfer shares of capital stock of the Corporation if, as a result of the proposed transfer, any person or persons acting as a group would hold or be deemed to hold Excess Shares.

5. The Limit set forth in Section 4 of this Article EIGHTH shall not apply to the acquisition of shares of capital stock of the Corporation: (i) by an underwriter in a public offering of such shares; (ii) pursuant to a cash tender offer made for all outstanding shares (including securities convertible into common stock, which subsequently may be issued by the Corporation) in conformity with applicable federal and state securities laws

where at least ninety percent (90%) of the outstanding shares (not including shares or subsequently issued securities convertible into common stock, which are held by the tender offeror or any "affiliates" or "associates" thereof within the meaning of the Exchange Act) are duly tendered and accepted pursuant to the cash tender offer; or (iii) in any transaction involving the issuance of shares of capital stock by the Corporation in which the Board of Directors determines that the underwriter or other person or party initially acquiring such shares will timely distribute such shares to or among others such that, following such distribution, none of such shares will be deemed to be Excess Shares. The Board of Directors in its discretion may exempt from the Limit and from the filing requirements of Section 2 of this Article EIGHTH ownership or transfers of certain designated shares of capital stock of the Corporation while owned by or transferred to a person who has provided the Board of Directors with evidence and assurances acceptable to the Board of Directors that the qualification of the Corporation as a REIT under the Code and the regulations issued under the Code would not be jeopardized thereby.

6. At the discretion of the Board of Directors, all Excess Shares may be redeemed by the Corporation. Written notice of redemption shall be provided to the holder of the Excess Shares not less than one week prior to the redemption date (the "REDEMPTION DATE") determined by the Board of Directors and included in the notice of redemption. The redemption price to be paid for Excess Shares shall be equal to the lesser of the price paid for the Excess Shares by the stockholder in whose possession the redeemed shares were formerly Excess Shares or the Fair Market Value of the Excess Shares. "Fair Market Value" shall mean (i) the closing price of such shares on the principal national securities exchange on which such shares are listed or admitted to trading on the last business day prior to the Redemption Date, or (ii) if such shares are not so listed or admitted to trading, the closing bid price on such last business day as reported on the NASDAQ System, if quoted thereon, or (iii) if the redemption price is not determinable in accordance with clause (i) or (ii) of this sentence, the fair market value of such shares determined in good faith by the Board of Directors. The redemption price for any shares of capital stock of the Corporation so redeemed shall be paid on the Redemption Date. From and after the Redemption Date, the holder of any shares of capital stock of the Corporation called for redemption shall cease to be entitled to any distributions and other benefits with respect to such shares, except the right to payment of the redemption price fixed as aforesaid.

7. Nothing contained in this Article EIGHTH or in any other provision hereof shall limit the authority of the Board of Directors to take such other action as it in its sole discretion deems necessary or advisable to protect the Corporation and the interests of its stockholders by maintaining the Corporation's eligibility to be, and preserving the Corporation's status as, a qualified REIT under the Code.

8. For purposes of this Article EIGHTH only, the term "PERSON" shall include individuals (including natural persons and organizations treated as natural persons in Section 542(a) of the Code), corporations, limited partnerships, general partnerships, joint stock companies or associations, joint ventures, associations, consortia, companies, trusts, banks, trust companies, land trusts, common law trusts, business trusts, unincorporated associations or other entities and governments and agencies and political subdivisions thereof.

9. If any provision of this Article EIGHTH or any application of any such provision is determined to be invalid by any federal or state court having jurisdiction over the issue, the validity of the remaining provisions shall not be affected and other applications of such provision shall be affected only to the extent necessary to comply with the determination of such court. To the extent any provision of this Article EIGHTH may be inconsistent with any other provisions of these articles of incorporation, this Article EIGHTH shall be controlling.

10. In the event that a stockholder knowingly holds Excess Shares and the Corporation consequently loses its status as a REIT under the Code or becomes a personal holding company, such stockholder shall be required to indemnify the Corporation for the full amount of any damages and expenses (including, without limitation, increased corporate taxes, attorneys' fees and administrative costs) resulting from the Corporation's loss of its REIT qualification under the Code.

11. Nothing herein contained shall limit the ability of the Corporation to impose or seek judicial or other imposition of additional restrictions if deemed necessary or advisable to protect the Corporation and the interests of its stockholders by preservation of the Corporation's status as a REIT.

12. All persons or groups who own five percent (5%) or more of the Corporation's outstanding shares during any taxable year of the Corporation shall file with the Corporation an affidavit setting forth the number of

shares during such taxable year (a) owned directly (held of record by such person or group, or by a nominee or nominees of such person or group), and (b) owned indirectly (by reason of Section 542, 544 or 856 of the Code or for purposes of Section 13(d) of the Exchange Act) by the person or group filing the affidavit. The affidavit to be filed with the Corporation shall set forth all the information required to be reported (i) in returns of stockholders under Treasury Regulation Section 1.857-9 issued under the Code or similar provisions of any successor regulation, and (ii) in reports to be filed under Section 13(d) of the Exchange Act. The affidavit or amendment to a previously-filed affidavit shall be filed with the Corporation annually within 60 days after the close of the Corporation's taxable year. A person or group shall have satisfied the requirements of this Section 12 of this Article EIGHTH if the person or group furnishes to the Corporation the information in such person or group's possession after such person or group has made a good faith effort to determine the shares it indirectly owns and to acquire the information required by Treasury Regulation Section 1.857-9 issued under the Code or similar provisions of any successor regulation.

TENTH: The duration of the Corporation shall be perpetual.

THREE: As set forth in Articles Supplementary filed with and accepted for record by the SDAT on March 16, 2010, under a power contained in Title 3, Subtitle 8 of the MGCL, by provision in the Bylaws of the Corporation (the "BYLAWS") duly adopted by the Board of Directors and notwithstanding any other provision in the Charter or the Bylaws to the contrary, the Corporation elected to be subject to Sections 3-803, 3-804 and 3-805 of the MGCL, the repeal of which may be effected only by the means authorized by Section 3-802(b)(3) of the MGCL.

FOUR: The foregoing restatement of the Charter has been approved by a majority of the entire Board of Directors.

FIVE: The Charter is not amended by these Articles of Restatement.

SIX: The current address of the principal office of the Corporation is set forth in Article THIRD of the foregoing restatement of the Charter.

SEVEN: The name and address of the Corporation's current resident agent is as set forth in Article THIRD of the foregoing restatement of the Charter.

EIGHT: The number of directors of the Corporation is currently ten, and the names of the current directors and the years in which their terms of office expire on the date of the annual meeting of stockholders in such year are as follows:

<u>Name</u>	<u>End of Term</u>
Terry Lee Brubaker	2012
David A.R. Dullum	2012
Gerard Mead	2012
John Reilly	2012
David Gladstone	2013
Paul W. Adलगren	2013
John H. Outland	2013
Michela A. English	2014
Anthony W. Parker	2014
George Stelljes III	2014

NINE: The undersigned acknowledges these Articles of Restatement to be the corporate act of the Corporation and as to all matters or facts required to be verified under oath, the undersigned acknowledges that to the best of his knowledge, information and belief, these matters and facts are true in all material respects and that this statement is made under the penalties for perjury

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Corporation has caused these Articles of Restatement to be signed in its name and on its behalf by its Chief Executive Officer and attested to by its Secretary on this 23rd day of April 2012.

[SEAL]

ATTEST:

GLADSTONE COMMERCIAL CORPORATION

/s/ Terry L. Brubaker

Terry L. Brubaker, Secretary

/s/ David Gladstone

David Gladstone, Chief Executive Officer

GLADSTONE COMMERCIAL CORPORATION

ARTICLES OF RESTATEMENT

EXHIBIT A

7.75% SERIES A CUMULATIVE REDEEMABLE PREFERRED STOCK

1. **Designation and Number.** A class of Preferred Stock, designated the "7.75% Series A Cumulative Redeemable Preferred Stock" (the **Series A Preferred Stock**"), is hereby established. The number of shares of Series A Preferred Stock shall be 1,150,000 (the **Series A Preferred Shares**").

2. **Rank.** The Series A Preferred Stock, with respect to dividend rights and rights upon liquidation, dissolution or winding up of the Company, will rank (i) senior to all classes or series of common stock of the Company, \$0.001 par value per share (the **Common Stock**"), and to all equity securities ranking junior to the Series A Preferred Stock with respect to dividend rights or rights upon liquidation, dissolution or winding up of the Company; (ii) on a parity with all equity securities issued by the Company the terms of which specifically provide that such equity securities rank on a parity with the Series A Preferred Stock with respect to dividend rights or rights upon liquidation, dissolution or winding up of the Company (the **Parity Preferred Securities**"); and (iii) junior to all existing and future indebtedness of the Company. The term "equity securities" does not include convertible debt securities.

3. **Dividends.**

(a) Holders of shares of the Series A Preferred Stock are entitled to receive, when and as declared by the Board of Directors (or a duly authorized committee thereof), out of funds legally available for the payment of dividends, preferential cumulative cash dividends at the rate of 7.75% per annum of the \$25.00 liquidation preference (the **Liquidation Preference**) per share (equivalent to a fixed annual amount of \$1.9375 per share). Dividends on the Series A Preferred Stock shall be cumulative from the date of original issue and shall be payable monthly in arrears on or before the last business day of each month (each, a **Dividend Payment Date**). The first dividend, which will be payable on February 28, 2006, will be for a full month. Such dividend and any dividend payable on the Series A Preferred Stock for any partial dividend period will be computed on the basis of a 360-day year consisting of twelve thirty-day months. Dividends will be payable to holders of record as they appear in the stock records of the Company at the close of business on the applicable record date, which shall be such date designated by the Board of Directors of the Company that is not more than 20 nor less than 10 days prior to such Dividend Payment Date (each, a **Dividend Record Date**).

(b) No dividends on shares of Series A Preferred Stock shall be authorized by the Board of Directors or paid or set apart for payment by the Company at such time as the terms and provisions of any agreement of the Company, including any agreement relating to its indebtedness, prohibits such authorization, payment or setting apart for payment or provides that such authorization, payment or setting apart for payment would constitute a breach thereof or a default thereunder, or if such authorization or payment shall be restricted or prohibited by law.

(c) Notwithstanding the foregoing, dividends on the Series A Preferred Stock will accumulate whether or not the Company has earnings, whether or not restrictions exist in respect thereof, whether there are funds legally available for the payment of such dividends and whether or not such dividends are declared. Accumulated but unpaid dividends on the Series A Preferred Stock will not bear interest and holders of the Series A Preferred Stock will not be entitled to any distributions in excess of full cumulative dividends described above. Except as set forth in the next sentence, no dividends will be declared or paid or set apart for payment on any capital stock of the Company or any other series of Parity Preferred Stock or any series or class of equity securities ranking junior to the Series A Preferred Stock (other than a dividend in shares of the Company's Common Stock or in shares of any other class of stock ranking junior to the Series A Preferred Stock as to dividends and upon liquidation) for any period unless full cumulative dividends have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for such payment on the Series A Preferred Stock for all past dividend periods and the then current dividend period. When dividends are not paid in full (or a sum sufficient for such full payment is not so set apart) upon the Series A Preferred Stock and the shares of any other series of Parity Preferred Stock, all dividends declared upon the Series A Preferred Stock and any other series of Parity Preferred Stock, shall be declared pro rata so that the amount of dividends declared per share of Series A Preferred Stock and such other

series of Parity Preferred Stock shall in all cases bear to each other the same ratio that accumulated dividends per share on the Series A Preferred Stock and such other series of Parity Preferred Stock (which shall not include any accrual in respect of unpaid dividends for prior dividend periods if such Parity Preferred Stock does not have a cumulative dividend) bear to each other.

(d) Except as provided in the immediately preceding paragraph, unless full cumulative dividends on the Series A Preferred Stock have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for payment for all past dividend periods and the then current dividend period, no dividends (other than in shares of Common Stock or other shares of capital stock ranking junior to the Series A Preferred Stock as to dividends and upon liquidation) shall be declared or paid or set aside for payment nor shall any other distribution be declared or made upon the Common Stock, or any other capital stock of the Company ranking junior to or on a parity with the Series A Preferred Stock as to dividends or upon liquidation, nor shall any shares of Common Stock, or any other shares of capital stock of the Company ranking junior to or on a parity with the Series A Preferred Stock as to dividends or upon liquidation be redeemed, purchased or otherwise acquired for any consideration (or any monies be paid to or made available for a sinking fund for the redemption of any such shares) by the Company (except by conversion into or exchange for other capital stock of the Company ranking junior to the Series A Preferred Stock as to dividends and upon liquidation or redemption for the purpose of preserving the Company's qualification as a real estate investment trust ("REIT")). Holders of shares of the Series A Preferred Stock shall not be entitled to any dividend, whether payable in cash, property or stock, in excess of full cumulative dividends on the Series A Preferred Stock as provided above. Any dividend payment made on shares of the Series A Preferred Stock shall first be credited against the earliest accumulated but unpaid dividend due with respect to such shares which remains payable.

(e) If, for any taxable year, the Company elects to designate as a "capital gain dividend" (as defined in Section 857 of the Internal Revenue Code of 1986, as amended (the "Code")) any portion (the "Capital Gains Amount") of the dividends paid or made available for the year to holders of any class or series of stock of the Company, the portion of the Capital Gains Amount that shall be allocable to holders of the Series A Preferred Stock shall be the amount that the total dividends (as determined for federal income tax purposes) paid or made available to the holders of the Series A Preferred Stock for the year bears to the aggregate amount of dividends (as determined for federal income tax purposes) paid or made available to the holders of all classes or series of stock of the Company for such year.

4. **Liquidation Preference.** Upon any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Company, the holders of shares of Series A Preferred Stock are entitled to be paid out of the assets of the Company legally available for distribution to its stockholders a liquidation preference of \$25.00 per share, plus an amount equal to any accumulated, accrued and unpaid dividends to and including the date of payment, but without interest, before any distribution of assets is made to holders of Common Stock or any other class or series of capital stock of the Company that ranks junior to the Series A Preferred Stock as to liquidation rights. If the assets of the Company legally available for distribution to stockholders are insufficient to pay in full the Liquidation Preference on the Series A Preferred Stock and the Liquidation Preference on any shares of Parity Preferred Stock, all assets distributed to the holders of the Series A Preferred Stock and any other series of Parity Preferred Stock shall be distributed pro rata so that the amount of assets distributed per share of Series A Preferred Stock and such other series of Parity Preferred Stock shall in all cases bear to each other the same ratio that the Liquidation Preference per share on the Series A Preferred Stock and such other series of Parity Preferred Stock bear to each other. Written notice of any such liquidation, dissolution or winding up of the Company, stating the payment date or dates when, and the place or places where, the amounts distributable in such circumstances shall be payable, shall be given by first class mail, postage pre-paid, not less than 30 nor more than 60 days prior to the payment date stated therein, to each record holder of the Series A Preferred Shares at the respective addresses of such holders as the same shall appear on the stock transfer records of the Company. After payment of the full amount of the Liquidation Preference, plus any accumulated and unpaid dividends to which they are entitled, the holders of Series A Preferred Stock will have no right or claim to any of the remaining assets of the Company. The consolidation or merger of the Company with or into another entity, a merger of another entity with or into the Company, a statutory share exchange by the Company or a sale, lease, transfer or conveyance of all or substantially all of the Company's property or business shall not be deemed to constitute a liquidation, dissolution or winding up of the Company. In determining whether a distribution (other than upon voluntary or involuntary liquidation, dissolution or winding up of the Company) by dividend, redemption or other acquisition of shares of stock of the Company or otherwise is permitted under the MGCL, no effect shall be given to amounts that would be needed, if the Company were to be dissolved at the time of the distribution, to satisfy the preferential rights upon dissolution of holders of the Series A Preferred Shares whose preferential rights upon dissolution are superior to those receiving the distribution.

5. Optional Redemption.

(a) The Series A Preferred Stock is not redeemable prior to January 30, 2011. However, in order to ensure that the Company will continue to meet the requirement for qualification as a REIT, the Series A Preferred Stock will be subject to provisions in the Company's Charter pursuant to which shares of capital stock of the Company owned by a stockholder in excess of 9.8% in value of the outstanding shares of capital stock of the Company (the "**Ownership Limit**") will be deemed "Excess Shares," and the Company will have the right to purchase such Excess Shares from the holder. On and after January 30, 2011, the Company, at its sole option upon not less than 30 nor more than 60 days' written notice, may redeem shares of the Series A Preferred Stock, in whole or in part, at any time or from time to time, for cash at a redemption price of \$25.00 per share, plus all accumulated and unpaid dividends thereon to the date fixed for redemption (except with respect to Excess Shares), without interest. Holders of Series A Preferred Stock to be redeemed shall surrender such Series A Preferred Stock at the place designated in such notice and upon such surrender shall be entitled to the redemption price and any accumulated and unpaid dividends payable upon such redemption. If notice of redemption of any shares of Series A Preferred Stock has been given and if the funds necessary for such redemption have been set aside by the Company in trust for the benefit of the holders of any shares of Series A Preferred Stock to be redeemed, then from and after the redemption date dividends will cease to accumulate on those shares of Series A Preferred Stock, those shares of Series A Preferred Stock shall no longer be deemed outstanding and all rights of the holders of such shares will terminate, except the right to receive the redemption price. If less than all of the outstanding Series A Preferred Stock is to be redeemed, Series A Preferred Shares shall be selected pro rata for redemption (as nearly as may be practicable without creating fractional shares) or by any other equitable method determined by the Company. After redemption, all shares of Series A Preferred Stock previously outstanding shall be unclassified and shall constitute authorized and unissued shares of the Company's preferred stock that may be designated by the Company's Board of Directors pursuant to Article VII of the Company's Charter, as further amended.

(b) Unless full cumulative dividends on all shares of Series A Preferred Stock shall have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof set apart for payment for all past dividend periods and the then current dividend period, no shares of Series A Preferred Stock shall be redeemed unless all outstanding shares of Series A Preferred Stock are simultaneously redeemed and the Company shall not purchase or otherwise acquire directly or indirectly any shares of Series A Preferred Stock (except by exchange for capital stock of the Company ranking junior to the Series A Preferred Stock as to dividends and upon liquidation); provided, however, that the foregoing shall not prevent the purchase by the Company of Excess Shares in order to ensure that the Company continues to meet the requirements for qualification as a REIT, or the purchase or acquisition of shares of Series A Preferred Stock pursuant to a purchase or exchange offer made on the same terms to holders of all outstanding shares of Series A Preferred Stock. So long as no dividends are in arrears, the Company shall be entitled at any time and from time to time to repurchase shares of Series A Preferred Stock in open-market transactions duly authorized by the Board of Directors and effected in compliance with applicable laws.

(c) Notice of redemption will be given by publication in a newspaper of general circulation in the City of New York, such publication to be made once a week for two successive weeks commencing not less than 30 nor more than 60 days prior to the redemption date. A similar notice will be mailed by the Company, postage prepaid, not less than 30 nor more than 60 days prior to the redemption date, addressed to the respective holders of record of the Series A Preferred Stock to be redeemed at their respective addresses as they appear on the stock transfer records of the Company. No failure to give such notice or any defect therein or in the mailing thereof shall affect the validity of the proceedings for the redemption of any shares of Series A Preferred Stock except as to the holder to whom notice was defective or not given. Each notice shall state: (i) the redemption date; (ii) the redemption price; (iii) the number of shares of Series A Preferred Stock to be redeemed; (iv) the place or places where the Series A Preferred Stock is to be surrendered for payment of the redemption price; and (v) that dividends on the shares to be redeemed will cease to accrue on such redemption date. If less than all of the Series A Preferred Stock held by any holder is to be redeemed, the notice mailed to such holder shall also specify the number of shares of Series A Preferred Stock held by such holder to be redeemed.

(d) Immediately prior to any redemption of Series A Preferred Stock, the Company shall pay, in cash, any accumulated and unpaid dividends through the redemption date, unless a redemption date falls after a Dividend

Record Date and prior to the corresponding Dividend Payment Date, in which case each holder of Series A Preferred Stock at the close of business on such Dividend Record Date shall be entitled to the dividend payable on such shares on the corresponding Dividend Payment Date notwithstanding the redemption of such shares before such Dividend Payment Date.

(e) The Series A Preferred Stock has no stated maturity and will not be subject to any sinking fund or mandatory redemption. However, in order to ensure that the Company continues to meet the requirements for qualification as a REIT, Series A Preferred Stock acquired by a stockholder in excess of the Ownership Limit will automatically become Excess Shares, and the Company will have the right to purchase such Excess Shares from the holder. In addition, Excess Shares may be redeemed, in whole or in part, at any time when outstanding shares of Series A Preferred Stock are being redeemed, for cash at a redemption price of \$25.00 per share, but excluding accumulated and unpaid dividends on such Excess Shares, without interest. Such Excess Shares shall be redeemed in such proportion and in accordance with such procedures as shares of Series A Preferred Stock are being redeemed.

6. Voting Rights.

(a) Holders of the Series A Preferred Stock will not have any voting rights, except as set forth below or as otherwise from time to time required by law.

(b) Whenever dividends on any shares of Series A Preferred Stock shall be in arrears for eighteen or more consecutive months (a **Preferred Dividend Default**), the holders of such shares of Series A Preferred Stock voting separately as a class together with all other series of Parity Preferred Stock upon which like voting rights have been conferred and are exercisable will be entitled to vote separately as a class for the election of a total of two additional directors of the Company (the **Preferred Stock Directors**) at a special meeting called by the holders of record of at least 20% of the Series A Preferred Stock or the holders of record of at least 20% of any series of Parity Preferred so in arrears (unless such request is received less than 90 days before the date fixed for the next annual or special meeting of the stockholders) or at the next annual meeting of stockholders, and at each subsequent annual meeting until all dividends accumulated on such shares of Series A Preferred Stock for the past dividend periods and the dividend for the then current dividend period shall have been fully paid or declared and a sum sufficient for the payment thereof set aside for payment. A quorum for any such meeting shall exist if at least a majority of the outstanding shares of Series A Preferred Stock and shares of Parity Preferred Stock upon which like voting rights have been conferred and are exercisable are represented in person or by proxy at such meeting. The Preferred Stock Directors shall be elected upon the affirmative vote of a plurality of the shares of Series A Preferred Stock and such Parity Preferred Stock present and voting in person or by proxy at a duly called and held meeting at which a quorum is present voting separately as a class. If and when all accumulated dividends and the dividend for the then current dividend period on the Series A Preferred Stock shall have been paid in full or declared and set aside for payment in full, the holders thereof shall be divested of the foregoing voting rights (subject to re-vesting in the event of each and every Preferred Dividend Default) and, if all accumulated dividends and the dividend for the then current dividend period have been paid in full or declared and set aside for payment in full on all series of Parity Preferred Stock upon which like voting rights have been conferred and are exercisable, the term of office of each Preferred Stock Director so elected shall terminate. Any Preferred Stock Director may be removed at any time with or without cause by, and shall not be removed otherwise than by the vote of, the holders of record of a majority of the outstanding shares of the Series A Preferred Stock when they have the voting rights described above (voting separately as a class with all series of Parity Preferred Stock upon which like voting rights have been conferred and are exercisable). So long as a Preferred Dividend Default shall continue, any vacancy in the office of a Preferred Stock Director may be filled by written consent of the Preferred Stock Director remaining in office, or if none remains in office, by a vote of the holders of record of a majority of the outstanding shares of Series A Preferred Stock when they have the voting rights described above (voting separately as a class with all series of Parity Preferred Stock upon which like voting rights have been conferred and are exercisable). The Preferred Stock Directors shall be entitled to one vote per director on any matter.

(c) So long as any shares of Series A Preferred Stock remain outstanding, the Company will not, without the affirmative vote or consent of the holders of at least two-thirds of the shares of the Series A Preferred Stock outstanding at the time, given in person or by proxy, either in writing or at a meeting (voting separately as a class), amend, alter or repeal the provisions of the Charter (including these Articles Supplementary), whether by merger, consolidation or otherwise (each an **Event**), so as to materially and adversely affect any right, preference, privilege or voting power of the Series A Preferred Stock or the holders thereof; provided, however, that with

respect to the occurrence of any Event set forth above, so long as the Series A Preferred Stock (or shares issued by a surviving entity in substitution for the Series A Preferred Stock) remains outstanding with the terms thereof materially unchanged, taking into account that upon the occurrence of such an Event, the Company may not be the surviving entity, the occurrence of any such Event shall not be deemed to materially and adversely affect such rights, preferences, privileges or voting power of holders of the Series A Preferred Stock and provided, further that (i) any increase in the amount of authorized shares of Series A Preferred Stock, (ii) any increase in the amount of the authorized Preferred Stock or the creation or issuance of any other series of Preferred Stock, or (iii) any increase in the amount of authorized shares of such series, in each case ranking on a parity with or junior to the Series A Preferred Stock with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or winding up, shall not be deemed to materially and adversely affect such rights, preferences, privileges or voting powers.

(d) The foregoing voting provisions will not apply if, at or prior to the time when the act with respect to which such vote would otherwise be required shall be effected, all outstanding shares of Series A Preferred Stock shall have been redeemed or called for redemption upon proper notice and sufficient funds shall have been deposited in trust to effect such redemption.

7. **Conversion.** The Series A Preferred Stock is not convertible into or exchangeable for any other property or securities of the Company.

8. **Maturity.** The Series A Preferred Stock has no stated maturity and will not be subject to any sinking fund or mandatory redemption.

9. **No Preemptive Rights.** No holder of the Series A Preferred Stock of the Company shall, as such holder, have any preemptive rights to purchase or subscribe for additional shares of stock of the Company or any other security of the Company which it may issue or sell.

GLADSTONE COMMERCIAL CORPORATION

ARTICLES OF RESTATEMENT

EXHIBIT B

7.5% SERIES B CUMULATIVE REDEEMABLE PREFERRED STOCK

1. **Designation and Number.** A class of Preferred Stock, designated the “7.5% Series B Cumulative Redeemable Preferred Stock” (the “**Series B Preferred Stock**”), is hereby established. The number of shares of Series B Preferred Stock shall be 1,150,000 (the “**Series B Preferred Shares**”).

2. **Rank.** The Series B Preferred Stock, with respect to dividend rights and rights upon liquidation, dissolution or winding up of the Company, will rank (i) senior to all classes or series of common stock of the Company, \$0.001 par value per share (the “**Common Stock**”), and to all equity securities ranking junior to the Series B Preferred Stock with respect to dividend rights or rights upon liquidation, dissolution or winding up of the Company; (ii) on a parity with all equity securities issued by the Company, including the Company’s 7.75% Series A Cumulative Redeemable Preferred Stock (the “**Series A Preferred Stock**”), the terms of which specifically provide that such equity securities rank on a parity with the Series B Preferred Stock with respect to dividend rights or rights upon liquidation, dissolution or winding up of the Company (the “**Parity Preferred Securities**”); and (iii) junior to all existing and future indebtedness of the Company. The term “equity securities” does not include convertible debt securities.

3. **Dividends.**

(a) Holders of shares of the Series B Preferred Stock are entitled to receive, when and as declared by the Board of Directors (or a duly authorized committee thereof), out of funds legally available for the payment of dividends, preferential cumulative cash dividends at the rate of 7.5% per annum of the \$25.00 liquidation preference (the “**Liquidation Preference**”) per share (equivalent to a fixed annual amount of \$1.875 per share). Dividends on the Series B Preferred Stock shall be cumulative from the date of original issue and shall be payable monthly in arrears on or before the last business day of each month (each, a “**Dividend Payment Date**”). The first dividend, which will be payable on November 30, 2006, will be for a full month. Such dividend and any dividend payable on the Series A Preferred Stock for any partial dividend period will be computed on the basis of a 360-day year consisting of twelve thirty-day months. Dividends will be payable to holders of record as they appear in the stock records of the Company at the close of business on the applicable record date, which shall be such date designated by the Board of Directors of the Company that is not more than 20 nor less than 7 days prior to such Dividend Payment Date (each, a “**Dividend Record Date**”).

(b) No dividends on shares of Series B Preferred Stock shall be authorized by the Board of Directors or paid or set apart for payment by the Company at such time as the terms and provisions of any agreement of the Company, including any agreement relating to its indebtedness, prohibits such authorization, payment or setting apart for payment or provides that such authorization, payment or setting apart for payment would constitute a breach thereof or a default thereunder, or if such authorization or payment shall be restricted or prohibited by law.

(c) Notwithstanding the foregoing, dividends on the Series B Preferred Stock will accumulate whether or not the Company has earnings, whether or not restrictions exist in respect thereof, whether there are funds legally available for the payment of such dividends and whether or not such dividends are declared. Accumulated but unpaid dividends on the Series B Preferred Stock will not bear interest and holders of the Series B Preferred Stock will not be entitled to any distributions in excess of full cumulative dividends described above. Except as set forth in the next sentence, no dividends will be declared or paid or set apart for payment on any capital stock of the Company or any other series of Parity Preferred Stock or any series or class of equity securities ranking junior to the Series B Preferred Stock (other than a dividend in shares of the Company’s Common Stock or in shares of any other class of stock ranking junior to the Series B Preferred Stock as to dividends and upon liquidation) for any period unless full cumulative dividends have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for such payment on the Series B Preferred Stock for all past dividend

periods and the then current dividend period. When dividends are not paid in full (or a sum sufficient for such full payment is not so set apart) upon the Series B Preferred Stock and the shares of any other series of Parity Preferred Stock, all dividends declared upon the Series B Preferred Stock and any other series of Parity Preferred Stock, shall be declared pro rata so that the amount of dividends declared per share of Series B Preferred Stock and such other series of Parity Preferred Stock shall in all cases bear to each other the same ratio that accumulated dividends per share on the Series B Preferred Stock and such other series of Parity Preferred Stock (which shall not include any accrual in respect of unpaid dividends for prior dividend periods if such Parity Preferred Stock does not have a cumulative dividend) bear to each other.

(d) Except as provided in the immediately preceding paragraph, unless full cumulative dividends on the Series B Preferred Stock have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for payment for all past dividend periods and the then current dividend period, no dividends (other than in shares of Common Stock or other shares of capital stock ranking junior to the Series B Preferred Stock as to dividends and upon liquidation) shall be declared or paid or set aside for payment nor shall any other distribution be declared or made upon the Common Stock, or any other capital stock of the Company ranking junior to or on a parity with the Series B Preferred Stock as to dividends or upon liquidation, nor shall any shares of Common Stock, or any other shares of capital stock of the Company ranking junior to or on a parity with the Series B Preferred Stock as to dividends or upon liquidation be redeemed, purchased or otherwise acquired for any consideration (or any monies be paid to or made available for a sinking fund for the redemption of any such shares) by the Company (except by conversion into or exchange for other capital stock of the Company ranking junior to the Series B Preferred Stock as to dividends and upon liquidation or redemption for the purpose of preserving the Company's qualification as a real estate investment trust ("REIT")). Holders of shares of the Series B Preferred Stock shall not be entitled to any dividend, whether payable in cash, property or stock, in excess of full cumulative dividends on the Series B Preferred Stock as provided above. Any dividend payment made on shares of the Series B Preferred Stock shall first be credited against the earliest accumulated but unpaid dividend due with respect to such shares which remains payable.

(e) If, for any taxable year, the Company elects to designate as a "capital gain dividend" (as defined in Section 857 of the Internal Revenue Code of 1986, as amended (the "Code")) any portion (the "Capital Gains Amount") of the dividends paid or made available for the year to holders of any class or series of stock of the Company, the portion of the Capital Gains Amount that shall be allocable to holders of the Series B Preferred Stock shall be the amount that the total dividends (as determined for federal income tax purposes) paid or made available to the holders of the Series B Preferred Stock for the year bears to the aggregate amount of dividends (as determined for federal income tax purposes) paid or made available to the holders of all classes or series of stock of the Company for such year.

4. **Liquidation Preference.** Upon any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Company, the holders of shares of Series B Preferred Stock are entitled to be paid out of the assets of the Company legally available for distribution to its stockholders a liquidation preference of \$25.00 per share, plus an amount equal to any accumulated, accrued and unpaid dividends to and including the date of payment, but without interest, before any distribution of assets is made to holders of Common Stock or any other class or series of capital stock of the Company that ranks junior to the Series B Preferred Stock as to liquidation rights. If the assets of the Company legally available for distribution to stockholders are insufficient to pay in full the Liquidation Preference on the Series B Preferred Stock and the Liquidation Preference on any shares of Parity Preferred Stock, all assets distributed to the holders of the Series B Preferred Stock and any other series of Parity Preferred Stock shall be distributed pro rata so that the amount of assets distributed per share of Series B Preferred Stock and such other series of Parity Preferred Stock shall in all cases bear to each other the same ratio that the Liquidation Preference per share on the Series B Preferred Stock and such other series of Parity Preferred Stock bear to each other. Written notice of any such liquidation, dissolution or winding up of the Company, stating the payment date or dates when, and the place or places where, the amounts distributable in such circumstances shall be payable, shall be given by first class mail, postage pre-paid, not less than 30 nor more than 60 days prior to the payment date stated therein, to each record holder of the Series B Preferred Shares at the respective addresses of such holders as the same shall appear on the stock transfer records of the Company. After payment of the full amount of the Liquidation Preference, plus any accumulated and unpaid dividends to which they are entitled, the holders of Series B Preferred Stock will have no right or claim to any of the remaining assets of the Company. The consolidation or merger of the Company with or into another entity, a merger of another entity with or into the Company, a statutory share exchange by the Company or a sale, lease, transfer or conveyance of all or substantially all of the Company's

property or business shall not be deemed to constitute a liquidation, dissolution or winding up of the Company. In determining whether a distribution (other than upon voluntary or involuntary liquidation, dissolution or winding up of the Company) by dividend, redemption or other acquisition of shares of stock of the Company or otherwise is permitted under the MGCL, no effect shall be given to amounts that would be needed, if the Company were to be dissolved at the time of the distribution, to satisfy the preferential rights upon dissolution of holders of the Series B Preferred Shares whose preferential rights upon dissolution are superior to those receiving the distribution.

5. Optional Redemption.

(a) The Series B Preferred Stock is not redeemable prior to October 31, 2011. However, in order to ensure that the Company will continue to meet the requirement for qualification as a REIT, the Series B Preferred Stock will be subject to provisions in the Company's Charter pursuant to which shares of capital stock of the Company owned by a stockholder in excess of 9.8% in value of the outstanding shares of capital stock of the Company (the "**Ownership Limit**") will be deemed "Excess Shares," and the Company will have the right to purchase such Excess Shares from the holder. On and after October 31, 2011, the Company, at its sole option upon not less than 30 nor more than 60 days' written notice, may redeem shares of the Series B Preferred Stock, in whole or in part, at any time or from time to time, for cash at a redemption price of \$25.00 per share, plus all accumulated and unpaid dividends thereon to the date fixed for redemption (except with respect to Excess Shares), without interest. Holders of Series B Preferred Stock to be redeemed shall surrender such Series B Preferred Stock at the place designated in such notice and upon such surrender shall be entitled to the redemption price and any accumulated and unpaid dividends payable upon such redemption. If notice of redemption of any shares of Series B Preferred Stock has been given and if the funds necessary for such redemption have been set aside by the Company in trust for the benefit of the holders of any shares of Series B Preferred Stock to be redeemed, then from and after the redemption date dividends will cease to accumulate on those shares of Series B Preferred Stock, those shares of Series B Preferred Stock shall no longer be deemed outstanding and all rights of the holders of such shares will terminate, except the right to receive the redemption price. If less than all of the outstanding Series B Preferred Stock is to be redeemed, Series B Preferred Shares shall be selected pro rata for redemption (as nearly as may be practicable without creating fractional shares) or by any other equitable method determined by the Company. After redemption, all shares of Series B Preferred Stock previously outstanding shall be unclassified and shall constitute authorized and unissued shares of the Company's preferred stock that may be designated by the Company's Board of Directors pursuant to Article VII of the Company's Charter, as further amended.

(b) Unless full cumulative dividends on all shares of Series B Preferred Stock shall have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof set apart for payment for all past dividend periods and the then current dividend period, no shares of Series B Preferred Stock shall be redeemed unless all outstanding shares of Series B Preferred Stock are simultaneously redeemed and the Company shall not purchase or otherwise acquire directly or indirectly any shares of Series B Preferred Stock (except by exchange for capital stock of the Company ranking junior to the Series B Preferred Stock as to dividends and upon liquidation); provided, however, that the foregoing shall not prevent the purchase by the Company of Excess Shares in order to ensure that the Company continues to meet the requirements for qualification as a REIT, or the purchase or acquisition of shares of Series B Preferred Stock pursuant to a purchase or exchange offer made on the same terms to holders of all outstanding shares of Series B Preferred Stock. So long as no dividends are in arrears, the Company shall be entitled at any time and from time to time to repurchase shares of Series B Preferred Stock in open-market transactions duly authorized by the Board of Directors and effected in compliance with applicable laws.

(c) Notice of redemption will be given by publication in a newspaper of general circulation in the City of New York, such publication to be made once a week for two successive weeks commencing not less than 30 nor more than 60 days prior to the redemption date. A similar notice will be mailed by the Company, postage prepaid, not less than 30 nor more than 60 days prior to the redemption date, addressed to the respective holders of record of the Series B Preferred Stock to be redeemed at their respective addresses as they appear on the stock transfer records of the Company. No failure to give such notice or any defect therein or in the mailing thereof shall affect the validity of the proceedings for the redemption of any shares of Series B Preferred Stock except as to the holder to whom notice was defective or not given. Each notice shall state: (i) the redemption date; (ii) the redemption price; (iii) the number of shares of Series B Preferred Stock to be redeemed; (iv) the place or places where the Series B Preferred Stock is to be surrendered for payment of the redemption price; and (v) that dividends on the shares to be redeemed will cease to accrue on such redemption date. If less than all of the Series B Preferred Stock held by any holder is to be redeemed, the notice mailed to such holder shall also specify the number of shares of Series B Preferred Stock held by such holder to be redeemed.

(d) Immediately prior to any redemption of Series B Preferred Stock, the Company shall pay, in cash, any accumulated and unpaid dividends through the redemption date, unless a redemption date falls after a Dividend Record Date and prior to the corresponding Dividend Payment Date, in which case each holder of Series B Preferred Stock at the close of business on such Dividend Record Date shall be entitled to the dividend payable on such shares on the corresponding Dividend Payment Date notwithstanding the redemption of such shares before such Dividend Payment Date.

(e) The Series B Preferred Stock has no stated maturity and will not be subject to any sinking fund or mandatory redemption. However, in order to ensure that the Company continues to meet the requirements for qualification as a REIT, Series B Preferred Stock acquired by a stockholder in excess of the Ownership Limit will automatically become Excess Shares, and the Company will have the right to purchase such Excess Shares from the holder. In addition, Excess Shares may be redeemed, in whole or in part, at any time when outstanding shares of Series B Preferred Stock are being redeemed, for cash at a redemption price of \$25.00 per share, but excluding accumulated and unpaid dividends on such Excess Shares, without interest. Such Excess Shares shall be redeemed in such proportion and in accordance with such procedures as shares of Series B Preferred Stock are being redeemed.

6. Voting Rights.

(a) Holders of the Series B Preferred Stock will not have any voting rights, except as set forth below or as otherwise from time to time required by law.

(b) Whenever dividends on any shares of Series B Preferred Stock shall be in arrears for eighteen or more consecutive months (a “**Preferred Dividend Default**”), the holders of such shares of Series B Preferred Stock voting separately as a class together with the holders of the Series A Preferred Stock and all other series of Parity Preferred Stock upon which like voting rights have been conferred and are exercisable will be entitled to vote separately as a class for the election of a total of two additional directors of the Company (the “**Preferred Stock Directors**”) at a special meeting called by the holders of record of at least 20% of the Series B Preferred Stock or the holders of record of at least 20% of any series of Parity Preferred so in arrears (unless such request is received less than 90 days before the date fixed for the next annual or special meeting of the stockholders) or at the next annual meeting of stockholders, and at each subsequent annual meeting until all dividends accumulated on such shares of Series B Preferred Stock for the past dividend periods and the dividend for the then current dividend period shall have been fully paid or declared and a sum sufficient for the payment thereof set aside for payment. A quorum for any such meeting shall exist if at least a majority of the outstanding shares of Series B Preferred Stock and shares of Parity Preferred Stock upon which like voting rights have been conferred and are exercisable are represented in person or by proxy at such meeting. The Preferred Stock Directors shall be elected upon the affirmative vote of a plurality of the shares of Series B Preferred Stock and such Parity Preferred Stock present and voting in person or by proxy at a duly called and held meeting at which a quorum is present voting separately as a class. If and when all accumulated dividends and the dividend for the then current dividend period on the Series B Preferred Stock shall have been paid in full or declared and set aside for payment in full, the holders thereof shall be divested of the foregoing voting rights (subject to revesting in the event of each and every Preferred Dividend Default) and, if all accumulated dividends and the dividend for the then current dividend period have been paid in full or declared and set aside for payment in full on all series of Parity Preferred Stock upon which like voting rights have been conferred and are exercisable, the term of office of each Preferred Stock Director so elected shall terminate. Any Preferred Stock Director may be removed at any time with or without cause by, and shall not be removed otherwise than by the vote of, the holders of record of a majority of the outstanding shares of the Series B Preferred Stock when they have the voting rights described above (voting separately as a class with all series of Parity Preferred Stock upon which like voting rights have been conferred and are exercisable). So long as a Preferred Dividend Default shall continue, any vacancy in the office of a Preferred Stock Director may be filled by written consent of the Preferred Stock Director remaining in office, or if none remains in office, by a vote of the holders of record of a majority of the outstanding shares of Series B Preferred Stock when they have the voting rights described above (voting separately as a class with all series of Parity Preferred Stock upon which like voting rights have been conferred and are exercisable). The Preferred Stock Directors shall be entitled to one vote per director on any matter.

(c) So long as any shares of Series B Preferred Stock remain outstanding, the Company will not, without the affirmative vote or consent of the holders of at least two-thirds of the shares of the Series B Preferred Stock

outstanding at the time, given in person or by proxy, either in writing or at a meeting (voting separately as a class), amend, alter or repeal the provisions of the Charter (including these Articles Supplementary), whether by merger, consolidation or otherwise (each an “**Event**”), so as to materially and adversely affect any right, preference, privilege or voting power of the Series B Preferred Stock or the holders thereof; provided, however, that with respect to the occurrence of any Event set forth above, so long as the Series B Preferred Stock (or shares issued by a surviving entity in substitution for the Series B Preferred Stock) remains outstanding with the terms thereof materially unchanged, taking into account that upon the occurrence of such an Event, the Company may not be the surviving entity, the occurrence of any such Event shall not be deemed to materially and adversely affect such rights, preferences, privileges or voting power of holders of the Series B Preferred Stock and provided, further that (i) any increase in the amount of authorized shares of Series B Preferred Stock, (ii) any increase in the amount of the authorized Preferred Stock or the creation or issuance of any other series of Preferred Stock, or (iii) any increase in the amount of authorized shares of such series, in each case ranking on a parity with or junior to the Series B Preferred Stock with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or winding up, shall not be deemed to materially and adversely affect such rights, preferences, privileges or voting powers.

(d) The foregoing voting provisions will not apply if, at or prior to the time when the act with respect to which such vote would otherwise be required shall be effected, all outstanding shares of Series B Preferred Stock shall have been redeemed or called for redemption upon proper notice and sufficient funds shall have been deposited in trust to effect such redemption.

7. **Conversion.** The Series B Preferred Stock is not convertible into or exchangeable for any other property or securities of the Company.

8. **Maturity.** The Series B Preferred Stock has no stated maturity and will not be subject to any sinking fund or mandatory redemption.

9. **No Preemptive Rights.** No holder of the Series B Preferred Stock of the Company shall, as such holder, have any preemptive rights to purchase or subscribe for additional shares of stock of the Company or any other security of the Company which it may issue or sell.

GLADSTONE COMMERCIAL CORPORATION

ARTICLES OF RESTATEMENT

EXHIBIT C

SENIOR COMMON STOCK

1. Designation and Number. A class of capital stock, designated “Senior Common Stock,” is hereby established. The number of shares of Senior Common Stock shall be 7,500,000.

2. Rank. The Senior Common Stock, with respect to distribution rights and rights upon liquidation, dissolution or winding up of the Company, will: (i) rank senior to the Common Stock with respect to payment of distributions and be pari passu with the Common Stock with respect to distribution of amounts upon liquidation, dissolution or winding up as a result of the automatic conversion feature set forth in Section 6 below; (ii) be pari passu with the pre-existing class of senior common stock of the Company (the “**Predecessor Senior Common Stock**”) with respect to payment of distributions and distribution of amounts upon liquidation, dissolution or winding up; (iii) rank junior to all classes and series of preferred stock of the Company now or hereafter existing (“**Preferred Stock**”), including without limitation the 7.75% Series A Cumulative Redeemable Preferred Stock and 7.5% Series B Cumulative Redeemable Preferred Stock, with respect to payment of distributions and distribution of amounts upon liquidation, dissolution or winding up; and (iv) rank junior to all existing and future indebtedness of the Company.

3. Distributions.

(a) The Senior Common Stock will be entitled to receive, subject to the preferential rights of the Preferred Stock, when and as declared by the Board, out of funds legally available for payment of distributions, cash distributions in an amount equal to \$1.05 per share per annum, declared daily and paid at the rate of \$0.0875 per share per month. Distributions will be cumulative from the date of issue of the shares, and will be payable monthly on or about the fifth (5th) business day of the month following the month in which such distributions are earned.

(b) No distributions on shares of Senior Common Stock shall be authorized by the Board or paid or set apart for payment by the Company at such time as the terms and provisions of any agreement of the Company, including any agreement relating to its indebtedness, prohibits such authorization, payment or setting apart for payment or provides that such authorization, payment or setting apart for payment would constitute a breach thereof or a default thereunder, or if such authorization or payment shall be restricted or prohibited by law.

(c) Notwithstanding the foregoing, distributions on the Senior Common Stock will accumulate whether or not the Company has earnings, whether or not restrictions exist in respect thereof, whether there are funds legally available for the payment of such distributions and whether or not such distributions are declared. Accumulated but unpaid distributions on the Senior Common Stock will not bear interest and holders of the Senior Common Stock will not be entitled to any distributions in excess of full cumulative distributions described above. No distributions will be declared or paid or set apart for payment on the Common Stock or any other series or equity class of securities ranking junior to the Senior Common Stock (other than a distribution in shares of Common Stock or in shares of any other class of stock ranking junior to the Senior Common Stock as to distributions and upon liquidation) for any period unless full cumulative distributions have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for such payment on the Senior Common Stock for all past distribution periods and the then current distribution period.

(d) If, for any taxable year, the Company elects to designate as a “capital gain distribution” (as defined in Section 857 of the Internal Revenue Code of 1986, as amended (the “**Code** ”), any portion (the “**Capital Gains Amount**”) of the distributions paid or made available for the year to holders of any class or series of stock of the Company, the portion of the Capital Gains Amount that shall be allocable to holders of the Senior Common Stock shall be the amount that the total distributions (as determined for federal income tax purposes) paid or made available to the holders of the Senior Common Stock for the year bears to the aggregate amount of distributions (as determined for federal income tax purposes) paid or made available to the holders of all classes or series of stock of the Company for such year.

4. Optional Redemption. In order to ensure that the Company will continue to meet the requirements for qualification as a real estate investment trust (“REIT”), the Senior Common Stock will be subject to provisions in the Charter pursuant to which shares of capital stock of the Company owned by a stockholder in excess of 9.8% in value of the outstanding shares of capital stock of the Company (the “**Ownership Limit**”) will be deemed “**Excess Shares**,” and the Company shall have the right to purchase such Excess Shares from the holder. After the fifth anniversary of the end of the Offering Period (as defined below), the Company, at its sole option upon not less than 30 nor more 60 days’ written notice, may call for redemption shares of the Senior Common Stock, in whole or in part, at any time and from time to time, for cash at a redemption price of \$15.30 per share, plus all accumulated and unpaid distributions thereon to the date fixed for redemption. Holders of Senior Common Stock that are redeemed shall surrender such Senior Common Stock at the place designated in such notice and upon such surrender shall be entitled to the redemption price and any accumulated and unpaid distributions payable upon such redemption. If less than all of the outstanding Senior Common Stock is to be redeemed, shares of Senior Common Stock shall be selected pro rata for redemption or by any other equitable method determined by the Company. After redemption, all shares of Senior Common Stock previously outstanding shall be unclassified and shall constitute authorized and unissued shares of Common Stock that may be designated by the Board pursuant to Article SEVENTH of the Charter, as further amended.

5. Exchange Option. Holders of Senior Common Stock shall have the right, but not the obligation, after the fifth anniversary of the date of issuance of the shares of Senior Common Stock proposed to be exchanged (or, in the case of any shares of Senior Common Stock issued in exchange for shares of Predecessor Senior Common Stock, the fifth anniversary of the date of issuance of the shares of Predecessor Senior Common Stock), to exchange any or all of such shares of Senior Common Stock for Common Stock, at an exchange ratio (the “**Exchange Ratio**”) calculated by dividing \$15.00 by the greater of (i) the Closing Trading Price of the Common Stock on the date on which such shares of Senior Common Stock were originally issued (or, in the case of any shares of Senior Common Stock issued in exchange for shares of Predecessor Senior Common Stock, the date on which the shares of Predecessor Senior Common Stock were originally issued), (ii) the Book Value Per Share of the Common Stock as determined as of the date on which such shares of Senior Common Stock were originally issued (or, in the case of any shares of Senior Common Stock issued in exchange for shares of Predecessor Senior Common Stock, the date on which the shares of Predecessor Senior Common Stock were originally issued), and (iii) \$13.68. Solely for the purpose of determining when such shares become exchangeable in accordance with this Section 5 (and not for purposes of determining the Exchange Ratio with respect thereto or for any other purpose), shares of Senior Common Stock purchased by a holder on dates subsequent to such holder’s initial purchase of Senior Common Stock (excluding shares issued pursuant to such holder’s participation in the Company’s distribution reinvestment plan, if any) will be deemed to have been issued on their respective issuance dates and, accordingly, the five-year holding periods for such shares will commence from their respective issuance dates. Solely for the purpose of determining when such shares become exchangeable in accordance with this Section 5 (and not for purposes of determining the Exchange Ratio with respect thereto or for any other purpose) any shares issued pursuant to the Company’s distribution reinvestment plan will be deemed to have been issued, and the five-year holding periods for such shares will be deemed to commence, on the date of issuance of the shares of Senior Common Stock purchased by the holder to which the shares issued pursuant to the Company’s distribution reinvestment plan relate. All accumulated and unpaid distributions on the Senior Common Stock shall be paid to the holder through the date of exchange. For purposes of this Section 5 (and elsewhere in these Articles Supplementary):

(a) “**Book Value Per Share**” means, as of a given date, the Common Stockholders’ Equity (as reflected in the Company’s most recent public filing with the U.S. Securities and Exchange Commission (the “**SEC**”)) divided by the number of outstanding shares of Common Stock as of the same date.

(b) “**Closing Trading Price**” means, on any date of determination, (i) the most recently reported closing price per share of the Common Stock as of such date on the NASDAQ Stock Market, or (ii) if, as of such date, the Common Stock is not traded on the NASDAQ Stock Market, the most recently reported closing price per share of the Common Stock on the primary stock exchange on which the Common Stock is then listed for trading, or (iii) if, as of such date, the Common Stock is not listed for trading on any stock exchange, the closing bid price for the Common Stock on the Over-the-Counter Bulletin Board, or (iv) if neither (i), (ii) nor (iii) apply as of such date, but if the Common Stock is then quoted in an over-the-counter market or on the Pink Sheets, the last reported bid price thereof on such date, or (v) if there is no longer any public market for the Common Stock as of such date, the fair market value of a share of Common Stock as determined in good faith by the Board.

(c) “**Common Stockholders’ Equity**” means, as of a given date, the total stockholders’ equity reflected on the Company’s most recently dated consolidated balance sheet set forth in the Company’s most recent public filing with the SEC, minus the aggregate redemption value of all outstanding shares of Preferred Stock and Senior Common Stock as of such date.

(d) “**Offering Period**” means the period commencing on December 22, 2009 and terminating on the earlier of (a) September 1, 2012, unless earlier terminated or extended by the Board, or (b) the date on which \$100 million of Senior Common Stock is sold (excluding the issuance of shares of Senior Common Stock pursuant to the reinvestment of distributions which otherwise would have been paid pursuant to Section 3 hereof through the distribution reinvestment plan of the Company).

6. Automatic Conversion. Each share of Senior Common Stock shall be converted into Common Stock in accordance with the Exchange Ratio automatically upon any of the following events: (a) an acquisition of the Company by another company by means of any transaction or series of related transactions to which the Company is a party (including, without limitation, any stock acquisition, reorganization, merger or consolidation, but excluding any sale of stock for capital raising purposes) other than a transaction or series of transactions in which the holders of voting securities of the Company outstanding immediately prior to such transaction continue to retain at least 50% of the total voting power represented by voting securities of the Company or those of such other surviving entity outstanding immediately after such transaction or series of transaction; (b) a sale of all or substantially all of the assets of the Company; or (c) a liquidation, dissolution or winding up of the Company. All accumulated and unpaid distributions on the Senior Common Stock shall be paid to the holder through the date of conversion.

7. Voting Rights. Holders of the Senior Common Stock will not have any voting rights, except as set forth below or as otherwise from time to time required by law. So long as any shares of Senior Common Stock remain outstanding, the Company will not, without the affirmative vote or consent of the holders of a least a majority of the shares of the Senior Common Stock outstanding at the time, given in person or by proxy, either in writing or at a meeting (voting separately by class), amend, alter or repeal the provisions of the Charter (including these Articles Supplementary), whether by merger, consolidation or otherwise, so as to materially and adversely affect any right, preference, privilege or voting power of the Senior Common Stock or the holders thereof.

8. Anti-Dilution. If the outstanding Common Stock is increased or decreased or changed into or exchanged for a different number or kind of shares or other securities of the Company or of any other company by reason of any reclassification, recapitalization, share split up, combination of shares, or share distribution, appropriate adjustment will be made to the number of shares and relative terms of the Senior Common Stock.

9. Liquidation Preference. The Senior Common Stock has no liquidation preference.

10. Maturity. The Senior Common Stock has no stated maturity and will not be subject to any sinking fund or mandatory redemption.

11. No Preemptive Rights. No holder of the Senior Common Stock of the Company shall, as such holder, have any preemptive rights to purchase or subscribe for additional shares of stock of the Company or any other security of the Company which it may issue or sell.

GLADSTONE COMMERCIAL CORPORATION

ARTICLES OF RESTATEMENT

EXHIBIT D

7.125% SERIES C CUMULATIVE TERM PREFERRED STOCK

1. **Designation and Number.** A series of preferred stock, designated the 7.125% Series C Cumulative Term Preferred Stock (the “**Series C Term Preferred Stock**”), is hereby established. The number of shares of Series C Term Preferred Stock shall be 1,700,000.

2. **Rank.** The Series C Term Preferred Stock, with respect to dividend rights and rights upon liquidation, dissolution or winding up of the Company, will rank (i) senior to all classes or series of senior common stock, par value \$0.001 per share, and common stock, par value \$0.001 per share, of the Company (collectively, the “**Common Stock**”) and to all other equity securities issued by the Company the terms of which specifically provide that such equity securities rank junior to the Series C Term Preferred Stock with respect to dividend rights or rights upon liquidation, dissolution or winding up of the Company; (ii) on a parity with all equity securities issued by the Company the terms of which specifically provide that such equity securities rank on a parity with the Series C Term Preferred Stock with respect to dividend rights and rights upon liquidation, dissolution or winding up of the Company, including, but not limited to, each of the 7.75% Series A Perpetual Cumulative Redeemable Preferred Stock, par value \$0.001 per share, and 7.50% Series B Perpetual Cumulative Redeemable Preferred Stock, par value \$0.001 per share, of the Company (collectively, the “**Parity Preferred Stock**”); and (iii) junior to all equity securities issued by the Company the terms of which specifically provide that such equity securities rank senior to the Series C Term Preferred Stock with respect to dividend rights or rights upon liquidation, dissolution or winding up of the Company and to all existing and future indebtedness of the Company. The term “equity securities” does not include convertible debt securities.

3. **Dividends.**

(a) Holders of shares of the Series C Term Preferred Stock are entitled to receive, when and as authorized by the Board (or a duly authorized committee thereof) and declared by the Company, out of funds legally available for the payment of dividends, preferential cumulative cash dividends at the rate of 7.125% per annum of the \$25.00 liquidation preference per share (equivalent to a fixed annual amount of \$1.7813 per share). Dividends on the Series C Term Preferred Stock shall be cumulative from (but excluding) the date of original issue and shall be payable monthly in arrears on or before the last Business Day (as defined below) of each month (each, a “**Dividend Payment Date**”). Any dividend payable on the Series C Term Preferred Stock for any partial dividend period will be computed on the basis of a 360-day year consisting of twelve 30-day months. Dividends will be payable to holders of record as they appear in the stock records of the Company at the close of business on the applicable record date, which shall be such date designated by the Board that is not more than 20 nor less than seven days prior to the applicable Dividend Payment Date (each, a “**Dividend Record Date**”). The term “**Business Day**” shall mean any calendar day on which the New York Stock Exchange is open for trading.

(b) No dividends on shares of Series C Term Preferred Stock shall be authorized by the Board of Directors or declared by the Company or paid or set apart for payment by the Company at such time as the terms and provisions of any agreement of the Company, including any agreement relating to its indebtedness, prohibits such authorization, declaration, payment or setting apart for payment or provides that such authorization, declaration, payment or setting apart for payment would constitute a breach thereof or a default thereunder, or if such authorization, declaration, payment or setting apart for payment shall be restricted or prohibited by law.

(c) Notwithstanding the foregoing, dividends on the Series C Term Preferred Stock will accumulate whether or not the Company has earnings, whether or not restrictions exist in respect thereof, whether there are funds legally available for the payment of such dividends and whether or not such dividends are declared. Accumulated but unpaid dividends on the Series C Term Preferred Stock will not bear interest and holders of the Series C Term Preferred Stock will not be entitled to any distributions in excess of full cumulative distributions

described above. When dividends are not paid in full (or a sum sufficient for such full payment is not so set apart) upon the Series C Term Preferred Stock and the shares of any class or series of Parity Preferred Stock, all dividends declared upon the Series C Term Preferred Stock and any class or series of Parity Preferred Stock shall be declared pro rata so that the amount of dividends declared per share of Series C Term Preferred Stock and such class or series of Parity Preferred Stock shall in all cases bear to each other the same ratio that accumulated dividends per share on the Series C Term Preferred Stock and such class or series of Parity Preferred Stock (which shall not include any accrual in respect of unpaid dividends for prior dividend periods if such Parity Preferred Stock does not have a cumulative dividend) bear to each other.

(d) Except as provided in the immediately preceding paragraph, unless full cumulative dividends on the Series C Term Preferred Stock have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for payment for all past dividend periods, no dividends (other than a dividend in shares of Common Stock or other shares of stock ranking junior to the Series C Term Preferred Stock as to dividends and upon liquidation) shall be declared and paid or declared and set apart for payment nor shall any other distribution be declared and made upon the Common Stock or any other stock of the Company ranking junior to or on a parity with the Series C Term Preferred Stock as to dividends or upon liquidation, nor shall any shares of Common Stock or any other stock of the Company ranking junior to or on a parity with the Series C Term Preferred Stock as to dividends or upon liquidation be redeemed, purchased or otherwise acquired for any consideration (or any monies be paid to or made available for a sinking fund for the redemption of any such shares) by the Company (except by conversion into or exchange for other stock of the Company ranking junior to the Series C Term Preferred Stock as to dividends and upon liquidation or redemption for the purpose of preserving the Company's qualification as a real estate investment trust ("REIT")). Holders of shares of the Series C Term Preferred Stock shall not be entitled to any dividend, whether payable in cash, property or stock, in excess of full cumulative dividends on the Series C Term Preferred Stock as provided above. Any dividend payment made on shares of the Series C Term Preferred Stock shall first be credited against the earliest accumulated but unpaid dividend due with respect to such shares which remains payable.

(e) If, for any taxable year, the Company elects to designate as a "capital gain dividend" (as defined in Section 857 of the Internal Revenue Code of 1986, as amended (the "Code")) any portion (the "Capital Gains Amount") of the dividends paid or made available for the year to holders of any class or series of stock of the Company, the portion of the Capital Gains Amount that shall be allocable to holders of the Series C Term Preferred Stock shall be the amount that the total dividends (as determined for federal income tax purposes) paid or made available to the holders of the Series C Term Preferred Stock for the year bears to the aggregate amount of dividends (as determined for federal income tax purposes) paid or made available to the holders of all classes or series of stock of the Company for such year.

4. **Liquidation Preference.** Upon any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Company, the holders of shares of Series C Term Preferred Stock are entitled to be paid out of the assets of the Company legally available for distribution to its stockholders a liquidation preference of \$25.00 per share, plus an amount equal to any accumulated and unpaid dividends to and including the date of payment, but without interest, before any distribution of assets is made to holders of Common Stock or any other class or series of stock of the Company that ranks junior to the Series C Term Preferred Stock as to liquidation rights. If the assets of the Company legally available for distribution to stockholders are insufficient to pay in full the liquidation preference on the Series C Term Preferred Stock and the liquidation preference on the shares of any class or series of Parity Preferred Stock, all assets distributed to the holders of the Series C Term Preferred Stock and any class or series of Parity Preferred Stock shall be distributed pro rata so that the amount of assets distributed per share of Series C Term Preferred Stock and such class or series of Parity Preferred Stock shall in all cases bear to each other the same ratio that the liquidation preference per share on the Series C Term Preferred Stock and such class or series of Parity Preferred Stock bear to each other. Written notice of any such liquidation, dissolution or winding up of the Company, stating the payment date or dates when, and the place or places where, the amounts distributable in such circumstances shall be payable, shall be given by first class mail, postage pre-paid, not less than 30 nor more than 60 days prior to the payment date stated therein, to each record holder of the Series C Term Preferred Stock at the respective addresses of such holders as the same shall appear on the stock transfer records of the Company. After payment of the full amount of the liquidation preference, plus any accumulated and unpaid dividends to which they are entitled, the holders of Series C Term Preferred Stock will have no right or claim to any of the remaining assets of the Company. The consolidation or merger of the Company with or into another entity, a merger of another entity with or into the Company, a statutory share exchange by the Company or a sale, lease, transfer or conveyance of all

or substantially all of the Company's property or business shall not be deemed to constitute a liquidation, dissolution or winding up of the Company. In determining whether a distribution (other than upon voluntary or involuntary liquidation, dissolution or winding up of the Company) by dividend, redemption or other acquisition of shares of stock of the Company or otherwise is permitted under the Maryland General Corporation Law, no effect shall be given to amounts that would be needed, if the Company were to be dissolved at the time of the distribution, to satisfy the preferential rights upon dissolution of holders of the Series C Term Preferred Stock whose preferential rights upon dissolution are superior to those receiving the distribution.

5. **Redemption.** The Series C Term Preferred Stock shall be subject to redemption by the Company as provided below:

(a) **Definitions.** As used in this Section 5, the following terms shall have the following meanings unless the context otherwise requires:

"1940 Act" means the Investment Company Act of 1940, as amended, or any successor statute.

"Capital Stock" of a corporation means the capital stock of every class whether now or hereafter authorized, regardless of whether such capital stock shall be limited to a fixed sum or percentage with respect to the rights of the holders thereof to participate in dividends and in the distribution of assets upon the voluntary or involuntary liquidation, dissolution or winding up of such corporation.

"Change of Control Payment" shall have the meaning as set forth in Section 5(d)(i).

"Change of Control Payment Date" shall have the meaning as set forth in Section 5(d)(ii).

"Change of Control Redemption" shall have the meaning as set forth in Section 5(d)(i).

"Change of Control Triggering Event" means the occurrence of any of the following: (1) the direct or indirect sale, lease, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or more series of related transactions, of all or substantially all of the Company's assets and the assets of the Company's subsidiaries, taken as a whole, to any Person, other than the Company or one of the Company's subsidiaries; (2) the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that any Person becomes the beneficial owner (as defined in Rules 13d-3 and 13d-5 under the Exchange Act), directly or indirectly, of more than 50% of the Company's outstanding Voting Stock or other Voting Stock into which the Company's Voting Stock is reclassified, consolidated, exchanged or changed, measured by voting power rather than number of shares; (3) the Company consolidates with, or merges with or into, any Person, or any Person consolidates with, or merges with or into, the Company, in any such event pursuant to a transaction in which any of the Company's outstanding Voting Stock or the Voting Stock of such other Person is converted into or exchanged for cash, securities or other property, other than any such transaction where the shares of the Company's Voting Stock outstanding immediately prior to such transaction constitute, or are converted into or exchanged for, a majority of the Voting Stock of the surviving Person or any direct or indirect parent company of the surviving Person immediately after giving effect to such transaction; (4) the first day on which a majority of the members of the Board are not Continuing Directors; or (5) the adoption of a plan relating to the Company's liquidation or dissolution. Notwithstanding the foregoing, a transaction will not be deemed to involve a Change of Control Triggering Event under clause (2) above if (i) the Company becomes a direct or indirect wholly-owned subsidiary of a holding company and (ii) (A) the direct or indirect holders of the Voting Stock of such holding company immediately following that transaction are substantially the same as the holders of the Company's Voting Stock immediately prior to that transaction or (B) immediately following that transaction no Person (other than a holding company satisfying the requirements of this sentence) is the beneficial owner, directly or indirectly, of more than 50% of the Voting Stock of such holding company.

"Continuing Directors" means, as of any date of determination, any member of the Board who (A) was a member of the Board on the date the Series C Term Preferred Stock was issued or (B) was nominated for election, elected or appointed to the Board with the approval of a majority of the continuing directors who were members of the Board at the time of such nomination, election or appointment (either by a specific vote or by approval of a proxy statement in which such member was named as a nominee for election as a director, without objection to such nomination).

“Deposit Securities” means, as of any date, any United States dollar-denominated security or other investment of a type described below that either (i) is a demand obligation payable to the holder thereof on any Business Day or (ii) has a maturity date, mandatory redemption date or mandatory payment date, on its face or at the option of the holder, preceding the relevant Redemption Date, Dividend Payment Date or other payment date in respect of which such security or other investment has been deposited or set aside as a Deposit Security:

(i) cash or any cash equivalent;

(ii) any U.S. Government Obligation;

(iii) any Short-Term Money Market Instrument;

(iv) any investment in any money market fund registered under the 1940 Act that qualifies under Rule 2a-7 under the 1940 Act, or similar investment vehicle described in Rule 12d1-1(b)(2) under the 1940 Act, that invests principally in Short-Term Money Market Instruments or U.S. Government Obligations or any combination thereof; or

(v) any letter of credit from a bank or other financial institution that has a credit rating from at least one rating agency that is the highest applicable rating generally ascribed by such rating agency to bank deposits or short-term debt of similar banks or other financial institutions as of the date hereof (or such rating’s future equivalent).

“Electronic Means” means electronic mail transmission, facsimile transmission or other similar electronic means of communication providing evidence of transmission (but excluding online communications systems covered by a separate agreement) acceptable to the sending party and the receiving party, in any case if operative as between any two parties, or, if not operative, by telephone (promptly confirmed by any other method set forth in this definition).

“Exchange Act” means the Securities Exchange Act of 1934, as amended.

“Market Value” of any asset of the Company means, for securities for which market quotations are readily available, the market value thereof determined by an independent third-party pricing service designated from time to time by the Board of Directors. Market Value of any asset shall include any interest accrued thereon. The pricing service values portfolio securities at the mean between the quoted bid and asked price or the yield equivalent when quotations are readily available. Securities for which quotations are not readily available are valued at fair value as determined by the pricing service using methods that include consideration of: yields or prices of securities of comparable quality, type of issue, coupon, maturity and rating; indications as to value from dealers; and general market conditions. The pricing service may employ electronic data processing techniques or a matrix system, or both, to determine recommended valuations.

“Notice of Redemption” shall have the meaning as set forth in Section 5(e).

“Optional Redemption Date” shall have the meaning as set forth in Section 5(c)(i).

“Optional Redemption Price” shall have the meaning as set forth in Section 5(c)(i).

“Person” has the meaning given thereto in Section 13(d)(3) of the Exchange Act.

“Redemption and Paying Agent” means Computershare Limited and its successors or any other redemption and paying agent appointed by the Company with respect to the Series C Term Preferred Stock.

“Redemption Date” shall have the meaning as set forth in Section 5(e).

“Redemption Price” shall mean the Term Redemption Price or the Optional Redemption Price, as applicable.

“Securities Depository” shall mean The Depository Trust Company and its successors and assigns or any other securities depository selected by the Company that agrees to follow the procedures required to be followed by such securities depository as set forth herein with respect to the Series C Term Preferred Stock.

“**Short-Term Money Market Instruments**” means the following types of instruments if, on the date of purchase or other acquisition thereof by the Company, the remaining term to maturity thereof is not in excess of 180 days:

(i) commercial paper rated A-1 if such commercial paper matures in 30 days or A-1+ if such commercial paper matures in over 30 days;

(ii) demand or time deposits in, and banker’s acceptances and certificates of deposit of (A) a depository institution or trust company incorporated under the laws of the United States of America or any state thereof or the District of Columbia or (B) a United States branch office or agency of a foreign depository institution (provided that such branch office or agency is subject to banking regulation under the laws of the United States, any state thereof or the District of Columbia); and

(iii) overnight funds.

“**Term Redemption Price**” shall have the meaning as set forth in Section 5(b).

“**U.S. Government Obligations**” means direct obligations of the United States or of its agencies or instrumentalities that are entitled to the full faith and credit of the United States and that, other than United States Treasury Bills, provide for the periodic payment of interest and the full payment of principal at maturity or call for redemption.

“**Voting Stock**” means, with respect to any specified Person that is a corporation as of any date, the Capital Stock of such Person that is at the time entitled to vote generally in the election of the directors of such Person.

(b) Term Redemption. The Company shall redeem, out of funds legally available therefor, all shares of Series C Term Preferred Stock on January 31, 2017 (the “**Term Redemption Date**”), at a price per share equal to the liquidation preference per share of Series C Term Preferred Stock plus an amount equal to all unpaid dividends on such share of Series C Term Preferred Stock accumulated to (and including) the Term Redemption Date (whether or not earned or declared by the Company, but excluding interest thereon) (the “**Term Redemption Price**”).

(c) Optional Redemption.

(i) Except as set forth in Section 5(d), the Series C Term Preferred Stock is not redeemable prior to January 31, 2016. However, in order to ensure that the Company will continue to meet the requirement for qualification as a REIT, the Series C Term Preferred Stock will be subject to provisions in the Charter pursuant to which shares of stock of the Company owned by a stockholder in excess of 9.8% in value of the outstanding shares of capital stock of the Company (the “**Ownership Limit**”) will be deemed “Excess Shares,” and the Company will have the right to purchase such Excess Shares from the holder. Subject to the provisions of Section 5(c)(ii), on any Business Day beginning on January 31, 2016 (any such Business Day referred to in this sentence, an “**Optional Redemption Date**”), the Company may redeem in whole or from time to time in part, out of funds legally available therefor, the Series C Term Preferred Stock, at a redemption price per share of Series C Term Preferred Stock (the “Optional Redemption Price”) equal to (x) the liquidation preference per share of Series C Term Preferred Stock plus (y) an amount equal to all unpaid dividends on such share of Series C Term Preferred Stock accumulated to (and including) the Optional Redemption Date (whether or not earned or declared by the Company, but excluding interest thereon).

(ii) If fewer than all of the outstanding shares of Series C Term Preferred Stock are to be redeemed pursuant to Section 5(c)(i), the shares of Series C Term Preferred Stock to be redeemed shall be selected either (A) pro rata, (B) by lot or (C) in such other manner as the Board of Directors may determine to be fair and equitable. Subject to the provisions hereof and applicable law, the Board of Directors will have the full power and authority to prescribe the terms and conditions upon which shares of Series C Term Preferred Stock will be redeemed pursuant to this Section 5(c) from time to time.

(iii) The Company may not on any date deliver a Notice of Redemption pursuant to Section 5(e) in respect of a redemption contemplated to be effected pursuant to this Section 5(c) unless on such date the Company has available Deposit Securities for the Optional Redemption Date contemplated by such Notice of Redemption having a Market Value not less than the amount due to holders of Series C Term Preferred Stock by reason of the redemption of such Series C Term Preferred Stock on such Optional Redemption Date.

(d) *Change of Control*

(i) If a Change of Control Triggering Event occurs with respect to the Series C Term Preferred Stock, unless the Company has exercised the option to redeem such Series C Term Preferred Stock pursuant to Section 5(c), holders of the Series C Term Preferred Stock may require the Company to redeem (a “**Change of Control Redemption**”) the Series C Term Preferred Stock at a price equal to the liquidation preference of \$25.00 per share, plus an amount equal to any accumulated and unpaid dividends up to and including the date of payment (whether or not earned or declared by the Company, but excluding interest thereon) (a “**Change of Control Payment**”).

(ii) Within 30 days following any Change of Control Triggering Event or prior to any Change of Control Triggering Event, but after public announcement of the transaction that constitutes or may constitute the Change of Control Triggering Event, a notice will be mailed to holders of the Series C Term Preferred Stock, describing the transaction that constitutes or may constitute the Change of Control Triggering Event and offering to redeem such Series C Term Preferred Stock on the date specified in the applicable notice, which date will be no earlier than 30 days and no later than 60 days from the date such notice is mailed (a “**Change of Control Payment Date**”). The notice will, if mailed prior to the date of consummation of the Change of Control Triggering Event, state that the Change of Control Redemption is conditioned on the Change of Control Triggering Event occurring on or prior to the applicable Change of Control Payment Date.

(iii) The Company will not be required to make a Change of Control Redemption upon the occurrence of a Change of Control Triggering Event if a third party makes such an offer in the manner, at the times and otherwise in compliance with the requirements for an offer made by the Company and the third party purchases all Series C Term Preferred Stock properly tendered and not withdrawn under its offer.

(iv) The Company will comply with the requirements of Rule 14e-1 under the Exchange Act, and any other securities laws and regulations thereunder to the extent those laws and regulations are applicable in connection with the redemption of the Series C Term Preferred Stock as a result of a Change of Control Triggering Event. To the extent that the provisions of any such securities laws or regulations conflict with the Change of Control Redemption provisions of the Series C Term Preferred Stock, the Company will comply with those securities laws and regulations and will not be deemed to have breached the Company’s obligations under the Change of Control Redemption provisions of the Series C Term Preferred Stock by virtue of any such conflict.

(e) *Procedures for Redemption.*

(i) If the Company shall determine or be required to redeem, in whole or in part, shares of Series C Term Preferred Stock pursuant to Section 5(b) or (c), the Company shall deliver a notice of redemption (the “**Notice of Redemption**”), by overnight delivery, by first class mail, postage prepaid or by Electronic Means to holders thereof, or request the Redemption and Paying Agent, on behalf of the Company, to promptly do so by overnight delivery, by first class mail, postage prepaid or by Electronic Means. A Notice of Redemption shall be provided not less than 30 nor more than 60 days prior to the date fixed for redemption in such Notice of Redemption (the “**Redemption Date**”). Each such Notice of Redemption shall state: (A) the Redemption Date; (B) the number of shares of Series C Term Preferred Stock to be redeemed; (C) the CUSIP number for the Series C Term Preferred Stock; (D) the applicable Redemption Price on a per share basis; (E) if applicable, the place or places where the certificate(s) for such shares (properly endorsed or assigned for transfer, if the Board of Directors requires and the Notice of Redemption states) are to be surrendered for payment of the Redemption Price; (F) that dividends on the shares of Series C Term Preferred Stock to be redeemed will cease to accumulate after such Redemption Date; and (G) the provisions hereof under which such redemption is made. If fewer than all shares of Series C Term Preferred Stock held by any holder are to be redeemed, the Notice of Redemption delivered to such holder shall also specify the number of shares of Series C Term Preferred Stock to be redeemed from such holder or the method of determining such number. The Company may provide in any Notice of Redemption relating to a redemption contemplated to be effected pursuant hereto that such redemption is subject to one or more conditions precedent and that the Company shall not be required to effect such redemption unless each such condition has been satisfied at the time or times and in the manner specified in such Notice of Redemption. No defect in the Notice of Redemption or delivery thereof shall affect the validity of redemption proceedings, except as required by applicable law.

(ii) If the Company shall give a Notice of Redemption, then at any time from and after the giving of such Notice of Redemption and prior to 12:00 noon, New York City time, on the Redemption Date (so long as any conditions precedent to such redemption have been met or waived by the Company), the Company shall (A) deposit with the Redemption and Paying Agent Deposit Securities having an aggregate Market Value on the date thereof no less than the Redemption Price of the shares of Series C Term Preferred Stock to be redeemed on the Redemption Date and (B) give the Redemption and Paying Agent irrevocable instructions and authority to pay the applicable Redemption Price to the holders of the shares of Series C Term Preferred Stock called for redemption on the Redemption Date. The Company may direct the Redemption and Paying Agent with respect to the investment of any Deposit Securities consisting of cash so deposited prior to the Redemption Date, provided that the proceeds of any such investment shall be available at the opening of business on the Redemption Date as same day funds.

(iii) Upon the date of the deposit of such Deposit Securities, all rights of the holders of the shares of Series C Term Preferred Stock so called for redemption shall cease and terminate except the right of the holders thereof to receive the Redemption Price thereof and such shares of Series C Term Preferred Stock shall no longer be deemed outstanding for any purpose whatsoever (other than (A) the transfer thereof prior to the applicable Redemption Date and (B) the accumulation of dividends thereon in accordance with the terms hereof up to (but excluding) the applicable Redemption Date, which accumulated dividends, unless previously or contemporaneously declared and paid as contemplated by the last sentence of Section 5(e)(vi) below, shall be payable only as part of the applicable Redemption Price on the Redemption Date). The Company shall be entitled to receive, promptly after the Redemption Date, any Deposit Securities in excess of the aggregate Redemption Price of the shares of Series C Term Preferred Stock called for redemption on the Redemption Date. Any Deposit Securities so deposited that are unclaimed at the end of 90 calendar days from the Redemption Date shall, to the extent permitted by law, be repaid to the Company, after which the holders of the shares of Series C Term Preferred Stock so called for redemption shall look only to the Company for payment of the Redemption Price thereof. The Company shall be entitled to receive, from time to time after the Redemption Date, any interest on the Deposit Securities so deposited.

(iv) On or after the Redemption Date, each holder of shares of Series C Term Preferred Stock in certificated form (if any) that are subject to redemption shall surrender the certificate(s) representing such shares of Series C Term Preferred Stock to the Company at the place designated in the Notice of Redemption and shall then be entitled to receive the Redemption Price for such shares of Series C Term Preferred Stock, without interest, and in the case of a redemption of fewer than all the shares of Series C Term Preferred Stock represented by such certificate(s), a new certificate representing the shares of Series C Term Preferred Stock that were not redeemed.

(v) Notwithstanding the other provisions of this Section 5, except as otherwise required by law, the Company shall not redeem any shares of Series C Term Preferred Stock unless all accumulated and unpaid dividends on all outstanding shares of Series C Term Preferred Stock and the shares of any class or series of Parity Preferred Stock for all applicable past dividend periods (whether or not earned or declared by the Company) (x) shall have been or are contemporaneously paid or (y) shall have been or are contemporaneously declared and Deposit Securities or sufficient funds (in accordance with the terms of such Parity Preferred Stock) for the payment of such dividends shall have been or are contemporaneously deposited with the Redemption and Paying Agent or other applicable paying agent for such Parity Preferred Stock in accordance with the terms of such Parity Preferred Stock, provided, however, that the foregoing shall not prevent the purchase or acquisition of outstanding shares of Series C Term Preferred Stock pursuant to an otherwise lawful purchase or exchange offer made on the same terms to holders of all outstanding shares of Series C Term Preferred Stock and any other class or series of Parity Preferred Stock for which all accumulated and unpaid dividends have not been paid.

(vi) To the extent that any redemption for which Notice of Redemption has been provided is not made by reason of the absence of legally available funds therefor in accordance herewith and applicable law, such redemption shall be made as soon as practicable to the extent such funds become available. No Redemption Default shall be deemed to have occurred if the Company shall fail to deposit in trust with the Redemption and Paying Agent the Redemption Price with respect to any shares where (1) the Notice of Redemption relating to such redemption provided that such redemption was subject to one or more conditions precedent and (2) any such condition precedent shall not have been satisfied at the time or times and in the manner specified in such Notice of Redemption. Notwithstanding the fact that a Notice of Redemption has been provided with respect to any shares of

Series C Term Preferred Stock, dividends may be declared and paid on such shares of Series C Term Preferred Stock in accordance with their terms if Deposit Securities for the payment of the Redemption Price of such shares of Series C Term Preferred Stock shall not have been deposited in trust with the Redemption and Paying Agent for that purpose.

(f) *Redemption and Paying Agent as Trustee of Redemption Payments by Company*: All Deposit Securities transferred to the Redemption and Paying Agent for payment of the Redemption Price of shares of Series C Term Preferred Stock called for redemption shall be held in trust by the Redemption and Paying Agent for the benefit of holders of shares of Series C Term Preferred Stock so to be redeemed until paid to such holders in accordance with the terms hereof or returned to the Company in accordance with the provisions of Section 5(e)(iii) above.

(g) *Compliance With Applicable Law*: In effecting any redemption pursuant to this Section 5, the Company shall use its best efforts to comply with all applicable conditions precedent to effecting such redemption under any applicable Maryland law, but shall effect no redemption except in accordance with any applicable Maryland law.

(h) *Modification of Redemption Procedures*: Notwithstanding the foregoing provisions of this Section 5, the Company may, in its sole discretion and without a stockholder vote, modify the procedures set forth above with respect to notification of redemption for the Series C Term Preferred Stock; provided that such modification does not materially and adversely affect the holders of the shares of Series C Term Preferred Stock or cause the Company to violate any applicable law, rule or regulation; and provided, further, that no such modification shall in any way alter the rights or obligations of the Redemption and Paying Agent without its prior consent.

6. Voting Rights.

(a) Holders of the Series C Term Preferred Stock will not have any voting rights, except as set forth below.

(b) Whenever dividends on any shares of Series C Term Preferred Stock shall be in arrears for 18 or more consecutive months (**“Preferred Dividend Default”**), the holders of such shares of Series C Term Preferred Stock, together with the holders of all classes or series of Parity Preferred Stock upon which like voting rights have been conferred and are exercisable, will be entitled to vote separately as a class for the election of a total of two additional directors of the Company (the **“Dividend Default Preferred Stock Directors”**) at a special meeting called upon the request of the holders of record of at least 20% of the Series C Term Preferred Stock or the holders of record of at least 20% of any class or series of Parity Preferred Stock so in arrears (unless such request is received less than 90 days before the date fixed for the next annual or special meeting of the stockholders) or at the next annual meeting of stockholders, and at each subsequent annual meeting until all dividends accumulated on such shares of Series C Term Preferred Stock for the past dividend periods and the dividend for the then current dividend period shall have been fully paid or declared and a sum sufficient for the payment thereof set apart for payment.

(c) Whenever shares of the Series C Term Preferred Stock are not redeemed or are not called for redemption with proper notice and a sum sufficient for the payment thereof set apart for payment as required on January 31, 2017 (a **“Mandatory Redemption Delay”**), the number of directors constituting the Board shall be automatically increased by the smallest number that would constitute a majority of the Board as so increased by such smallest number, and the holders of such shares of Series C Term Preferred Stock will be entitled, voting as a separate class (to the exclusion of the holders of all other classes or series of stock of the Company), to elect such number of additional directors (the **“Redemption Delay Preferred Stock Directors”**) and, together with the Dividend Default Preferred Stock Directors, the **“Preferred Stock Directors”** at a special meeting called upon the request of the holders of record of at least 20% of the Series C Term Preferred Stock (unless such request is received less than 90 days before the date fixed for the next annual or special meeting of the stockholders) or at the next annual meeting of stockholders, and at each subsequent annual meeting until all shares of Series C Term Preferred Stock are redeemed or called for redemption upon proper notice and a sum sufficient for the payment thereof set apart for payment.

(d) A quorum for any meeting called to elect Preferred Stock Directors shall exist if at least a majority of the outstanding shares of Series C Term Preferred Stock and, in the case of a Preferred Dividend Default, shares of Parity Preferred Stock upon which like voting rights have been conferred and are exercisable are represented in

person or by proxy at such meeting. The Preferred Stock Directors shall be elected upon the affirmative vote of a plurality of the votes cast by the holders of shares of Series C Term Preferred Stock and, in the case of a Preferred Dividend Default, shares of such Parity Preferred Stock present and voting in person or by proxy at a duly called and held meeting at which a quorum is present voting separately as a class. If and when all accumulated dividends and the dividend for the then-current dividend period on the Series C Term Preferred Stock shall have been paid in full or declared and set apart for payment in full, the holders thereof shall be divested of the right to elect the Dividend Default Preferred Stock Directors (subject to revesting in the event of each and every Preferred Dividend Default) and, if all accumulated dividends and the dividend for the then-current dividend period have been paid in full or declared and set aside for payment in full on all classes or series of Parity Preferred Stock upon which like voting rights have been conferred and are exercisable, the term of office of each Dividend Default Preferred Stock Director so elected shall terminate; and if and when all shares of Series C Term Preferred Stock are redeemed or called for redemption upon proper notice and a sum sufficient for the payment thereof set apart for payment, the holders thereof shall be divested of the right to elect the Redemption Delay Preferred Stock Directors and the term of office of each Redemption Delay Preferred Stock Director so elected shall terminate. Any Preferred Stock Director may be removed at any time with or without cause by, and shall not be removed otherwise than by the vote of, the holders of record of a majority of the outstanding shares of Series C Term Preferred Stock when they have the voting rights described above (voting separately as a class, in the case of a Preferred Dividend Default, with all classes or series of Parity Preferred Stock upon which like voting rights have been conferred and are exercisable or, in the case of a Mandatory Redemption Delay, to the exclusion of the holders of all other classes or series of stock of the Company). So long as a Preferred Dividend Default or Mandatory Redemption Delay shall continue, any vacancy in the office of a Preferred Stock Director may be filled by written consent of the Dividend Default Preferred Stock Director or Redemption Delay Preferred Stock Director(s), as the case may be, remaining in office or, if none remains in office, by a vote of the holders of record of a majority of the outstanding shares of Series C Term Preferred Stock when they have the voting rights described above (voting separately as a class, in the case of a Preferred Dividend Default, with all classes or series of Parity Preferred Stock upon which like voting rights have been conferred and are exercisable or, in the case of a Mandatory Redemption Delay, to the exclusion of the holders of all other classes or series of stock of the Company). The Preferred Stock Directors shall be entitled to one vote per director on any matter.

(e) So long as any shares of Series C Term Preferred Stock remain outstanding, the Company will not, without the affirmative vote or consent of the holders of at least two-thirds of the shares of the Series C Term Preferred Stock outstanding at the time, given in person or by proxy, either in writing or at a meeting (voting separately as a class), amend, alter or repeal the provisions of the Charter (including terms of the Series C Term Preferred Stock), whether by merger, consolidation or otherwise (each an **“Event”**), so as to materially and adversely affect any right, preference, privilege or voting power of the Series C Term Preferred Stock; provided, however, that with respect to the occurrence of any Event set forth above, so long as the Series C Term Preferred Stock (or securities issued by a surviving entity in substitution for the Series C Term Preferred Stock) remains outstanding with the terms thereof materially unchanged, taking into account that upon the occurrence of such an Event, the Company may not be the surviving entity, the occurrence of any such Event shall not be deemed to materially and adversely affect such rights, preferences, privileges or voting power of the Series C Term Preferred Stock; and provided, further, that (i) any increase in the number of authorized shares of Series C Term Preferred Stock, (ii) any increase in the number of authorized shares of preferred stock of the Company or the creation of issuance of any other class or series of preferred stock, or (iii) any increase in the number of authorized shares of any other class or series of preferred stock, in each case ranking on a parity with or junior to the Series C Term Preferred Stock with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or winding up, shall not be deemed to materially and adversely affect such rights, preferences, privileges or voting powers.

(f) The foregoing voting provisions will not apply if, at or prior to the time when the act with respect to which such vote would otherwise be required shall be effected, all outstanding shares of Series C Term Preferred Stock shall have been redeemed or called for redemption upon proper notice and sufficient funds shall have been deposited in trust to effect such redemption.

7. **Conversion.** The Series C Term Preferred Stock is not convertible into or exchangeable for any other property or securities of the Company.

8. **Term.** The Series C Term Preferred Stock will not be subject to any sinking fund but must be redeemed or called for redemption upon proper notice and a sum sufficient for the payment thereof set apart for payment on January 31, 2017.

9. **No Preemptive Rights.** No holder of the Series C Term Preferred Stock shall, as such holder, have any preemptive rights to purchase or subscribe for additional shares of stock of the Company or any other security of the Company which it may issue or sell.

10. **Status of Redeemed or Repurchased Series C Term Preferred Stock** Shares of Series C Term Preferred Stock that at any time have been redeemed or purchased by the Company shall, after such redemption or purchase, have the status of authorized but unissued shares of common stock, par value \$0.001 per share.

11. **Global Certificate.** All shares of Series C Term Preferred Stock outstanding from time to time shall initially be represented by one or more global certificates registered in the name of the Securities Depository or its nominee and no registration of transfer of shares of Series C Term Preferred Stock shall be made on the books of the Company to any person other than the Securities Depository or its nominee. The foregoing restriction on registration of transfer shall be conspicuously noted on the face or back of the global certificate.

12. **Notice.** All notices or communications hereunder, unless otherwise specified herein, shall be sufficiently given if in writing and delivered in person, by telecopier, by Electronic Means or by overnight mail or delivery or mailed by first-class mail, postage prepaid. Notices delivered pursuant to this Section 12 shall be deemed given on the date received or, if mailed by first class mail, on the date five calendar days after which such notice is mailed.

Statements re: computation of ratios

(Dollars in Thousands, Except Ratios)

	For the three months ended March 31, 2012	For the year ended December 31,				
		2011	2010	2009	2008	2007
Net income from continuing operations	\$ 1,301	\$ 5,714	\$ 4,928	\$ 4,400	\$ 4,873	\$ 5,958
Add: fixed charges and preferred and senior common distributions	6,075	21,247	21,191	22,001	20,964	15,670
Less: preferred and senior common distributions	(1,042)	(4,156)	(4,114)	(4,094)	(4,094)	(4,094)
Earnings	\$ 6,334	\$22,805	\$22,005	\$22,307	\$21,743	\$17,534
Fixed charges and preferred and senior common distributions:						
Interest expense ⁽¹⁾	4,709	16,158	16,031	16,399	15,575	10,847
Amortization of deferred financing fees	320	918	1,031	1,496	1,284	717
Estimated interest component of rent	4	15	15	12	11	12
Preferred and senior common distributions	1,042	4,156	4,114	4,094	4,094	4,094
Total fixed charges and preferred and senior common distributions	\$ 6,075	\$21,247	\$21,191	\$22,001	\$20,964	\$15,670
Ratio of earnings to combined fixed charges and preferred distributions	1.0	1.1	1.0	1.0	1.0	1.1

⁽¹⁾ Interest expense included dividends paid on our mandatorily redeemable preferred stock.

The calculation of the ratio of earnings to combined fixed charges and preferred distributions is above. "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.

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

I, David Gladstone, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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(s) 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(s) 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: April 30, 2012

/s/ David Gladstone

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

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

I, Danielle Jones, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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(s) 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(s) 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: April 30, 2012

/s/ Danielle Jones

Danielle Jones
Chief Financial Officer

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 Quarterly Report on Form 10-Q for the three months ended March 31, 2012 ("Form 10-Q"), 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-Q 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: April 30, 2012

/s/ David Gladstone

David Gladstone
Chief Executive Officer

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 Quarterly Report on Form 10-Q for the three months ended March 31, 2012 ("Form 10-Q"), 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-Q 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: April 30, 2012

/s/ Danielle Jones

Danielle Jones
Chief Financial Officer