GLADSTONE COMMERCIAL CORP
Form 424B5
March 28, 2011

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File No. 333-169290

PROSPECTUS SUPPLEMENT
(To prospectus dated September 27, 2010)

3,000,000 Shares in Primary Offering
500,000 Shares Pursuant to Distribution Reinvestment Plan
Senior Common Stock

We are offering 3,000,000 shares of Senior Common Stock at a price to the public of $15.00 per share and 500,000 shares of Senior Common Stock to be issued pursuant to our distribution reinvestment plan at a price of $15.00 per share to those stockholders who elect to participate in such plan as described in this prospectus supplement. We reserve the right, however, to reallocate shares between the primary offering and the offering pursuant to our distribution reinvestment plan in our sole and absolute discretion.

Gladstone Securities, LLC, the Dealer Manager, is not required to sell any specific number or dollar amount of shares of Senior Common Stock but will use its best efforts to sell the shares offered by this prospectus supplement. The minimum permitted purchase of shares of Senior Common Stock is 200 shares having an aggregate minimum purchase price of $3,000. We reserve the right, however, to waive the minimum purchase requirement in our sole and absolute discretion.

We will hold two closings per month for our primary offering. The closing dates were randomly selected prior to the commencement of the primary offering, are not subject to change and will occur once between the 1st and 15th of each month and once between the 16th and last day of each month. We will place your subscription payment in an account held by our escrow agent, BB&T Corporation, which funds will be held in trust for your benefit until the next closing date. On any such subsequent closing date, we will either accept or reject your subscription, and (i) if accepted, we will transfer your funds to our general account, and you will receive a confirmation of your subscription, or (ii) if rejected, we will return your funds, without interest, within 10 business days thereafter. Subscriptions will be effective only upon our acceptance, and we reserve the right to reject any subscription either in whole or in part in our sole and absolute discretion.

The primary offering will commence on the date of this prospectus supplement and will terminate on the earlier of (i) two years from the date of this prospectus supplement, unless earlier terminated or extended by our board of directors, or (ii) the date on which 3,000,000 shares of Senior Common Stock are sold hereunder. If we extend the primary offering period beyond two years from the date of this prospectus supplement, we will update this prospectus supplement accordingly. We may extend the offering period for the 500,000 shares of Senior Common Stock being offered hereby under our distribution reinvestment plan beyond the termination of the primary offering and until we have sold all of the shares allocated to the plan through the reinvestment of distributions. We reserve the right, however, to terminate the primary offering and the offering pursuant to our distribution reinvestment plan at any time in our sole and absolute discretion.

Distributions paid on shares of Senior Common Stock (i) will be 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 and (ii) must be paid before distributions are paid on shares of Listed Common Stock but after distributions are paid on shares of Series A Preferred Stock and Series B Preferred Stock.

There currently is no market for shares of Senior Common Stock, and we do not expect to have the shares listed on any securities exchange or quoted on an automated quotation system. You may not be able to sell your shares of Senior Common Stock when you desire, or at all, and, if you are able to sell your shares, you may be forced to sell them at a substantial discount. Accordingly, if you invest in shares of Senior Common Stock, you will have limited liquidity. After the fifth anniversary from the date of issuance of the shares of Senior Common Stock, such shares, if not redeemed prior to that time, will be exchangeable by the holders thereof for shares of Listed Common Stock. Our Listed Common Stock is listed on the NASDAQ Global Select Market under the symbol GOOD.

An investment in shares of Senior Common Stock involves substantial risks. See Risk Factors beginning on page S-23 of this prospectus supplement and in our most recent Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q and other information that we file from time to time with the Securities and Exchange Commission which are incorporated by reference into this prospectus supplement and the accompanying prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Primary Offering		**Distribution Reinvestment Plan**	
	Per Share	Total	Per Share	Total
Public offering price (1)	$ 15.00	$ 45,000,000	$ 15.00	$ 7,500,000
Selling Commissions	$ 1.05	$ 3,150,000	$	$
Dealer Manager Fee	$ 0.45	$ 1,350,000	$	$
Net Proceeds (before expenses) (2)	$ 13.50	$ 40,500,000	$ 15.00	$ 7,500,000

(1) Assumes that all shares of Senior Common Stock are sold in the primary offering and pursuant to our distribution reinvestment plan.

(2) We estimate that we will incur approximately $450,000 of expenses in connection with our primary offering. See Estimated Use of Proceeds in this prospectus supplement.

GLADSTONE SECURITIES, LLC

The date of this prospectus supplement is March 28, 2011

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Corinthian Colleges, Inc.
Austin and San Antonio, Texas

JBT Corporation
Chalfont, Pennsylvania

Elster Electricity, LLC
Raleigh, North Carolina

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Prospectus Supplement

Accompanying Prospectus

You should rely only upon the information that is contained or incorporated by reference into this prospectus supplement, the accompanying prospectus and any related free writing prospectus that is required

to be filed with the Securities and Exchange Commission, or SEC. We have not, and the Dealer Manager has not, authorized any other person to provide you with different or additional information. If anyone provides you with different or additional information, you should not rely upon it. You should assume that the information appearing in this prospectus supplement, the accompanying prospectus, any such free writing prospectus and the documents incorporated by reference herein or therein are accurate only as of the respective dates of such documents or such other dates as may be specified therein. Our business, financial condition, liquidity, results of operations, funds from operations and prospects may have changed since those dates.

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document is presented in two parts. The first part is comprised of this prospectus supplement which describes the specific terms of this offering and certain other matters relating to us. The second part, the accompanying prospectus, contains a more detailed description of the shares of Senior Common Stock and provides more general information, some of which does not apply to this offering, regarding the securities that we may offer from time to time. To the extent that the information contained in this prospectus supplement differs or varies from the information contained in the accompanying prospectus or in the documents that we previously filed with the SEC, the information in this prospectus supplement will supersede such information. In addition, the information that we file subsequently with the SEC prior to the completion of this offering will automatically update and supersede the information in this prospectus supplement.

This prospectus supplement is part of a registration statement that we filed with the SEC using a continuing offering process. This prospectus supplement does not contain all of the information that we have included in the registration statement and in the accompanying exhibits and schedules thereto in accordance with the rules and regulations of the SEC, and we refer you to the omitted information. It is important for you to read and consider all of the information contained in this prospectus supplement and the accompanying prospectus in making your investment decision. You should also read and consider the additional information incorporated by reference into this prospectus supplement and the accompanying prospectus. See Where You Can Find More Information in this prospectus supplement.

Unless the context otherwise requires or indicates, all references in this prospectus supplement to (i) we, our, us and the Company mean Gladstone Commercial Corporation, a Maryland corporation, and its consolidated subsidiaries; (ii) Operating Partnership mean Gladstone Commercial Limited Partnership, a subsidiary of the Company and a Delaware limited partnership; (iii) Adviser mean Gladstone Management Corporation, a Delaware corporation and our external adviser; (iv) Administrator mean Gladstone Administration, LLC, a Delaware limited liability company and our external administrator; (v) Dealer Manager mean Gladstone Securities, LLC, a Connecticut limited liability company and the dealer manager for this offering; (vi) Listed Common Stock mean our common stock, par value $0.001 per share, which is listed on the NASDAQ Global Select Market under the symbol GOOD; (vii) Senior Common Stock mean our senior common stock, par value $0.001 per share; (viii) Series A Preferred Stock mean our 7.75% Series A Cumulative Redeemable Preferred Stock, par value $0.001 per share, which is listed on the NASDAQ Global Select Market under the symbol GOODP; and (ix) Series B Preferred Stock mean our 7.50% Series B Cumulative Redeemable Preferred Stock, par value $0.001 per share, which is listed on the NASDAQ Global Select Market under the symbol GOODO.

This prospectus supplement does not constitute an offer to sell, nor is it seeking a solicitation of an offer to buy these securities, to any person in any jurisdiction where such an offer or solicitation would be unlawful.

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SUMMARY

This summary is not complete and may not contain all of the information that may be important to you in deciding whether to invest in shares of Senior Common Stock. To understand this offering fully prior to making an investment decision, you should carefully read this entire prospectus supplement, the accompanying prospectus and the documents incorporated by reference herein and therein, including the sections captioned Risk Factors beginning on page S-23 of this prospectus supplement and in our most recent Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q and other information that we file from time to time with the SEC which are incorporated by reference into this prospectus supplement and the accompanying prospectus.

The Company

We were incorporated under the Maryland General Corporation Law on February 14, 2003 primarily for the purpose of investing in and owning net leased industrial and commercial real estate property and selectively making long-term industrial and commercial mortgage loans to creditworthy entities. We have elected to be treated as a real estate investment trust, or REIT, for federal income tax purposes. We are a publicly-traded REIT because shares of our Listed Common Stock, Series A Preferred Stock and Series B Preferred Stock trade on the NASDAQ Global Select Market, or NASDAQ, under the trading symbols GOOD, GOODP and GOODO, respectively.

Most of the properties that we own are leased to a wide cross section of tenants ranging from small businesses to large public companies, many of which do not have publicly-rated debt. We have in the past entered into, and intend in the future to enter into, purchase agreements for properties that have triple net leases with terms of 10 to 15 years and built-in rental increases. Under a triple net lease, the tenant is required to pay all operating, maintenance and insurance costs and real estate taxes with respect to the leased property. We actively communicate with buyout funds, real estate brokers and other third parties to identify properties for potential acquisition, disposition or mortgage financing in an effort to build our portfolio. As of December 31, 2010, we owned 65 properties located in 21 states that contained approximately 6.8 million rentable square feet.

We conduct substantially all of our activities, including the ownership of all of our properties, through our Operating Partnership. We control our Operating Partnership through our ownership of (i) GCLP Business Trust II, a subsidiary of the Company and a Massachusetts business trust that holds the sole general partnership interest in our Operating Partnership, and (ii) GCLP Business Trust I, a subsidiary of the Company and a Massachusetts business trust that holds all of the limited partnership interests in our Operating Partnership.

Our Operating Partnership is also the sole member of Gladstone Commercial Lending, LLC, a subsidiary of the Company and a Delaware limited liability company that was formed to conduct all of our operations related to real estate mortgage loans. As of December 31, 2010, we had no mortgage loans outstanding.

Our Adviser is an affiliated registered investment adviser under the Investment Advisers Act of 1940. Our Adviser is headquartered in McLean, Virginia, a suburb of Washington, D.C., and also has offices in New York, New York, Greenwich, Connecticut, Chicago, Illinois, Dallas, Texas and Atlanta, Georgia. Our Adviser is responsible for managing our business on a daily basis and for identifying and making acquisitions and dispositions that it believes satisfy our investment criteria.

Our executive offices are located at 1521 Westbranch Drive, Suite 200, McLean, Virginia 22102, and our telephone number is (703) 287-5800. Our website address is *http://www.GladstoneCommercial.com*. However, the information located on, or accessible from, our website is not, and shall not be deemed to be, a part of this prospectus supplement or the accompanying prospectus or incorporated into any other filings that we make with the SEC.

Our Adviser

We are externally advised by our Adviser and have entered into an amended and restated investment advisory agreement, or Advisory Agreement, with our Adviser pursuant to which our Adviser is responsible for managing our assets and liabilities, operating our business on a daily basis and identifying, evaluating, negotiating and consummating investment transactions consistent with our investment policies as determined by our Board of

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Directors, or Board. The directors, officers and employees of our Adviser have significant experience in making investments in and lending to businesses of all sizes, including investing in real estate and making mortgage loans.

Mr. David Gladstone, our Chairman and Chief Executive Officer, is also the Chairman, Chief Executive Officer and sole stockholder of our Adviser. Mr. Terry Lee Brubaker, our Vice Chairman, Secretary and Chief Operating Officer and a member of our Board, and Mr. George Stelljes III, our President and Chief Investment Officer and a member of our Board, also serve in the same capacities for our Adviser. For further discussion of the credentials of our executive officers, see Proposal 1 Election of Directors in our Definitive Proxy Statement on Schedule 14A as filed with the SEC on March 25, 2011.

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

Our Adviser s board of directors has empowered its investment committee to authorize and approve our investments, subject to the terms of the Advisory Agreement. Before we acquire any property, the transaction is reviewed by our Adviser s investment committee to ensure that, in its view, the proposed transaction satisfies our investment criteria and is within the parameters of our investment policies. Approval by our Adviser s investment committee is generally the final step in the property acquisition approval process, although the separate approval of our Board is required in certain circumstances.

Our 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 shares of preferred stock, and a performance-based incentive fee based upon 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-term or short-term credit or arranges mortgage loans on our properties.

For purposes of calculating the performance-based 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 the Pre-Incentive Fee FFO, exceeds 1.75%, or the Hurdle Rate, of total stockholders equity less the recorded value of any shares of preferred stock. We pay our Adviser an incentive fee with respect to our Pre-Incentive Fee FFO in each calendar quarter as follows:

- no incentive fee in any calendar quarter in which our Pre-Incentive Fee FFO does not exceed the Hurdle Rate (7% annualized);

- 100% of the amount of the Pre-Incentive Fee FFO that exceeds the Hurdle Rate but is less than 2.1875% in any calendar quarter (8.75% annualized); and

- 20% of the amount of our Pre-Incentive Fee FFO that exceeds 2.1875% in any calendar quarter (8.75% annualized).

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Quarterly Incentive Fee Based upon FFO

Pre-incentive fee FFO

(expressed as a percentage of total common stockholders equity)

Percentage of pre-incentive fee FFO allocated to incentive fee

The incentive fee may be reduced because of a covenant in our New Line of Credit (as defined below) which limits distributions to our stockholders to no more than 95% of our FFO.

Our Administrator

Our external administrator is Gladstone Administration, LLC, and we have entered into an administration agreement, or Administration Agreement, with our Administrator pursuant to which we pay separately for our allocable portion of our Administrator s overhead expenses in performing its obligations to us, including, but not limited to, rent and our allocable portion of the salaries and benefits expenses attributable to our Administrator s employees including our chief financial officer, chief compliance officer, internal counsel, treasurer, investor relations and their respective staffs.

Our Affiliated Dealer Manager

Gladstone Securities, LLC, our Dealer Manager is a securities broker-dealer registered with the SEC and a member firm of the Financial Industry Regulatory Authority, Inc., or FINRA, and the Securities Investor Protection Corporation, or SIPC. The Dealer Manager specializes in raising public and private equity funding for U.S. and European fund managers and performing various investment banking activities. Accordingly, the Dealer Manager will provide certain sales, promotional and marketing services to us in connection with the distribution of shares of Senior Common Stock in this offering.

The Dealer Manager is affiliated with us and is owned by David Gladstone, our Chairman and Chief Executive Officer. Accordingly, you will not have the benefit of an independent due diligence review and investigation of the type normally performed by an independent underwriter in connection with an underwritten offering of securities. See Risk Factors in this prospectus supplement.

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Our Structure

Below is a chart showing our organizational structure and the entities that are affiliated with our Company.

(1) Gladstone Commercial Corporation also owns 100% of Gladstone Commercial Advisers, Inc., a Delaware corporation and our taxable REIT subsidiary that is currently inactive but that may be activated if needed.

(2) Each of our properties is owned by a separate limited liability company. Any mortgage loans that we may own in the future will be owned by Gladstone Commercial Lending, LLC.

Our Investment Objectives and Strategy

Our principal investment objectives are to generate income from rental properties and, to a much lesser extent, mortgage loans, which we use to fund our continuing operations and to pay out monthly cash distributions to our stockholders. We intend to grow the distributions paid to our stockholders over time and to increase the value of our Listed Common Stock, Senior Common Stock, Series A Preferred Stock and Series B Preferred Stock. Our primary strategy to achieve our investment objectives is to invest in and own a diversified portfolio of net leased industrial and commercial real estate that we believe will produce stable cash flow and will increase in value. We expect to sell certain of our properties from time to time when our Adviser determines that doing so would be advantageous to us and our stockholders. We also expect to occasionally make mortgage loans that are secured by income-producing commercial or industrial real estate and that may have some form of equity participation.

Our strategy includes the use of leverage so that we may make more investments than would otherwise be possible in order to maximize potential returns to stockholders. We are not limited with respect to the amount of leverage that we may use for the acquisition of any specific property. We intend to use non-recourse mortgage financing that will allow us to limit our loss exposure on any property to the amount of equity invested in such property. However, the market for long-term mortgages has been limited as the collateralized mortgage backed securities, or CMBS, market has experienced significant disruption. With the stresses upon the CMBS market, many banks are not lending on commercial real estate as they are no longer able to sell these loans to the CMBS market, and many banks are not willing or able to keep these loans on their balance sheets. In addition, many banks have significantly curtailed their general lending practices, as they are having difficulty valuing the underlying real estate in the current market. We are, however, beginning to see banks that are willing to issue medium-term mortgages, between two and five years, on substantially less favorable terms than were previously available. Consequently, we intend to continue to focus on using medium-term mortgages to finance our real estate activities until the market for long-term mortgages returns.

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In addition to the disruption of the CMBS market place, we expect that the number of commercial mortgage loans coming due over the next seven years will create a significant investment opportunity as these obligations mature. We believe that we will be well-positioned to provide liquidity in the form of sale-leasebacks to small- and medium-sized business owners as a solution for their maturing mortgages. We may also be able to purchase some mortgages at discount prices. The chart below illustrates the scheduled maturity of commercial real estate mortgages in the United States through 2017:

Commercial Real Estate Mortgage Maturities

Our Investment Approach and Track Record

We will continue to utilize the same conservative investment approach for sale-leaseback transactions that we have employed since our inception. We provide real estate liquidity for small- and medium-sized companies. We use our existing deal flow from strategic relationships with leveraged buyout funds and senior lenders, as well as our extensive relationships in the real estate market, to identify triple net sale-leaseback opportunities. We concentrate on conventional real estate and seek to enter into leases with profitable companies in the light manufacturing, specialty manufacturing, software, business services, medical services, retail and data industries. We have not invested in hotels, but we may in the future if the economy improves. We have not invested in housing or other sectors, such as apartment buildings.

We focus on acquiring properties, such as headquarters or key operating facilities, that are critical to the long-term success of a business, which we believe increases the likelihood that the tenants remain current on their rent payments. Prior to making an investment, we conduct reasonable due diligence investigations of both the tenant and the property.

As of December 31, 2010, we had total gross and net investments of approximately $446 million and $384 million, respectively, in 65 properties. As of December 31, 2010, all tenants were paying as agreed. As of December 31, 2010, we had two buildings that were not occupied, and we are currently seeking tenants for those properties; however, our remaining properties were approximately 97% leased, and the weighted average yield on our occupied portfolio was approximately 9.6%. The weighted average yield on our occupied portfolio is calculated by taking the annualized straight-line rents, reflected as rental income on our consolidated statements of operations, or mortgage interest payments, reflected as interest income from mortgage notes receivable on our consolidated statements of operations, of each acquisition or mortgage loan as a percentage of the acquisition or loan price, as applicable. The weighted average yield does not take into account the interest expense incurred on the financings placed on our properties.

Since inception, we have never reduced our per-share distributions nor have we missed making a scheduled distribution to our stockholders. Our Board has accepted our Adviser s offer to unconditionally, irrevocably and voluntarily waive on a quarterly basis a portion of the incentive fee which has allowed us to maintain this level of distributions to our stockholders. These waivers were applied through December 31, 2010, and any waived fees may not be recouped by our Adviser in the future. Our Adviser has indicated that it intends to continue to waive all or a portion of the incentive fee in order to support distributions to our stockholders; however, our Adviser is not required to issue any waiver, either in whole or in part. From inception through December 31, 2010, we have paid out a total of $73.3 million, or $8.40 per share, in distributions to holders of shares of Listed Common Stock. From inception through December 31, 2010 (the latest date for which such information is available), only 19.1% of the distributions paid to holders of shares of Listed Common Stock were deemed to be taxable dividends, in part because of the depreciation of the buildings that we own. The remaining 80.9% of the distributions paid to holders of shares of Listed Common Stock were deemed to be a return of capital to the extent of each individual stockholder s tax basis in the shares, and any distribution in excess of this amount was deemed a capital gain (either long term or short term depending upon the holding period of the shares). We cannot, however, guarantee that past results will be replicated in future years. Additionally, because each investor s tax considerations are different, we urge you to consult with your tax adviser prior to investing in shares of Senior Common Stock.

Distributions paid in respect of shares of Senior Common Stock must be paid before distributions are paid on shares of Listed Common Stock but after distributions are paid on shares of Series A Preferred Stock and Series B Preferred Stock. For the year ended December 31, 2010, the distributions paid in respect of shares of Listed Common Stock were $12.9 million, and the total FFO available to holders of shares of Listed Common Stock was approximately $14.1 million. This means that $14.1 million would have been available to pay to holders of shares of Senior Common Stock before any payment to the holders of shares of Listed Common Stock. This further means that, if all of the shares of Senior Common Stock contemplated to be sold in this offering had been outstanding at the end of December 31, 2010, the indicated distribution of $3.2 million in respect of shares of Senior Common Stock would have been covered in payment by 4.4 times. However, we cannot guarantee that past results will be replicated in future years.

Net loss to common stockholders for the three months ended December 31, 2010 was approximately $232,000, or $0.03 per share, and net income available to common stockholders for the year ended December 31, 2010 was approximately $814,000, or $0.09 per share. A reconciliation of FFO for the quarters and years ended December 31, 2010 and 2009 to net income, which the Company believes is the most directly comparable GAAP measure to FFO, 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 is set forth below:

	For the three months ended December 31,		For the year ended December 31,	
	2010	2009	2010	2009
Net income	$ 806,870	$ 1,117,553	$ 4,927,908	$ 4,603,048
Less: Distributions attributable to preferred and senior common stock	(1,038,830)	(1,023,439)	(4,113,800)	(4,093,750)
Net (loss) income available to common stockholders	(231,960)	94,114	814,108	509,298
Add: Real estate depreciation and amortization, including discontinued operations	3,271,403	3,286,133	13,263,814	13,171,703
Less: Gain on sale of real estate				(160,038)
FFO available to common stockholders	$ 3,039,443	$ 3,380,247	$ 14,077,922	$ 13,520,963

Weighted average shares outstanding basic	8,562,777	8,563,264	8,576,303	8,563,264
Weighted average shares outstanding diluted	8,577,173	8,563,264	8,601,153	8,563,264
Basic net (loss) income per weighted average share of common stock	$ (0.03)	$ 0.01	$ 0.09	$ 0.06
Diluted net (loss) income per weighted average share of common stock	$ (0.03)	$ 0.01	$ 0.09	$ 0.06
Basic FFO per weighted average share of common stock	$ 0.35	$ 0.39	$ 1.64	$ 1.58
Diluted FFO per weighted average share of common stock	$ 0.35	$ 0.39	$ 1.64	$ 1.58
Distributions declared per share of common stock	$ 0.375	$ 0.375	$ 1.50	$ 1.50
Percentage of FFO paid per share of common stock	106%	95%	91%	95%

(1) The National Association of Real Estate Investment Trusts (NAREIT) developed FFO as a relative non-GAAP supplemental measure of operating performance of an equity REIT in order to recognize that income-

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producing real estate historically has not depreciated on the basis determined under GAAP. FFO, as defined by NAREIT, is net income (computed in accordance with GAAP), excluding gains (or losses) from sales of property, plus depreciation and amortization of real estate assets, and after adjustments for unconsolidated partnerships and joint ventures. FFO does not represent cash flows from operating activities determined in accordance with GAAP and should not be considered an alternative to net income as an indication of the Company s performance or to cash flow from operations as a measure of liquidity or ability to make distributions. The Company believes that FFO per share provides investors with an additional context for evaluating the Company s financial performance and as a supplemental measure to compare the Company to other REITs; however, comparisons of the Company s FFO to the FFO of other REITs may not necessarily be meaningful due to potential differences in the application of the NAREIT definition used by such other REITs. To learn more about FFO, please refer to the Company s Form 10-K for the year ended December 31, 2010, as filed with the SEC on March 8, 2011.

FFO available to common stockholders is FFO adjusted to subtract preferred share and senior common share distributions.

Our Properties

As of December 31, 2010, we owned 65 properties located in 21 states that contained approximately 6.8 million rentable square feet. The following table provides certain summary information about our 65 properties as of December 31, 2010. We own each of these properties in fee simple with the exception of our properties located in Tulsa Oklahoma and Fridley, Minnesota which are operated under ground leases:

Property	Year Built/ Improvements	Date of Purchase	Rentable Square Feet	Occupancy	Total Rental Income for the Year Ended December 31, 2010	Total Rental Income per Occupied Square Foot	Year of Lease Expiration
208 South Rogers Lane (Raleigh, NC)	1997	12/23/2003	58,926	100%	624,118	10.59	2015
3874 Highland Park NW (Canton, OH)	1994	1/30/2004	54,018	100%	337,625	6.25	2014
260 Springside Drive (Akron, OH) (2)	1968/1999	4/29/2004	83,891	100%	1,026,692	12.24	2015
5815 Westpark Drive (Charlotte, NC)	1984/1995	6/30/2004	64,500	100%	1,006,553	15.61	2019
171 Great Oak Drive (Canton, NC)	1998	7/6/2004	228,000	100%	600,145	2.63	2024
Rt. 219, Tax Par. No. 33-251-0246 (Snyder Township, PA)	1991	8/5/2004	290,000	100%	930,522	3.21	2014
9698 Old US Hwy. 52 (Lexington, NC)	1986	8/5/2004	154,000	100%	424,964	2.76	2014

9100 Highway 290 East (Austin, TX)	2001	9/16/2004	51,933	100%	751,333	14.47	2015
13 Industrial Park Drive (Mt. Pocono, PA)	1995/1999	10/15/2004	223,275	100%	637,025	2.85	2021
6550 First Park Ten Blvd. (San Antonio, TX)	1999	2/10/2005	60,245	100%	769,793	12.78	2014
4630 Journal Street (Columbus, OH)	1995	2/10/2005	39,000	100%	308,105	7.90	2015
199 Sing Sing Road (Big Flats, NY)	2001	4/15/2005	120,000	100%	644,252	5.37	2013
2525 North Woodlawn Ave. (Wichita, KS)	2000	5/18/2005	69,287	100%	1,109,217	16.01	2012
725 & 737 Great Southwest Pkwy (Arlington, TX)	1966	5/26/2005	64,000	100%	580,635	9.07	2013
4032 Linden Avenue (Dayton, OH)	1956	6/30/2005	59,894	100%	268,042	4.48	2018
81 Corbett Way (Eatontown, NJ)	1991	7/7/2005	30,268	100%	537,321	17.75	2024

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Property	Year Built/ Improvements	Date of Purchase	Rentable Square Feet	Occupancy	Total Rental Income for the Year Ended December 31, 2010	Total Rental Income per Occupied Square Foot	Year of Lease Expiration
17 & 20 Veronica Avenue (Franklin Township, NJ)	1978	7/11/2005	183,000	100%	975,229	5.33	2020
150 Ridgeview Center Drive (Duncan, SC)	1984/2001/2007	7/14/2005	222,670	100%	1,539,286	6.91	2020
170 Ridgeview Center Drive (Duncan, SC)	1984/2001/2007	7/14/2005	55,350	100%	382,627	6.91	2020
5656 Campus Parkway (Hazelwood, MO)	1977	8/5/2005	51,155	100%	289,928	5.67	2012
914 Wohlert Street (Angola, IN)	1982	9/2/2005	52,080	100%	125,202	2.40	2020
800 Growth Parkway (Angola, IN)	1998	9/2/2005	50,000	100%	125,202	2.50	2020
802 East 11th Street (Rock Falls, IL)	1988	9/2/2005	52,000	100%	125,202	2.41	2020
2 Opportunity Way (Newburyport, MA)	1994	10/17/2005	86,308	100%	891,492	10.33	2015
255 Spring Street (Clintonville, WI)	1992	10/31/2005	291,142	100%	575,006	1.98	2020
5700 Lee Road (Maple Heights, OH)	1974	12/21/2005	347,218	100%	1,282,582	3.69	2015
7545 Midlothian Turnpike (Richmond, VA) (2)	1972	12/30/2005	42,213	0%(2)	421,672	9.99	2010
3930 Sunforest Court (Toledo, OH)	1979	12/30/2005	23,368	100%	327,152	14.00	2020
75 Canal Street (South Hadley,	1978	2/15/2006	150,000	0%(2)	179,837	1.20	2010

MA) (2)							
2101 Fox Drive (Champaign, IL)	1996	2/21/2006	20,400	100%	295,220	14.47	2013
2109 Fox Drive (Champaign, IL)	1996	2/21/2006	40,000	100%	578,863	14.47	2013
2215 Fox Drive (Champaign, IL)	1996	2/21/2006	25,000	100%	361,790	14.47	2013
2301 Fox Drive (Champaign, IL)	1996	2/21/2006	22,862	100%	330,849	14.47	2013
2470 Highcrest Road (Roseville, MN)	1964	2/21/2006	359,540	100%	3,030,458	8.43	2012
12000 Portland Avenue South (Burnsville, MN)	1984	5/10/2006	114,100	100%	1,234,662	10.82	2015
14701 Anthony Avenue (Menomonee Falls, WI)	1986/2000	6/30/2006	125,692	100%	775,274	6.17	2016
1025 Birdsong Drive (Baytown, TX)	1997	7/11/2006	12,000	100%	254,121	21.18	2013
42400 Merrill Road (Sterling Heights, MI)	1979/1989	9/22/2006	532,869	100%	1,166,654	2.19	2016
2150, 2200 Pinson Valley Pkwy (Birmingham, AL)	1961/1980	9/29/2006	63,514	100%	271,173	4.27	2016
2325 West Fairview Avenue (Montgomery, AL)	1962/1989	9/29/2006	29,472	100%	125,830	4.27	2016
5221 N Highway 763 (Columbia, MO)	1978	9/29/2006	16,275	100%	69,486	4.27	2016
4690 Parkway Drive (Mason, OH)	2002	1/5/2007	60,000	100%	681,270	11.35	2013
201 South Rogers Lane (Raleigh, NC)	1994	2/16/2007	115,500	100%	717,203	6.21	2015

Property	Year Built/ Improvements	Date of Purchase	Rentable Square Feet	Occupancy	Total Rental Income for the Year Ended December 31, 2010	Total Rental Income per Occupied Square Foot	Year of Lease Expiration
1110 West Tenkiller (Tulsa, OK) (4)	2004	3/1/2007	238,310	100%	1,565,794	6.57	2019
3725 East 10th Court (Hialeah, FL)	1956/1992	3/9/2007	132,337	100%	995,048	7.52	2022
554 Clark Road (Tewksbury, MA)	1985/1989	5/17/2007	102,200	100%	922,926	9.03	2017
5324 Natorp Boulevard (Mason, OH)	2007	7/1/2007	21,264	100%	583,131	27.42	2027
7282 William Barry Boulevard (Cicero, NY)	2005	9/6/2007	71,880	100%	529,743	7.37	2020
1515 Arboretum Drive SE (Grand Rapids, MI)	2001	9/28/2007	63,235	100%	1,068,550	16.90	2025
4 Territorial Court (Bollingbrook, IL)	2002	9/28/2007	55,869	100%	619,296	11.08	2014
2349 Lawrenceville Highway (Decatur, GA)	1989	12/13/2007	16,740	100%	404,159	24.14	2026
2341 Lawrenceville Highway Decatur, GA)	1989	12/13/2007	4,372	100%	105,555	24.14	2026
2339 Lawrenceville Highway (Decatur, GA)	1989	12/13/2007	5,488	100%	132,498	24.14	2026
311 Phillip Boulevard (Lawrenceville, GA)	2005	12/13/2007	12,412	100%	349,871	28.19	2026
2096 McGee Road (Snellville, GA)	1986	12/13/2007	3,800	100%	90,815	23.90	2026
7174 Wheat Street (Covington, GA)	2000	12/13/2007	5,000	100%	119,493	23.90	2026

1055 Haw Creek Parkway (Cumming, GA)	2004	12/13/2007	13,919	100%	380,410	27.33	2026
1293 Wellbrook Circle (Conyers, GA)	1994	12/13/2007	6,400	100%	152,951	23.90	2026
425 Gateway Drive (Reading, PA)	2007	1/29/2008	42,900	100%	716,666	16.71	2028
6499 University Avenue NE (Fridley, MN) (4)	1985/2006	2/26/2008	74,160	100%	890,432	12.01	2013
7528 Auburn Road (Concord Township, OH)	1957/2008	3/31/2008	273,300	100%	1,724,133	6.31	2028
10021 Rodney Street (Pineville, NC)	1985	4/30/2008	74,950	100%	431,424	5.76	2028
28305 State Route 7 (Marietta, OH)	1992/2007	8/29/2008	223,458	100%	896,743	4.01	2028
400 Highpoint Drive (Chalfont, PA)	1987	8/29/2008	67,200	100%	757,571	11.27	2016
1520 Albany Place SE (Orange City, IA) (3)	1990	12/15/2010	487,121	100%	53,215	2.37	2026
Totals			**6,791,280**		**$ 41,180,036**		

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

(2) On June 30, 2010 and July 31, 2010, respectively, the leases with the tenants that occupied our properties located in South Hadley, Massachusetts and Richmond, Virginia, respectively, expired and currently remain vacant. These two leases comprised approximately 2.6% of our total annualized rental income and 2.6% of the rentable square feet. We are actively seeking new tenants for these two properties while concurrently researching alternative uses for these two properties and expect that we will re-lease these properties in the near future.

(3) Rental income per occupied square foot is annualized, as if the building were held for all of 2010.

(4) This property is operated pursuant to a ground lease.

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Diversity Across Industries

Our Adviser seeks to diversify our portfolio to avoid dependence upon 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 as of December 31, 2010 comprised approximately 7.4% of our total rental income, and our largest concentration of properties was located in Ohio, which accounted for approximately 18.1% of our total rental income.

The table below reflects the breakdown of our total rental income by tenant industry classification for the year ended December 31, 2010:

Industry Classification	Rental Income	Percentage of Rental Income
Electronics	$ 6,165,788	15.0%
Healthcare, Education & Childcare	6,145,415	14.9%
Telecommunications	5,447,365	13.3%
Diversified/Conglomerate Manufacturing	3,664,686	8.9%
Chemicals, Plastics & Rubber	3,130,133	7.6%
Machinery	2,332,672	5.7%
Containers, Packaging & Glass	2,330,715	5.7%
Beverage, Food & Tobacco	2,188,793	5.2%
Printing & Publishing	2,187,504	5.3%
Buildings & Real Estate	2,075,103	5.0%
Oil and Gas	1,282,582	3.1%
Personal & Non-Durable Consumer Products	1,228,100	2.9%
Automobile	1,166,654	2.8%
Personal, Food & Miscellaneous Services	575,006	1.4%
Home and Office Furnishings	529,743	1.3%
Insurance	421,672	1.0%
Diversified/Conglomerate Services	308,105	0.9%
	$ 41,180,036	100.0%

Diversity in Location

The Company has properties located in 21 states. The following table summarizes the geographic locations of our properties for leases in place as of December 31, 2010:

State	Square Feet	Number of Leases	Rental Revenue for the Year Ended December 31, 2010	% of Annualized Base Rent
Ohio	1,185,411	11	$ 7,435,475	18.1%
Minnesota	547,800	3	5,155,552	12.5%
North Carolina	695,876	6	3,804,407	9.2%
Pennsylvania	623,375	4	3,041,784	7.4%
Texas	188,178	4	2,355,882	5.7%
Michigan	596,104	2	2,235,204	5.4%
Illinois	164,131	2	2,186,018	5.3%

Massachusetts	338,508	3		1,994,255	4.8%
All Other States	2,451,897	17		12,971,459	31.6%
Total	6,791,280	52	$	41,180,036	100.0%

Our Leases

We have in the past entered into, and intend in the future to enter into, purchase agreements for real estate that have triple net leases with terms of 10 to 15 years and with lease escalations that are tied to the Consumer Price

Index (with minimums) or that have fixed escalations. Under a triple net lease, the tenant is responsible for the cost of repairs, maintenance, property taxes, utilities, insurance and other operating costs with respect to the leased property. In accordance with certain of our lease agreements, however, we may be responsible for the replacement of specific structural components of a property such as the roof of the building or the parking lot. We seek to secure leases with tenants that our Adviser deems to be creditworthy prior to or at the time of the acquisition of a property.

The following table summarizes the lease expirations by year for our properties for leases in place as of December 31, 2010:

Year of Lease Expiration	Square Feet	Number of Leases	Rental Revenue for the Year Ended December 31, 2010	Percentage of Annualized Base Rental Revenue as of December 31, 2010
2010	192,213	2	$ 601,509	1.5%
2011		0		0.0%
2012	479,982	3	4,429,603	10.8%
2013	438,422	6	4,617,432	11.2%
2014	614,132	5	3,082,200	7.5%
2015	896,876	8	6,836,187	16.6%
2016	835,022	4	3,165,988	7.7%
2017	102,200	1	922,926	2.2%
2018	59,894	1	268,042	0.7%
2019+	3,172,539	22	17,256,149	41.8%
Total	6,791,280	52	$ 41,180,036	100.0%

Our Mortgage Loans

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

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

On April 15, 2005, we originated a mortgage loan in the amount of $10.0 million that was collateralized by an office building located in McLean, Virginia in which our Adviser and Administrator are subtenants. The mortgage loan was originally set to mature in May 2017, though, on July 22, 2010, it was fully repaid. We received $3.3 million of additional income and prepayment fees in connection with the early payment and the proceeds were used to repay a portion of our line of credit. As of December 31, 2010, we had no mortgage loans outstanding.

Our New Line of Credit

In December 2010, we procured a new line of credit, or the New Line of Credit, 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 a letter of credit issuer. The New Line of Credit replaced our prior $50 million senior secured revolving credit facility which was scheduled to mature on December 29, 2010, or the Prior Line of Credit. The New Line of Credit provides for a senior secured revolving credit facility of up to $50 million, with a standby letter of credit sublimit of up to $20 million. The New Line of Credit is subject to a maximum borrowing base calculation which may, from time to time, affect the maximum amount available to be drawn. The New Line of Credit may, upon satisfaction of certain conditions, be expanded up to $75 million.

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The New Line of Credit has a term of three years and is scheduled to mature on December 28, 2013. The interest rate per annum applicable to the New Line of Credit is equal to the London InterBank Offered Rate, or LIBOR, plus an applicable margin of up to three hundred basis points depending upon our leverage. Our leverage ratio used in determining the applicable margin for interest on the New Credit Line is recalculated quarterly. We paid an upfront fee of seventy-five basis points, and will be charged an annual fee of twenty-five basis points, on the $50 million commitment, which takes the place of an unused fee. We are required to pay a commission on all outstanding letters of credit at a per annum rate equal to the applicable margin for LIBOR loans under the New Line of Credit. Such letter of credit commission is payable quarterly in arrears. With respect to each letter of credit, we are also required to pay to the bank issuing such letter of credit a fronting fee equal to twenty basis points per annum times the face amount of the letter of credit.

In connection with procuring the New Line of Credit, we repaid the $29.8 million outstanding balance of the Prior Line of Credit with funds drawn from the New Line of Credit and with existing cash. We incurred no early termination penalties or fees in connection with the repayment of outstanding balance of the Prior Line of Credit.

The New Line of Credit currently has an outstanding balance of $5.2 million.

Our Employees

We do not currently have any employees and do not expect to have any employees in the foreseeable future. Currently, services necessary for our business are provided by individuals who are employees of our Adviser and our Administrator pursuant to the terms of the Advisory Agreement and the Administration Agreement, respectively. Each of our executive officers is an employee or officer, or both, of our Adviser or our Administrator. No employee of our Adviser or our Administrator will dedicate all of his or her time to us. In addition, our Adviser maintains a team of 50 investment professionals and support staff. To the extent that we acquire more investments, we anticipate that the number of employees of our Adviser and our Administrator who devote time to our matters will increase.

Our Independent Directors

As required under the NASDAQ Global Select Market listing standards, a majority of the members of a listed company s board of directors must qualify as independent, as affirmatively determined by the board of directors. Our Board consults with our chief compliance officer and chief financial officer to ensure that its determinations are consistent with relevant securities and other laws and regulations regarding the definition of independent, including those set forth in pertinent listing standards of NASDAQ Global Select Market, as in effect from time to time.

Consistent with these considerations, after review of all relevant transactions or relationships between each director, or any of his or her family members, and us, our senior management and our independent auditors, our Board has affirmatively determined that the following five directors are independent directors within the meaning of the applicable NASDAQ Global Select Market listing standards: Messrs. Adelgren, Mead, Outland, Parker and Reilly and Ms. English. In making this determination, our Board found that none of these directors had a material or other disqualifying relationship with us. Mr. David Gladstone, our Chairman and Chief Executive Officer, Mr. Terry Lee Brubaker, our Vice Chairman, Chief Operating Officer and Secretary, Mr. George Stelljes III, our President and Chief Investment Officer, and Mr. Dullum, a Senior Managing Director of our Adviser, are not independent directors, however, as each is an employee of our Adviser.

Our Board has four standing committees, which include an Audit Committee, a Compensation Committee, an Executive Committee and an Ethics, Nominating and Corporate Governance Committee. The directors who serve on each of these committees are each independent directors. See Information Regarding the Board of Directors and Corporate Governance Corporate Leadership Structure in our Definitive Proxy Statement on Schedule 14A as filed with the SEC on March 25, 2011. The charters of each of these respective committees are posted on our corporate website at *http://www.GladstoneCommercial.com.*

Conflicts of Interest

We are subject to various potential conflicts of interest arising out of our relationship with our Adviser, our Administrator and our other affiliates. Accordingly, we have adopted policies that are designed to reduce potential conflicts of interest. In addition, our directors are subject to certain provisions of Maryland law that are designed to minimize conflicts. For more information regarding potential conflicts of interest, see Certain Relationships and Related Transactions Conflicts of Interest in this prospectus supplement.

ERISA Considerations

The section captioned ERISA Considerations in this prospectus supplement describes some of the effects the purchase of shares of Senior Common Stock may have on IRAs, retirement plans subject to The Employee Retirement Income Security Act of 1974, or ERISA, and the Internal Revenue Code of 1986, as amended, or the Code, or similar entities. ERISA is a federal law that regulates the operation of certain tax-favored retirement plans. Any retirement plan trustee or individual considering purchasing shares of Senior Common Stock for a retirement plan, an individual retirement account, or similar entities should carefully read and consider the ERISA Considerations section of this prospectus supplement.

Our REIT Status

We have historically operated and intend to continue to operate in a manner that will allow us to qualify as a REIT for federal income tax purposes. As a REIT, we generally will not be subject to federal income tax on income that we distribute to our stockholders. Under the Code, a REIT is subject to numerous organizational and operational requirements, including a requirement that it distribute at least 90% of its annual taxable income to its stockholders. If we fail to qualify for taxation as a REIT in any year, our income will be taxed at regular corporate rates, and we may be precluded from qualifying for taxation as a REIT for the four-year period following the taxable year in which we fail to so qualify. Even if we qualify as a REIT for federal income tax purposes, we may still be subject to state and local taxes on our income and property and to federal income and excise taxes on our undistributed income. For more information regarding our REIT status, see Material U.S. Federal Income Tax Considerations in the accompanying prospectus.

Restrictions on Stock Ownership

Our charter contains restrictions on ownership of the shares that prevent any one person from owning (directly or under constructive ownership rules relevant for purposes of our qualification as a REIT) more than 9.8% of our outstanding capital stock (which includes Listed Common Stock, Senior Common Stock, Series A Preferred Stock and Series B Preferred Stock). These restrictions are designed to enable us to comply with ownership restrictions imposed on REITs by the Code.

Our Distribution Policy

To maintain our qualification as a REIT, we are required to make aggregate annual distributions to our stockholders of at least 90% of our annual taxable income (which does not necessarily equal net income as calculated in accordance with generally accepted accounting principles in the United States of America). Our Board may authorize distributions in excess of those required for us to maintain our REIT status depending upon our financial condition and such other factors as our Board deems relevant from time to time.

Because we own and depreciate real estate, the depreciation expense reduces our net income. As a result, we have in the past elected to pay distributions to our Listed Common Stockholders in excess of our net income.

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QUESTIONS AND ANSWERS REGARDING THIS OFFERING

Q: ***How is this offering being conducted?***

A: Through the Dealer Manager, we are offering 3,000,000 shares of Senior Common Stock at a price to the public of $15.00 per share in our primary offering on a best efforts basis. We are also offering 500,000 shares of Senior Common Stock to be issued pursuant to our distribution reinvestment plan at a price of $15.00 per share to those stockholders who elect to participate in such plan as described in this prospectus supplement. We reserve the right, however, to reallocate shares between our primary offering and our offering pursuant to our distribution reinvestment plan in our sole and absolute discretion.

Q: ***How does a best efforts offering work?***

A: When shares are offered on a best efforts basis, a dealer manager and participating broker-dealers are only required to use their best efforts to sell the shares and have no firm commitment or obligation to purchase any of the shares. Therefore, we may not sell all or any of the shares of Senior Common Stock that we are offering pursuant this prospectus supplement.

Q: ***How long will this offering last?***

A: The primary offering will commence on the date of this prospectus supplement and will terminate on the earlier of (i) two years from the date of this prospectus supplement, unless earlier terminated or extended by our Board, or (ii) the date on which 3,000,000 shares of Senior Common Stock are sold hereunder. If we extend the primary offering period beyond two years from the date of this prospectus supplement, we will update this prospectus supplement accordingly. We may extend the offering period for the 500,000 shares of Senior Common Stock being offered hereby under our distribution reinvestment plan beyond the termination of the primary offering and until we have sold all of the shares allocated to the plan through the reinvestment of distributions. We may terminate this offering at any time in our sole and absolute discretion.

Q: ***What is Senior Common Stock?***

A: Senior Common Stock is a separate class of our capital stock that has priority over Listed Common Stock with respect to the payment of distributions and is pari passu with Listed Common Stock with respect to distributions upon liquidation. Senior Common Stock, however, is junior to our Series A Preferred Stock and our Series B Preferred Stock with respect to the payment of distributions, including distributions upon liquidation. Senior Common Stock is not listed or traded on a national securities exchange or listed for quotation on a national market, but Listed Common Stock, Series A Preferred Stock and Series B Preferred Stock are each listed on the NASDAQ Global Select Market under the trading symbols GOOD, GOODP and GOODO, respectively.

For more information about our Senior Common Stock, Listed Common Stock, Series A Preferred Stock and Series B Preferred Stock, see Description of Capital Stock in the accompanying prospectus.

Q: ***What are the main benefits of investing in shares of Senior Common Stock?***

A: We believe that an investment in shares of Senior Common Stock will provide the following benefits to investors:

Distribution rate of $1.05 per share per annum, declared daily and paid at the rate of $0.0875 per share per month;

Distributions paid on shares of Senior Common Stock must be paid before distributions are paid on shares of Listed Common Stock but after distributions are paid on shares of Series A Preferred Stock and Series B Preferred Stock;

Distributions paid on shares of Senior Common Stock cannot be decreased and are cumulative;

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Shares of Senior Common Stock are generally not callable prior to five years after the completion of this offering;

Holders of shares of Senior Common Stock have the option to convert such shares into shares of Listed Common Stock after five years;

A valuation of shares of Senior Common Stock will be published every quarter beginning 18 months after the completion of this offering; and

Quarterly repurchase of shares of Senior Common Stock from cash available from the sale of shares of Senior Common Stock under the distribution reinvestment plan.

Q: ***Are there risks involved in an investment in shares of our Senior Common Stock?***

A: Yes. An investment in shares of Senior Common Stock involves substantial risks. In consultation with your financial and legal advisers, you should carefully consider, among other matters, the factors set forth in the section captioned Risk Factors on page S-23 of this prospectus supplement as well as in our most recent Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q and other information that we may subsequently file from time to time with the SEC which are incorporated by reference into this prospectus supplement and the accompanying prospectus before deciding whether an investment in shares of Senior Common Stock is suitable for you.

Q: ***Who can buy shares of Senior Common Stock?***

A: An investment in shares of Senior Common Stock involves substantial risks and is suitable only for persons of substantial financial means who have no need for immediate liquidity in or from this investment. Shares of Senior Common Stock will be sold to you only if you purchase a minimum of 200 shares having an aggregate minimum purchase price of $3,000. We reserve the right, however, to waive the minimum purchase requirement in our sole and absolute discretion.

Q: ***For whom is an investment in shares of Senior Common Stock recommended?***

A: An investment in shares of Senior Common Stock may be appropriate if you (i) seek to diversify your personal portfolio with a real estate-based investment, (ii) seek to receive current income, (iii) seek to preserve capital, (iv) wish to obtain the benefits of potential long-term capital appreciation, and (v) are able to hold your investment for an extended period of time. Conversely, we caution persons who require near-term liquidity or guaranteed income or who seek a short-term investment to read this prospectus supplement, the accompanying prospectus and the documents incorporated by reference herein before deciding whether an investment in shares of Senior Common Stock is suitable for you. See Risk Factors in this prospectus supplement.

Q: ***Is there an established set of investor suitability standards that must be met in order to invest in shares of Senior Common Stock?***

A: No. Because of its status as a covered security, Senior Common Stock is not subject to the various state regulations that require specific suitability standards for purchasers of common stock of non-traded REITs. However, shares of Senior Common Stock may not be a suitable investment for all investors. The term covered security applies to securities exempt from state registration because of their oversight by federal authorities and national-level regulatory bodies pursuant to Section 18 of the Securities Act of 1933, as amended, or Securities Act. Generally, securities listed on national exchanges are the most common type of covered security exempt from state registration. A non-traded security can also be a covered security if it has a seniority greater than or equal to other securities from the same issuer that are listed on a national exchange such as the NASDAQ Global Select Market. Senior Common Stock is a covered security because it is senior to Listed Common Stock and, therefore, is exempt from state registration. Typically, securities issued by non-traded REITs do not meet the requirements necessary to be classified as covered securities, and, therefore, they are subject to state registration.

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Q: ***How do I subscribe for shares of Senior Common Stock?***

A: If you choose to purchase shares of Senior Common Stock in this offering, you must complete a Subscription Agreement, a form of which is appended to this prospectus supplement as Appendix A, specify the number of shares that you wish to purchase and pay for the shares at the time you subscribe.

You should pay for your shares by check made payable to BB&T, as escrow agent for Gladstone Commercial Corporation or as otherwise instructed by the Dealer Manager or any participating broker-dealer. We will place your subscription payment in an account held by our escrow agent, BB&T Corporation, which funds will be held in trust for your benefit until the next closing date. We will hold two closings per month for our primary offering. The closing dates were randomly selected prior to the commencement of the primary offering, and will occur once between the 1st and 15th of each month and once between the 16th and last day of each month. On any such closing date, we will either accept or reject your subscription and (i) if accepted, we will transfer your funds to our general account, and you will receive a confirmation of your subscription, or (ii) if rejected, we will return your funds, without interest, within 10 business days thereafter. Subscriptions will be effective only upon our acceptance, and we reserve the right to reject any subscription either in whole or in part in our sole and absolute discretion.

Q: ***May I make an investment through my IRA, simplified employee pension plan or other tax-favored account?***

A: Yes. You may make an investment through your individual retirement account, or IRA, a simplified employee pension plan, or SEP, or other tax-favored account. In making these investment decisions, you should consider, at a minimum, (i) whether the investment is in accordance with the documents and instruments governing your IRA, SEP or other account, (ii) whether the investment satisfies the fiduciary requirements associated with your IRA, SEP or other account, (iii) whether the investment will generate unrelated business taxable income, or UBTI, to your IRA, SEP or other account, (iv) whether there is sufficient liquidity for such investment under your IRA, SEP or other account, (v) the need to value the assets of your IRA, SEP or other account annually or more frequently, and (vi) whether the investment would constitute a prohibited transaction under applicable law. In addition, you should verify that the IRA or SEP trustee or custodian is willing to hold non-publicly traded securities. For more information regarding investments through an IRA, SEP or other tax-favored account, see ERISA Considerations Exception for Insignificant Participation by Benefit Plan Investors in this prospectus supplement.

Q: ***Will I receive a stock certificate?***

A: No. Shares of Senior Common Stock will be issued and maintained in book-entry form and registered in the name of the stockholder. You will not receive a stock certificate in respect of your shares of Senior Common Stock.

Q: ***Is there any minimum investment required?***

A: Yes. Generally, you must purchase 200 shares of Senior Common Stock having an aggregate minimum purchase price of $3,000. We reserve the right, however, to waive the minimum purchase requirement in our sole and absolute discretion. Investors who already own shares of our Senior Common Stock can make additional purchases for less than the minimum investment. See Plan of Distribution Minimum Purchase Requirements in this prospectus supplement.

Q: ***How was the share price per share of the Senior Common Stock determined?***

A: Our Board arbitrarily determined the selling price of $15.00 per share for shares of Senior Common Stock, and such price bears no relationship to our book or asset values, our projections of book or asset values or any other established criteria for valuing issued or outstanding shares. Because the offering price is not based upon any independent valuation, the offering price may not be indicative of the proceeds that you would receive upon liquidation.

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Q: ***Do shares of Senior Common Stock have any voting rights?***

A: Except as set forth below or as otherwise required by law, holders of shares of Senior Common Stock will not have any voting rights. As long as any shares of Senior Common Stock remain outstanding, we will not, without the affirmative vote or consent of the holders of a least a majority of the shares of 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 our charter, whether by merger, consolidation or otherwise, so as to materially and adversely affect any right, preference, privilege or voting power of shares of Senior Common Stock or the holders thereof. Shares of Listed Common Stock issued upon conversion of shares of Senior Common Stock will have all voting rights associated with Listed Common Stock.

Q: ***What is the distribution rate payable on shares of Senior Common Stock?***

A: Holders of shares of Senior Common Stock will be entitled to receive, subject to the preferential rights of the holders of Series A Preferred Stock and Series B Preferred Stock, when and as declared by our Board, distributions in an amount equal to $1.05 per share per year, declared daily and paid at the rate of $0.0875 per share per month.

Q: ***When will I begin accruing distributions and how often will I receive them?***

A: You will begin accruing distributions immediately on a daily basis upon your investment in shares of Senior Common Stock. We expect to pay distributions monthly on or about the fifth business day of the month following the month in which such distributions are earned, with such payments beginning with the first calendar month after you purchase shares of Senior Common Stock. Your first distribution payment may include a partial accrued distribution payment. Although we generally intend to pay distributions on shares of Senior Common Stock monthly, because such distributions are cumulative, they will accrue, if not paid, and they must be paid before distributions are paid on shares of Listed Common Stock but after distributions are paid on shares of Series A Preferred Stock and Series B Preferred Stock.

Q: ***Will the distributions that I receive be taxable as ordinary income?***

A: Generally, distributions that you receive, including distributions that are reinvested pursuant to our distribution reinvestment plan, will be taxed as ordinary income to the extent that they are attributable to our current or accumulated earnings and profits. As long as we qualify as a REIT, distributions made out of our current or accumulated earnings and profits generally will be taxable to our stockholders as ordinary dividend income. In determining the extent to which a distribution with respect to shares of our capital stock constitutes a dividend for federal income tax purposes, our earnings and profits will be allocated first to distributions with respect to our Series A Preferred Stock and Series B Preferred Stock, then to our Senior Common Stock, and then to our Listed Common Stock. As a result of certain noncash expenses, such as depreciation, our aggregate distributions for Senior Common Stock generally are expected to exceed our earnings and profits in future taxable years; however, no assurances can be given that this will be the case in any given year. In 2010, our aggregate distributions paid in respect of shares of our Listed Common Stock were approximately $12.9 million and our earnings and profits after dividend payments for Preferred Stock and Senior Common Stock were approximately $2.0 million. Accordingly, 100% of our distributions in respect of our Preferred Stock and Senior Common Stock was treated as taxable dividends, 16% of our distributions in respect of our Listed Common Stock was treated as taxable dividends, and 84% of our distributions in respect of our Listed Common Stock was treated as other than taxable dividends.

Any distribution that is not made out of our current or accumulated earnings and profits will be deemed to be a return of capital to the extent of each individual stockholder s tax basis in the stockholder s shares. Any distribution in excess of an individual stockholder s tax basis would, however, be deemed to be a capital gain. You will not have to pay taxes on the portion of your distribution that is treated as a return of capital. Such distributions will, however, reduce the tax basis of your investment and will not be subject to tax until your investment is sold or we are liquidated, at which time you would be taxed at capital gains rates (assuming the applicable holding period is met). Because each investor s tax considerations are different, we suggest that you consult with your tax adviser prior to investing in shares of Senior Common Stock. Additionally, we cannot guarantee that past results will be replicated in future years.

For more information regarding the tax consequences of purchasing shares of Senior Common Stock, see Additional Material U.S. Federal Income Tax Considerations in this prospectus supplement and Material U.S. Federal Income Tax Considerations in the accompanying prospectus.

Q: ***May I reinvest my distributions?***

A: Yes. Holders of shares of Senior Common Stock will have the option of participating in our distribution reinvestment plan by checking the appropriate box on the Subscription Agreement or by filling out an enrollment form that we will provide to you upon your request. You may purchase shares of Senior Common Stock under our distribution reinvestment plan for $15.00 per share, subject to certain limitations. A copy of our Senior Common Stock distribution reinvestment program is appended to this prospectus supplement as Appendix B.

Q: ***Can you call my shares of Senior Common Stock for redemption?***

A: Yes; however, we may not call your shares of Senior Common Stock for redemption prior to five years after the completion of this offering except in certain limited circumstances relating to maintaining our ability to qualify as a REIT. After the fifth anniversary of the completion of this offering, the Senior Common Stock will be callable for redemption for cash at our option, in whole or part, at a redemption price equal to $15.30 per share plus accrued and unpaid distributions. You may exchange your shares of Senior Common Stock for shares of Listed Common Stock at any time after you have held them for at least five years and before we call them. See Questions and Answers Regarding This Offering May I exchange my shares of Senior Common Stock for shares of Listed Common Stock? below.

Q: ***May I exchange my shares of Senior Common Stock for shares of Listed Common Stock?***

A: Yes, after you have held them for at least five years. Holders of shares of Senior Common Stock will have the right, but not the obligation, following the fifth anniversary of the issuance of such shares proposed to be exchanged to exchange any or all of such shares of Senior Common Stock for shares of Listed Common Stock. The exchange ratio, or the Exchange Ratio, will be calculated by dividing $15.00 (the value assigned to each share of Senior Common Stock) by the greatest of (i) the Closing Trading Price of Listed Common Stock on the date on which such shares of Senior Common Stock were originally issued, (ii) the Book Value Per Share of Listed Common Stock as determined as of the date on which such shares of Senior Common Stock were originally issued, or (iii) $13.68.

For example, the Closing Trading Price and the Book Value Per Share of the Listed Common Stock as of December 31, 2010 were $18.83 and $6.50, respectively. If you purchased shares of Senior Common Stock on December 31, 2010, the Exchange Ratio for the shares of Senior Common Stock that you purchased would be $15.00 divided by the greatest of $18.83, $6.50 or $13.68 per share. In this example, you would receive 0.79660 shares of Listed Common Stock for each share of Senior Common Stock ($15.00 divided by $18.83) upon electing to exchange your shares (at least five years after your purchase).

For this purpose, Book Value Per Share means, as of a given date, the common stockholders equity (as reflected in our most recent periodic SEC filing) divided by the number of outstanding shares of common stock as of the same date. Closing Trading Price means, on any date of determination, (i) the most recently reported closing price per share of Listed Common Stock as of such date on the NASDAQ Global Select Market, or (ii) if, as of such date, Listed Common Stock is not traded on the NASDAQ Global Select Market, the most recently reported closing price per share of Listed Common Stock on the primary stock exchange on which Listed Common Stock is then listed for trading, or (iii) if, as of such date, Listed Common Stock is not listed for trading on any stock exchange, the closing bid price per share for Listed Common Stock on the Over-the-Counter Bulletin Board, over-the-counter market or on the Pink Sheets, or (iv) if there is no longer any public market for Listed Common Stock as of such date, the fair market value of a share of Listed Common Stock as determined in good faith by our Board.

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Q: ***Can I sell or redeem my shares of Senior Common Stock before they become exchangeable in five years?***

A: Our Board has adopted a share redemption program to provide holders of shares of Senior Common Stock with limited interim liquidity until shares of Senior Common Stock become exchangeable for shares of Listed Common Stock. The redemption price will be $13.80 per share. Redemptions under the program will be made quarterly on a pro rata basis subject to the following restrictions and limitations:

- shares of Senior Common Stock must be held for a minimum of one year;
- holders of shares of Senior Common Stock must present at least 25% of their outstanding shares for redemption;
- redemptions will be limited to the amount of cash available from the sale of shares of Senior Common Stock under our distribution reinvestment plan;
- redemptions will also not exceed 5% of the weighted average number of shares of Senior Common Stock outstanding during the prior calendar year;
- our Board may choose to amend, suspend or terminate our share redemption program at any time upon 30 days notice; and
- shares of Senior Common Stock will not be eligible for the share redemption program once those shares become exchangeable for shares of Listed Common Stock.

Senior Common Stock will not be listed for trading on any national securities exchange or quotation on a national market system. As a result, if you wish to sell your shares, you may not be able to do so promptly or at all, or you may only be able to sell them at a substantial discount from the price that you originally paid.

Q: ***Do shares of Senior Common Stock have any anti-dilution protection?***

A: If the outstanding number of shares of Listed 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, combination of shares, or share distribution, appropriate adjustment will be made to the number and relative terms of the shares of Senior Common Stock. There will be no anti-dilution adjustment upon the future sale of additional shares of Listed Common Stock, regardless of the price at which the Senior Common Stock is sold.

Q: ***What would happen to my shares of Senior Common Stock upon the occurrence of a merger or sale of the Company?***

A: Shares of Senior Common Stock will automatically be converted into shares of Listed Common Stock in accordance with the Exchange Ratio upon the occurrence of any of the following events:

- an acquisition of the Company by another company by means of any transaction or series of related transactions to which we are a party (including, without limitation, any stock acquisition, reorganization, merger or consolidation but excluding any sale of stock for purposes of raising equity capital) other than a transaction or series of transactions in which the holders of our voting securities outstanding immediately prior to such transaction continue to retain at least 50% of the total voting power represented by our voting securities or those of such other surviving entity outstanding immediately after such transaction or series of transactions;

a sale of all or substantially all of our assets; or

a liquidation, dissolution or winding up of the Company.

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Q: ***Do shares of Senior Common Stock have a liquidation preference?***

A: No. Upon our liquidation, each share of Senior Common Stock will be automatically converted to a number of shares of Listed Common Stock in accordance with the Exchange Ratio. Therefore, Senior Common Stock will rank *pari passu* with Listed Common Stock upon a liquidation, dissolution or winding up of the Company. Holders of shares of Series A Preferred Stock and Series B Preferred Stock will be entitled to receive their liquidation preference in full before we can pay distributions of remaining proceeds to all holders of shares of Senior Common Stock and Listed Common Stock. As of December 31, 2010, we had 1,000,000 shares of Series A Preferred Stock and 1,150,000 shares of Series B Preferred Stock outstanding. Therefore, upon liquidation, we would have to pay $53,750,000 in the aggregate to redeem these shares of Series A Preferred Stock and Series B Preferred Stock before we could pay distributions of remaining proceeds to all holders of shares of Senior Common Stock and Listed Common Stock.

Q: ***How will the Company apply the proceeds raised in this offering?***

A: If we sell 3,000,000 shares of Senior Common Stock in our primary offering at a price of $15.00 per share, we estimate that approximately 89% of the money that you invest will be used for one or more of the following purposes:

- to invest in additional net leased industrial, commercial and other real properties in accordance with our investment objectives and to pay real estate related acquisition expenses; or

- to pay down borrowings under our line of credit or other debt.

The remaining 11% will be used to pay sales commissions, Dealer Manager fees and other offering expenses.

Based upon current market conditions, we anticipate that it may take several months to fully invest the net proceeds that we receive in connection with the primary offering, depending upon the availability of acquisition opportunities that are consistent with our investment objectives and strategies. There can be no assurance we will be able to sell all of the shares of Senior Common Stock that we are offering. If we sell only a portion of the shares that we are offering, we may be unable to achieve our investment objectives. Pending the application of the net proceeds of this offering, all or substantially all of such net proceeds may be invested in interest-bearing accounts and short-term, interest-bearing securities as is consistent with our intention to maintain our qualification for taxation as a REIT. Such investments may include, for example, obligations of the Government National Mortgage Association, other government and governmental agency securities, certificates of deposit and interest-bearing bank deposits or other authorized investments that we determine. We anticipate that all or substantially all of the proceeds from the sale of 500,000 shares of Senior Common Stock pursuant to our distribution reinvestment plan will be used to fund repurchases of shares of Senior Common Stock under our share redemption program. See Estimated Use of Proceeds in this prospectus supplement.

Q: ***Will the Company provide a periodic share valuation?***

A. Yes. Beginning 18 months after the completion of this offering, we will determine the value per share of Senior Common Stock on a quarterly basis. This value will be determined as of the last day of each quarter and will be published in our periodic SEC filings.

Q: ***Will I have access to periodic updates regarding the performance of the Company?***

A: Yes. Because we are a reporting company, we are required to make certain filings with the SEC regarding our business, financial condition and results of operations; accordingly, you will have access to periodic updates regarding the performance of the Company which include, but are not limited to, the following sources:

annual and quarterly reports, proxy statements and other information which are filed with the SEC and which are publicly available on the SEC s website at *http://www.sec.gov*;

quarterly telephone conference calls with stockholders which are conducted by our management;

periodic press releases; and

full-scale investor relations department that utilizes a publicly-available investor relations website at *http://www.GladstoneCommercial.com*.

Because we are conducting this offering pursuant to our effective shelf registration statement on Form S-3 (File No. 333-169290), we are allowed to incorporate by reference into this prospectus supplement and the accompanying prospectus the information that we file with the SEC, which means that we can disclose important information to you by referring you to those previously filed documents. Information that we subsequently file with the SEC will automatically update and may supersede information contained in this prospectus supplement, the accompanying prospectus and information that we previously filed with the SEC.

Our filings with the SEC are available to the public on the SEC s website at *http://www.sec.gov*. Any information that we file with the SEC after the date of this prospectus supplement will be considered to be part of this prospectus supplement and the accompanying prospectus automatically.

Q: ***Will I get detailed tax information and, if so, when?***

A: Yes. Your IRS Form 1099 will be mailed on or before January 31 of each year.

Q: ***Is there a transfer agent for shares of Senior Common Stock?***

A: Yes. ACS Securities Services, Inc. will act as our transfer agent, distribution paying agent and registrar for this offering. Set forth below is the principal business address of and telephone number for ACS Securities Services, Inc.:

3988 N. Central Expressway
Building 5, Floor 6,
Dallas, Texas 75204
(877) 588-5596

Q: ***Is there a publicly-available website with information regarding this offering?***

A: Yes. The website address is *http://www.GladstoneCommercial.info*.

Q: ***Who can help answer my questions?***

A: If you have more questions about this offering or if you would like additional copies of this prospectus supplement and the accompanying prospectus, you should contact your registered representative or contact:

Gladstone Securities, LLC
22 Oak Drive
Riverside, Connecticut 06878
(203) 570-7950
Attn: David Geske
Email: info@gladstonesecurities.com

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