

ABM INDUSTRIES INC /DE/
Form 4
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FORM 4

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

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
Kesavan Sudhakar

2. Issuer Name and Ticker or Trading Symbol
ABM INDUSTRIES INC /DE/
[ABM]

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

(Last) (First) (Middle)

ONE LIBERTY PLAZA, 7TH FLOOR

(Street)

3. Date of Earliest Transaction (Month/Day/Year)
11/07/2016

Director 10% Owner
 Officer (give title below) Other (specify below)

NEW YORK, NY 10006

4. If Amendment, Date Original Filed(Month/Day/Year)

6. Individual or Joint/Group Filing(Check Applicable Line)
 Form filed by One Reporting Person
 Form filed by More than One Reporting Person

(City) (State) (Zip)

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Ownership (Instr. 4)
				(A) or (D)	Price		
Common Stock	11/07/2016		A	33 ⁽¹⁾	A \$ 39	17,067 ⁽²⁾	D

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)

Cash flows from investing activities:

Acquisition of real estate and related intangible assets

(83,564) (104,806)

Improvements of existing real estate

(5,416) (5,355)

Proceeds from sale of real estate

11,162

Issuance of mortgage note receivable

(5,600)

Receipts from lenders for funds held in escrow

1,670 5,764

Payments to lenders for funds held in escrow

(6,394) (7,159)

Receipts from tenants for reserves

2,484 5,657

Payments to tenants from reserves

(3,892) (2,167)

Decrease (increase) in restricted cash

1,510 (3,472)

Explanation of Responses:

Deposits on future acquisitions

(2,000) (2,125)

Deposits applied against real estate investments

2,000 2,675

Net cash used in investing activities

(88,040) (110,988)

Cash flows from financing activities:

Proceeds from issuance of equity

42,636 62,139

Offering costs

(2,443) (3,533)

Borrowings under mortgage notes payable

33,635 56,108

Explanation of Responses:

Payments for deferred financing costs

(711) (1,484)

Principal repayments on mortgage notes payable

(6,085) (5,403)

Principal repayments on employee notes receivable

35

Borrowings from line of credit

67,250 58,900

Repayments on line of credit

(46,050) (55,000)

Decrease in security deposits

(103) (18)

Distributions paid for common, senior common and preferred stock

(22,077) (17,343)

Net cash provided by financing activities

66,052 94,401

Net decrease in cash and cash equivalents

(3,309) (1,015)

Cash and cash equivalents, beginning of period

8,546 5,546

Cash and cash equivalents, end of period

\$5,237 \$4,531

NON-CASH INVESTING AND FINANCING INFORMATION

Increase in asset retirement obligation

\$162 \$

Explanation of Responses:

Fixed rate principal debt assumed in connection with acquisitions

\$10,147 \$

Senior common dividend issued in the dividend reinvestment program

\$142 \$85

Capital improvements included in accounts payable and accrued expenses

\$5,774 \$

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

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Gladstone Commercial Corporation

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Organization, Basis of Presentation and Significant Accounting Policies

Gladstone Commercial Corporation is a real estate investment trust, or REIT, that was incorporated under the General Corporation Laws of the State of Maryland on February 14, 2003 primarily for the purpose of investing in and owning net leased industrial, 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, or the Adviser, and administrative services are provided by Gladstone Administration, LLC, a Delaware limited liability company, or the Administrator, each pursuant to a contractual arrangement with us. Our Adviser and Administrator collectively employ all of our personnel and pay their salaries, benefits, and general expenses directly.

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

Subsidiaries

We conduct substantially all of our operations through a subsidiary, Gladstone Commercial Limited Partnership, a Delaware limited partnership, or the Operating Partnership. As we currently own all of the general and limited partnership interests of the Operating Partnership through two of our subsidiaries, GCLP Business Trust I and II, 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, or Gladstone Commercial Lending, 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 ours.

Gladstone Commercial Advisers, Inc., a Delaware corporation, or Commercial Advisers, and a wholly-owned subsidiary of ours, is a taxable REIT subsidiary, or TRS, which was created to collect any non-qualifying income related to our real estate portfolio. There has been no such income earned to date. Since we own 100% of the voting securities of Commercial Advisers, the financial position and results of operations of Commercial Advisers are consolidated with ours.

GCLP Business Trust I and GCLP Business Trust II, each a subsidiary and business trust of ours, 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 shares of the trust. 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 U.S. generally accepted accounting principles, or 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

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accompanying annual financial statements prepared in accordance with GAAP are omitted. The year-end balance sheet data presented herein was derived from audited financial statements, but does not include all disclosures required by GAAP. In the opinion of our management, all adjustments, consisting solely of normal recurring accruals, necessary for the fair presentation 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, 2013, as filed with the U.S. Securities and Exchange Commission on February 18, 2014. The results of operations for the three and nine months ended September 30, 2014 are not necessarily indicative of the results that may be expected for other interim periods or for the full fiscal year.

Out-of-Period Adjustment

During the three months ended September 30, 2014, we recorded an adjustment to our impairment charge and to deferred rent receivable that were related to the impairment of our Roseville, Minnesota property in March 2014. As a result of the correction of these errors, we understated net income by \$0.3 million for the three months ended September 30, 2014, there was no impact to the net income for the nine months ended September 30, 2014. We concluded that these adjustments were not material to the results of operations for any interim period presented.

Use of Estimates

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

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 20 years for equipment and fixtures, and the shorter of the useful life or the remaining lease term for tenant improvements and leasehold interests.

Certain of our acquisitions involve sale-leaseback transactions with newly-originated leases, which we account for as asset acquisitions under Accounting Standards Codification, or ASC, 805, Business Combinations. In the case of an asset acquisition, we will capitalize the transaction costs incurred in connection with the acquisition. Other of our acquisitions involve the acquisition of properties that are already being operated as rental properties, which we will generally consider to be a business combination under ASC 805. Business combination guidance is generally applicable to us when properties are acquired with leases in place at the time of acquisition. When an acquisition is considered a business combination, ASC 805 requires that the purchase price of real estate be allocated to the acquired tangible assets and liabilities, consisting of land, building, tenant improvements, long-term debt assumed and identified intangible assets and liabilities, typically the value of above-market and below-market leases, the value of in-place leases, the value of unamortized lease origination costs and the value of tenant relationships, based in each case on their fair values. ASC 805 also requires that all expenses related to an acquisition accounted for as a business combination to be expensed as incurred, rather than capitalized into the cost of the acquisition.

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 acquired and liabilities assumed. In estimating carrying costs, management also includes lost reimbursement of real estate taxes, insurance and other operating expenses

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as well as 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.

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 \$4.8 million and \$13.8 million for the three and nine months ended September 30, 2014, respectively, and \$4.2 million and \$11.2 million for the three and nine months ended September 30, 2013, respectively.

Above-market and below-market in-place lease fair values for owned properties are recorded based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) management's estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining non-cancelable term of the lease. 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 condensed consolidated balance sheets 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 and \$0.2 million for both the three and nine months ended September 30, 2014 and 2013, 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, including any below market renewal periods. Total amortization related to below-market lease values was \$0.2 million and \$0.5 million for the three and nine months ended September 30, 2014, respectively, and \$0.2 million and \$0.4 million for the three and nine months ended September 30, 2013, 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 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 would be charged to rental income and the unamortized portion of in-place lease values, lease origination costs and customer relationship intangibles will be immediately charged to amortization expense. Total amortization expense related to these intangible assets and liabilities was \$2.6 million and \$7.2 million for the three and nine months ended September 30, 2014, respectively, and \$2.0 million and \$5.2 million for the three and nine months ended September 30, 2013, respectively.

Impairment Charges

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 indicate the possibility of impairment, we

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prepare a projection of the undiscounted future cash flows, without interest charges, of the specific property and determine if the carrying value of the investment in such property is recoverable. In performing the analysis, we consider such factors as each tenant's payment history and financial condition, the likelihood of lease renewal, business conditions in the industry in which the tenants operate, whether there are indications that the fair value of the real estate has decreased and our intended holding period of the property. If the carrying amount is more than the aggregate undiscounted future cash flows, we would recognize an impairment loss to the extent the carrying amount exceeds the estimated fair value, less cost to sell, of the property. We evaluate our entire portfolio of properties each quarter for any impairment indicators and perform an impairment analysis on those select properties that have an indication of impairment.

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 \$0.1 million and \$0.7 million for deferred financing costs during the three and nine months ended September 30, 2014, respectively, and payments of \$1.3 million and \$1.5 million during the three and nine months ended September 30, 2013, respectively. Total amortization expense related to deferred financing costs is included in interest expense and was \$0.4 million and \$1.2 million for the three and nine months ended September 30, 2014, respectively, and \$0.6 million and \$1.4 million for the three and nine months ended September 30, 2013, 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 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 take 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 to date.

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

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

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ASC 410, Asset Retirement and Environmental Obligation, requires an entity to recognize a liability for a conditional asset retirement obligation when incurred if the liability can be reasonably estimated. ASC 410-20-20 clarifies that the term Conditional Asset Retirement Obligation refers to a legal obligation (pursuant to existing laws or by contract) to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. ASC 410-20-25-6 clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. We have accrued a liability and corresponding increase to the cost of the related properties for disposal related to all properties constructed prior to 1985 that have, or may have, asbestos present in the building. The liabilities are accreted over the life of the leases for the respective properties. We accrued \$0.2 million in liabilities in connection with acquisitions during the nine months ended September 30, 2014. There were no liabilities accrued during the nine months ended September 30, 2013. We recorded expenses of \$0.04 million and \$0.1 million during the three and nine months ended September 30, 2014, respectively, and \$0.03 million and \$0.1 million during the three and nine months ended September 30, 2013, respectively, to general and administrative expense. Costs of future expenditures for obligations are discounted to their present value. The aggregate undiscounted obligation on all properties is \$9.5 million and the discount rates used in the calculations range from 2.5% to 7.6%. We do not expect to make any payments in conjunction with these obligations in each of the next five years.

Comprehensive Income (Loss)

For the three and nine months ended September 30, 2014 and 2013, comprehensive income (loss) equaled net income (loss); therefore, a separate statement of comprehensive income (loss) is not included in the accompanying condensed consolidated financial statements.

Recently Issued Accounting Guidance

The Financial Accounting Standards Board, or FASB, issued Accounting Standards Update No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. Under this revised guidance, only disposals representing a strategic shift in operations, such as a disposal of a major geographic area, a major line of business or a major equity method investment, will be presented as discontinued operations. This standard is effective for our fiscal year beginning January 1, 2015; however, the FASB has permitted early adoption beginning with the first quarter of 2014. We adopted this standard as of March 31, 2014. We anticipate the adoption will result in most disposals not qualifying for discontinued operations presentation.

In May 2014, the FASB issued a new accounting standard, or ASC, Revenue from Contracts with Customers (ASC 606). The revenue standard contains principles that an entity will apply to determine the measurement of revenue and timing of when it is recognized. This standard is effective for our fiscal year beginning January 1, 2017 and we are currently evaluating any impact from adoption.

2. Related-Party Transactions**Gladstone Management and Gladstone Administration**

We are externally managed pursuant to contractual arrangements with our Adviser and our Administrator which collectively employ all of our personnel and pay their salaries, benefits, and general expenses directly. Both our Adviser and Administrator are affiliates of ours as their parent company is controlled by Mr. David Gladstone, our

chairman and chief executive officer. We have an advisory agreement with our Adviser, or the Advisory Agreement, and an administration agreement with our Administrator, or the Administration Agreement. The management and administrative services and fees under the Advisory and Administration Agreements are described below. At September 30, 2014 and December 31, 2013, \$1.7 million and \$1.4 million, respectively, was collectively due to our Adviser and Administrator.

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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 and adjusted to exclude the effect of any unrealized gains, losses or other items that do not affect realized net income (including impairment charges), or common stockholders' equity, and an incentive fee based on funds from operations, or FFO. For the three and nine months ended September 30, 2014, we recorded a base management fee of \$0.7 million and \$2.0 million, respectively, and for the three and nine months ended September 30, 2013, we recorded a base management fee of \$0.6 million and \$1.4 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 (including impairment charges). The incentive fee rewards the Adviser if our quarterly FFO, before giving effect to any incentive fee, or pre-incentive fee FFO, exceeds 1.75%, or 7% annualized, or 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 and nine months ended September 30, 2014, we recorded an incentive fee of \$1.5 million and \$4.3 million, respectively, offset by credits related to unconditional, voluntary and irrevocable waivers issued by the Adviser of \$0.8 million and \$3.0 million, respectively, resulting in a net incentive fee for the three and nine months ended September 30, 2014, of \$0.7 million and \$1.3 million, respectively. For the three and nine months ended September 30, 2013, we recorded an incentive fee of \$1.1 million and \$3.0 million, respectively, offset by credits related to unconditional, voluntary and irrevocable waivers issued by the Adviser of \$1.0 million and \$2.5 million, respectively, resulting in a net incentive fee for the three and nine months ended September 30, 2013, of \$0.1 million and \$0.5 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 and nine months ended September 30, 2014 and 2013, to support the current level of distributions to all classes of 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 expenses in performing services 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, general counsel and secretary (who also serves as our Administrator's president), and their respective staffs. Prior to July 1, 2014, our allocable portion was derived by multiplying that portion of the Administrator's expenses allocable to all funds managed by the Adviser by the percentage of our total assets at the beginning of each quarter in comparison to the total assets of all funds managed by the Adviser. As approved by our Board of Directors, effective July 1, 2014, our allocable portion of the Administrator's expenses will be derived by multiplying our Administrator's total expenses by the approximate percentage of time the Administrator's employees perform services for us in relation to their time spent performing services for all companies serviced by our Administrator under contractual agreements. For the three and nine months ended September 30, 2014, we recorded an administration fee of \$0.3 million and \$1.2 million, respectively, and for the three and nine months ended September 30, 2013, we recorded an administration fee of \$0.3 million and \$1.0 million, respectively.

Gladstone Securities

Gladstone Securities, LLC, or Gladstone Securities, is a privately held broker dealer registered with The Financial Industry Regulatory Authority and insured by the Securities Investor Protection Corporation. Gladstone Securities is

an affiliate of ours, as its parent company is controlled by Mr. David Gladstone, our chairman and chief executive officer. Mr. Gladstone also serves on the board of managers of Gladstone Securities.

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In connection with the offering of our senior common stock (see Note 10, *Stockholders' Equity*, for further details) we entered into a Dealer Manager Agreement, dated March 25, 2011, or the Dealer Manager Agreement, with Gladstone Securities pursuant to which Gladstone Securities agreed to act as our exclusive dealer manager in connection with the offering. Pursuant to the terms of the Dealer Manager Agreement, Gladstone Securities 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. Gladstone Securities, 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 Gladstone Securities against various liabilities, including certain liabilities arising under the federal securities laws. We made approximately \$0.3 million and \$0.4 million of payments during the three and nine months ended September 30, 2014 respectively, and we made approximately \$0.05 million and \$0.2 million of payments during the three and nine months ended September 30, 2013, respectively, to Gladstone Securities pursuant to this agreement, which are reflected as a component of senior common stock costs in the statement of stockholders' equity. The Dealer Manager Agreement currently is scheduled to terminate on the earlier of (i) March 28, 2015 or (ii) the date on which 3,000,000 shares of senior common stock are sold pursuant to the Dealer Manager Agreement.

Mortgage Financing Arrangement Agreement

We also entered into an agreement with Gladstone Securities, effective June 18, 2013, for it to act as our non-exclusive agent to assist us with arranging mortgage financing for properties we own. In connection with this engagement, Gladstone Securities may from time to time solicit the interest of various commercial real estate lenders or recommend to us third party lenders offering credit products or packages that are responsive to our needs. We pay Gladstone Securities a financing fee in connection with the services it provides to us for securing mortgage financing on any of our properties. The amount of these financing fees, which are payable upon closing of the financing, are based on a percentage of the amount of the mortgage, generally ranging from 0.5% to a maximum of 1.0% of the mortgage obtained. The amount of the financing fees may be reduced or eliminated, as determined by us and Gladstone Securities, after taking into consideration various factors, including, but not limited to, the involvement of any third party brokers and market conditions. We paid financing fees to Gladstone Securities of \$0.02 million and \$0.1 million during the three and nine months ended September 30, 2014, respectively. We paid financing fees to Gladstone Securities of \$0.04 million during both the three and nine months ended September 30, 2013. The agreement is scheduled to terminate on August 31, 2015, unless renewed or earlier terminated.

3. Loss per Share of Common Stock

The following tables set forth the computation of basic and diluted loss per share of common stock for the three and nine months ended September 30, 2014 and 2013, respectively. We computed basic loss per share for the three and nine months ended September 30, 2014 and 2013, respectively, using the weighted average number of shares outstanding during the periods. Diluted loss per share for the three and nine months ended September 30, 2014 and 2013, 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 (dollars in thousands, except per share amounts).

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	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Calculation of basic loss per share of common stock:				
Net loss attributable to common stockholders	\$ (931)	\$ (797)	\$ (15,483)	\$ (2,080)
Denominator for basic weighted average shares of common stock	17,739,084	14,196,423	16,685,162	12,613,354
Basic loss per share of common stock	\$ (0.05)	\$ (0.06)	\$ (0.93)	\$ (0.16)
Calculation of diluted loss per share of common stock:				
Net loss attributable to common stockholders	\$ (931)	\$ (797)	\$ (15,483)	\$ (2,080)
Add: Income impact of assumed conversion of senior common stock ⁽¹⁾				
Net loss attributable to common stockholders plus assumed conversions	\$ (931)	\$ (797)	\$ (15,483)	\$ (2,080)
Denominator for basic weighted average shares of common stock	17,739,084	14,196,423	16,685,162	12,613,354
Effect of convertible senior common stock ⁽¹⁾				
Denominator for diluted weighted average shares of common stock	17,739,084	14,196,423	16,685,162	12,613,354
Diluted loss per share of common stock	\$ (0.05)	\$ (0.06)	\$ (0.93)	\$ (0.16)

(1) We excluded convertible senior common shares of 429,673 and 362,162 from the calculation of diluted earnings per share for the three and nine months ended September 30, 2014, respectively, because it was anti-dilutive. We also excluded convertible senior common shares of 257,429, and 217,010 from the calculation of diluted earnings per share for the three and nine months ended September 30, 2013, respectively, because it was anti-dilutive.

4. Real Estate and Intangible Assets*Real Estate*

The following table sets forth the components of our investments in real estate as of September 30, 2014 and December 31, 2013 (dollars in thousands):

September 30, 2014 December 31, 2013

Real estate:			
Land	\$	86,737	\$ 79,153
Building and improvements		573,149	527,230
Tenant improvements		40,688	35,970
Accumulated depreciation		(93,401)	(81,241)
Real estate, net	\$	607,173	\$ 561,112

2014 Real Estate Activity

During the nine months ended September 30, 2014, we acquired eight properties, which are summarized in the table below (dollars in thousands):

Location	Acquisition Date	Square Footage	Lease Term	Renewal Options	Total Purchase Price	Annualized Acquisition Expenses	Straight Line Rent	Debt Issued & Assumed
Allen, TX	3/27/2014	21,154	12 Years	4 (5 years each)	\$ 5,525	\$ 33	\$ 570	\$ 3,481
Colleyville, TX	3/27/2014	20,355	12 Years	4 (5 years each)	4,523	33	467	2,849
Rancho Cordova, CA ⁽⁴⁾	4/22/2014	61,358	10 Years	1 (5 year)	8,225	73	902	4,935
Coppell, TX	5/8/2014	21,171	12 Years	4 (5 years each)	5,838	26	601	3,816
Columbus, OH	5/13/2014	114,786	9.5 Years ⁽¹⁾	N/A ⁽¹⁾	11,800	70	1,278 ⁽³⁾	N/A
Taylor, PA	6/9/2014	955,935	10 Years	4 (5 years each)	39,000	730	3,400	22,600
Aurora, CO	7/1/2014	124,800	15 Years	2 (5 years each)	8,300	91	768	N/A
Indianapolis, IN ⁽⁴⁾	9/3/2014	86,495	11.5 Years ⁽²⁾	2 (5 years each) ⁽²⁾	10,500	58	1,504 ⁽³⁾	6,100
Total		1,406,054			\$ 93,711	\$ 1,114	\$ 9,490	\$ 43,781

(1) Lease term and renewal options are reflective of the largest tenant. The smaller tenant's lease terminates in November 2016 and contains no renewal options.

(2) Lease term and renewal options are reflective of the largest tenant. The other tenants in the building have varying lease expirations from December 2015 to October 2018. No other tenants have renewal options.

(3) Rent figure is reflective of aggregate rent among all tenants occupying the building.

(4) Tenants occupying these properties are subject to a gross lease.

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In accordance with ASC 805, we determined the fair value of the acquired assets and liabilities assumed related to the eight properties acquired during the nine months ended September 30, 2014 as follows (in thousands):

	Land	Building	Tenant Improvements	In-place Leases	Leasing Costs	Customer Relationships	Above Market Leases	Below Market Leases	Premium Assumed	Total Purchase Price
Allen, TX	\$ 874	\$ 3,509	\$ 125	\$ 598	\$ 273	\$ 218	\$	\$	\$ (72)	\$ 5,525
Colleyville, TX	1,277	2,307	117	486	220	181		(6)	(59)	4,523
Rancho										
Cordova, CA	752	5,898	278	473	546	278				8,225
Coppell, TX	1,448	3,221	128	636	293	230			(118)	5,838
Columbus, OH	990	6,080	1,937	823	719	990	261			11,800
Taylor, PA	3,102	24,449	956	6,171	1,452	2,870				39,000
Aurora, CO	2,882	3,825	92	413	806	282				8,300
Indianapolis, IN	502	5,334	1,088	1,990	741	732	126	(13)		10,500
	\$ 11,827	\$ 54,623	\$ 4,721	\$ 11,590	\$ 5,050	\$ 5,781	\$ 387	\$ (19)	\$ (249)	\$ 93,711

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Below is a summary of the total revenue and earnings recognized on the eight properties acquired during the three and nine months ended September 30, 2014 (dollars in thousands):

Location	Acquisition Date	For the three months ended September 30, 2014		For the nine months ended September 30, 2014	
		Rental Revenue	Earnings ⁽¹⁾	Rental Revenue	Earnings ⁽¹⁾
Allen, TX	3/27/2014	\$ 143	\$ 101	\$ 293	\$ 167
Colleyville, TX	3/27/2014	117	83	240	138
Rancho Cordova, CA	4/22/2014	226	104	399	168
Coppell, TX	5/8/2014	150	116	239	139
Columbus, OH ⁽²⁾	5/13/2014	311	115	479	184
Taylor, PA	6/9/2014	850	395	1,058	493
Aurora, CO	7/1/2014	192	124	192	124
Indianapolis, IN ⁽²⁾	9/3/2014	116	9	116	9
		\$ 2,105	\$ 1,047	\$ 3,016	\$ 1,422

- (1) Earnings is calculated as net income exclusive of both interest expense and acquisition related costs that are required to be expensed under ASC 805.
- (2) Rental revenue and earnings is reflective of aggregate rent and operating expenses among all tenants occupying the building.

Pro Forma

The following table reflects pro-forma consolidated statements of operations as if the eight properties acquired during the three and nine months ended September 30, 2014 were acquired as of the beginning of the previous period. The pro-forma earnings for the three and nine months ended September 30, 2014 and 2013 were adjusted to assume that acquisition-related costs were incurred as of the beginning of the previous period (dollars in thousands, except per share amounts):

	For the three months ended September 30, 2014		For the nine months ended September 30, 2013	
	2014 (unaudited)	2013	2014 (unaudited)	2013
Operating Data:				
Total operating revenue	\$ 19,086	\$ 19,060	\$ 58,050	\$ 56,906
Total operating expenses	(11,434)	(10,538)	(47,780) ⁽¹⁾	(32,479)
Other expenses	(7,283)	(8,215)	(21,269)	(24,347)
Net income (loss)	369	307	(10,999)	80
Dividends attributable to preferred and senior common stock	(1,160)	(1,106)	(3,417)	(3,274)

Net loss attributable to common stockholders	\$	(791)	\$	(799)	\$	(14,416)	\$	(3,194)
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Share and Per Share Data:

Basic and diluted loss per share of common stock	\$	(0.04)	\$	(0.06)	\$	(0.86)	\$	(0.25)
Weighted average shares outstanding-basic		17,739,084		14,196,423		16,685,162		12,613,354
Weighted average shares outstanding-diluted		17,739,084		14,196,423		16,685,162		12,613,354

- (1) \$14.2 million relates to the impairment charge recorded in operating expenses during the nine months ended September 30, 2014.

Table of Contents*2013 Real Estate Activity*

During the nine months ended September 30, 2013, we acquired five properties and completed an expansion of one property, which are summarized below (dollars in thousands):

Location	Acquisition/ Expansion Date	Square Footage	Lease Term	Renewal Options	Total Purchase/ Expansion Price	Acquisition Expenses	Annualized Straight Line Rent	Debt Issued
Egg Harbor Township, NJ	3/28/2013	29,257	10 years	1 (5 years)	\$ 5,650	\$ 152	\$ 490	\$ 3,700
Clintonville, WI ⁽¹⁾	4/11/2013	102,400	15 years	N/A	3,250	N/A	961	
Vance, AL	5/8/2013	170,000	10 years	2 (5 year options)	13,388	186	1,173	
Blaine, MN	5/10/2013	92,275	6.9 years	2 (5 year options)	14,450	79	1,475	8,200
Austin, TX	7/9/2013	320,000	8 years	3 (3 year options)	57,000	155	4,641	35,300
Allen, TX ⁽⁴⁾	7/10/2013	115,200	11.5 years ⁽²⁾	2 (5 year options) ⁽²⁾	15,150	81	1,918 ⁽³⁾	8,900
Total		829,132			\$ 108,888	\$ 653	\$ 10,658	\$ 56,100

(1) Property was originally acquired in November 2005 for \$5.3 million. After the expansion completed in April 2013, the total investment in the property is \$8.6 million.

(2) Lease term and renewal options are reflective of the largest tenant. The smaller tenant's lease terminates in August 2021 and contains 2 (5 year) renewal options.

(3) Rent figure is reflective of aggregate rent among all tenants occupying the building.

(4) The larger tenant occupying this property is subject to a gross lease. The smaller tenant occupying this property is subject to a triple net lease.

In accordance with ASC 805, we determined the fair value of acquired assets related to the five properties acquired during the nine months ended September 30, 2013 as follows (in thousands):

	Land	Building	Tenant Improvements	In-place Leases	Leasing Costs	Customer Relationships	Above Market Leases	Below Market Leases	Total Purchase Price
Egg Harbor Township, NJ	\$ 1,627	\$ 2,735	\$ 282	\$ 558	\$ 189	\$ 259	\$	\$	\$ 5,650
Vance, AL	457	9,721	808	1,097	678	627			13,388
Blaine, MN	1,060	9,347	1,172	1,361	694	816			14,450
Austin, TX	2,330	37,207	6,814	6,118	1,906	3,793		(1,168)	57,000
Allen, TX	2,699	5,758	2,187	1,525	1,146	1,499	336		15,150
	\$ 8,173	\$ 64,768	\$ 11,263	\$ 10,659	\$ 4,613	\$ 6,994	\$ 336	\$ (1,168)	\$ 105,638

Below is a summary of the total revenue and earnings recognized on the five properties acquired during the three and nine months ended September 30, 2013 (dollars in thousands):

Location	Acquisition Date	Rental Revenue		Net Income	
		For the three months ended September 30, 2013	For the nine months ended September 30, 2013	For the three months ended September 30, 2013 ⁽¹⁾	For the nine months ended September 30, 2013 ⁽¹⁾
Egg Harbor Township, NJ	3/28/2013	\$ 122	\$ 250	\$ 61	\$ 130
Vance, AL	5/8/2013	293	464	147	218
Blaine, MN	5/10/2013	369	579	161	256
Austin, TX	7/9/2013	1,098	1,098	297	297
Allen, TX	7/10/2013	325	325	136	136
		\$ 2,207	\$ 2,716	\$ 802	\$ 1,037

(1) Earnings is calculated as net income less interest expense and acquisition related costs that are required to be expensed under ASC 805.

Future Lease Payments

Future operating lease payments from tenants under non-cancelable leases, excluding tenant reimbursement of expenses, for the remainder of 2014 and each of the five succeeding fiscal years and thereafter is as follows (dollars in thousands):

Year	Tenant Lease Payments
Three Months ending December 31, 2014	\$ 16,929
2015	68,254
2016	65,416
2017	64,689
2018	64,103
2019	64,403
Thereafter	290,868

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Significant Existing Real Estate Activity

On April 4, 2014, our tenant occupying our Newburyport, Massachusetts property notified us of their intention not to exercise their renewal option, as the tenant is relocating to Rhode Island. The tenant will continue paying rent and operating expenses through the lease termination date of April 30, 2015.

On May 6, 2014, we extended the lease with the tenant occupying our property located in Austin, Texas. The lease covering this property was extended for an additional eight years, through June 2022. The lease was originally set to expire in June 2015. The lease provides for prescribed rent escalations over the life of the lease, with annualized straight line rents of approximately \$0.7 million. In connection with the extension of the lease and modification of certain terms of the lease, we paid \$0.2 million in leasing commissions, and will pay a total of approximately \$1.3 million in tenant improvements between now and second quarter 2015.

On June 11, 2014, we extended the lease with the tenant occupying our property located in Burnsville, Minnesota. The new lease covers approximately two-thirds of the space and was extended for an additional eight years, through January 2023. The lease was originally set to expire in June 2015. The tenant in this property will continue to pay rent on the entire building through June 2015, and we are working to identify tenants to lease the remaining one-third of the building. The new lease provides for prescribed rent escalations over the life of the lease, with annualized straight line rents of \$1.0 million. Rental income per square foot increased 14% from the previous lease. The lease grants the tenant two options to extend the lease for an additional three years each. In connection with the extension of the lease and the modification of certain terms under the lease, we paid \$0.5 million in leasing commissions, and will pay \$3.3 million in tenant improvements between now and first quarter 2015.

On July 7, 2014, we extended the lease with one of the tenants occupying our property located in Akron, Ohio. The new lease covers approximately two-thirds of the space and was extended for an additional five years, through March 2020. The lease was originally set to expire in March 2015. This tenant will continue to pay its existing rent through March 2015. The new lease provides for prescribed rent escalations over the life of the lease, with annualized straight line rents of \$0.6 million. The lease grants the tenant two options to extend the lease for an additional five years each. In connection with the extension of the lease and the modification of certain terms under the lease, we paid \$0.2 million in leasing commissions, and \$0.9 million in tenant improvements.

On August 1, 2014, we modified the leases with the tenants occupying our properties located in Austin and San Antonio, Texas. The leases covering these respective properties were adjusted to defer rental payments covering the period September 1, 2014 through November 30, 2014. The tenants are current on their rental payments through the quarter ended September 30, 2014.

On September 25, 2014, we modified the lease with the tenant occupying our property located in Concord Township, Ohio. The lease covering this property was adjusted to defer a portion of rental payments covering the period August 2014 through December 2014. The tenant will repay the deferred rent balance monthly during calendar year 2015. This rental deferral has no impact on the annualized straight line rents recognized on this property. The tenant is current on its rental payments through the quarter ended September 30, 2014.

Table of Contents*Intangible Assets*

The following table summarizes the carrying value of intangible assets and the accumulated amortization for each intangible asset class as of September 30, 2014 and December 31, 2013, respectively (dollars in thousands):

	September 30, 2014		December 31, 2013	
	Lease Intangibles	Accumulated Amortization	Lease Intangibles	Accumulated Amortization
In-place leases	\$ 58,925	\$ (18,391)	\$ 47,442	\$ (15,158)
Leasing costs	36,969	(11,419)	31,339	(9,323)
Customer relationships	40,909	(12,351)	35,739	(10,407)
	\$ 136,803	\$ (42,161)	\$ 114,520	\$ (34,888)

The weighted average amortization periods in years for the intangible assets acquired and liabilities assumed during the nine months ended September 30, 2014 and 2013, respectively, were as follows

Intangible Assets & Liabilities	2014	2013
In-place leases	10.2	8.8
Leasing costs	10.2	8.8
Customer relationships	14.6	13.5
Above market leases	9.3	8.8
Below market leases	9.9	7.2
All intangible assets & liabilities	11.5	9.9

The estimated aggregate amortization expense for the remainder of 2014 and for each of the five succeeding fiscal years and thereafter is as follows (dollars in thousands):

Year	Estimated Amortization Expense
Three Months ending December 31, 2014	\$ 3,049
2015	11,931
2016	11,224
2017	11,018
2018	10,719
2019	10,711
Thereafter	35,990

5. Real Estate Held for Sale and Impairment Charges*Real Estate Held for Sale*

On June 6, 2014, we sold our property located in Sterling Heights, Michigan to the tenant currently occupying the building for \$11.4 million and recognized a gain of \$1.2 million on the sale.

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The table below summarizes the components of income from real estate and related assets held for sale for the three and nine months ended September 30, 2014 and September 30, 2013, respectively (dollars in thousands):

	For the three months ended September 30,		the nine months ended September 30,	
	2014	2013	2014	2013
Operating revenue	\$	\$ 292	\$ 507	\$ 875
Operating expense		57	40	172
Income from real estate and related assets held for sale	\$	\$ 235	\$ 467	\$ 703

Impairment Charges

We performed the evaluation and analysis of our portfolio and concluded that our Roseville, Minnesota property was impaired as of March 31, 2014. We determined that the expected undiscounted cash flows based upon a revised estimated holding period of this property was below the current carrying value. The estimated holding period was revised after a potential tenant that we were anticipating to lease a large portion of the vacant space, during the three months ended March 31, 2014, did not execute a lease on the property. Consequently, we revised the holding period to coincide with the maturity of the mortgage loan in June 2014. Accordingly, we reduced the carrying value of this property to its estimated fair value, less cost to sell, and we recognized an impairment loss of \$14.2 million during the nine months ended September 30, 2014. This property is in the process of being returned to the lender in a deed in lieu transaction, which is anticipated to occur during the quarter ending December 31, 2014.

We had previously reported that our property located in South Hadley, Massachusetts was at risk of becoming impaired in the future. We recently received notification from the existing tenant that they will extend the lease on the property for two years, and it will now expire in January 2017. Because of this lease extension, we are no longer at risk at having to impair this property in the next year.

We continue to monitor our portfolio for any other indicators of impairment.

6. Mortgage Note Receivable

On July 25, 2014, we closed a \$5.6 million second mortgage development loan for the construction of an 81,371 square foot, build-to-suit transitional care facility located on a major hospital campus in Phoenix, Arizona. Construction is scheduled to be completed in July 2015 and we will earn 9.0% interest, paid currently in cash, on the loan during construction and through maturity. Prior to completion of the facility, we will be granted a right of first offer to purchase the property at fair value. If we do not purchase the property we will receive an exit fee when the property is sold and the loan is repaid in an amount sufficient for us to earn an internal rate of return of 22% on the second mortgage development loan. The loan is scheduled to mature in July 2016, but has a one year extension option.

Table of Contents**7. Mortgage Notes Payable and Line of Credit**

Our mortgage notes payable and line of credit as of September 30, 2014 and December 31, 2013 are summarized below (dollars in thousands):

	Encumbered properties at September 30, 2014	Carrying Value at		Stated Interest Rates at September 30, 2014 ⁽⁴⁾	Scheduled Maturity Dates at September 30, 2014
		September 30, 2014	December 31, 2013		
Mortgage and Other Secured Loans:					
Fixed rate mortgage loans	72	\$ 451,375	\$ 413,678	(1)	(2)
Variable rate mortgage loans	4	8,200	8,200	LIBOR + 2.15% ⁽³⁾	12/1/2016
Premiums and discounts (net)	N/A	783	724	N/A	N/A
Total Mortgage Notes Payable	76	\$ 460,358	\$ 422,602		
Variable rate Line of Credit	17	45,600	24,400	LIBOR + 2.75% ⁽³⁾	8/1/2017
Total Mortgage Notes Payable and Line of Credit	93	\$ 505,958	\$ 447,002		

(1) Interest rates on our fixed rate mortgage notes payable vary from 4.04% to 6.80%.

(2) We have 41 mortgage notes payable with maturity dates ranging from 9/1/2015 through 1/6/2039.

(3) At September 30, 2014, one month LIBOR was approximately 0.15%.

(4) The weighted average interest rate on all debt outstanding at September 30, 2014, was approximately 5.13%.

N/A - Not Applicable

Table of Contents*Mortgage Notes Payable*

As of September 30, 2014, we had 41 mortgage notes payable, which were collateralized by a total of 76 properties with a net book value of \$614.5 million. Gladstone Commercial Corporation 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 September 30, 2014 was 5.35%.

During the nine months ended September 30, 2014, we assumed two long-term mortgages, collateralized by three properties, and issued three long-term mortgages, collateralized by three properties, which are summarized below (dollars in thousands):

Date of Issuance	Issuing Bank	Debt Issued	Interest Rate	Maturity Date
3/27/2014	Wells Fargo N.A.	\$ 6,330	5.58%	2/1/2016
4/22/2014	Keybank N.A.	4,935	4.90%	5/1/2024
5/8/2014	Wells Fargo N.A.	3,816	6.25%	6/1/2016
6/9/2014	Prudential Mortgage Capital Company	22,600	4.23%	7/1/2019
9/3/2014	Everbank	6,100	4.40%	10/1/2024
		\$ 43,781		

Scheduled principal payments of mortgage notes payable for the remainder of 2014, and each of the five succeeding fiscal years and thereafter are as follows (dollars in thousands):

Year	Scheduled Principal Payments
Three Months ending December 31, 2014	\$ 18,898
2015	42,683
2016	98,720
2017	67,315
2018	19,909
2019	34,570
Thereafter	177,480
	\$ 459,575

Interest Rate Cap

In November 2013, we entered into an interest rate cap agreement with Wells Fargo that caps the interest rate on the note payable for our Champaign, Illinois property. The agreement provides that the interest rate on the note payable for this property is capped at a certain interest rate when one-month LIBOR is in excess of 3.0%. The fair value of the interest rate cap agreement is recorded in other assets on our accompanying condensed consolidated balance sheets. We record changes in the fair value of the interest rate cap agreement quarterly based on the current market valuations at quarter end as other income (loss) on our accompanying condensed consolidated statements of operations. Generally, we will estimate the fair value of our interest rate cap using estimates of value provided by the counterparty and our own assumptions in

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the absence of observable market data, including estimated remaining life, counterparty credit risk, current market yield and interest rate spreads of similar securities as of the measurement date. At September 30, 2014, our interest rate cap agreement was valued using Level 3 inputs of the hierarchy established by ASC 820, Fair Value Measurements and Disclosures. The following table summarizes the key terms of each interest rate cap agreement (dollars in thousands):

	Notional Amount	LIBOR Cap	Maturity Date	As of September 30, 2014		As of December 31, 2013	
				Cost	Fair Value	Cost	Fair Value
Interest Rate Cap November 26, 2013	\$ 8,200	3.00%	December 1, 2016	\$ 31	\$ 7	\$ 31	\$ 22

Fair Value

The fair value of all mortgage notes payable outstanding as of September 30, 2014, was \$467.5 million, as compared to the carrying value stated above of \$460.4 million. 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 and loan to value ratios. The fair value was calculated using Level 3 inputs of the hierarchy established by ASC 820, Fair Value Measurements and Disclosures.

Line of Credit

In August 2013, we procured a \$60.0 million senior unsecured revolving credit facility, or the Line of Credit, with KeyBank National Association (serving as a revolving lender, a letter of credit issuer and administrative agent) and Citizens Bank of Pennsylvania as an additional lender. On December 16, 2013, Comerica Bank was also added as an additional lender. On March 28, 2014, we amended our Line of Credit to extend the maturity date one additional year to August 2017. We also modified certain terms under the Line of Credit, including the calculation of the total asset value and unencumbered asset value. The applicable LIBOR margins were also reduced by 25 basis points at each pricing level. As a result of these modifications, the availability under our line of credit increased by \$1.3 million.

The Line of Credit initially matures in August 2017; however, we have a one-year extension option subject to the payment of an extension fee equal to 25 basis points on the initial maturity date and certain other customary conditions.

The Line of Credit has a letter of credit sublimit of up to \$20.0 million. In addition, we may expand the Line of Credit up to a total of \$75.0 million upon satisfaction of certain conditions, including obtaining commitments from any one or more lenders, whether or not currently a party to the Line of Credit, to provide such increased amounts and payment of the associated up front and arrangement fees at the time of such increase. The interest rate per annum applicable to the Line of Credit is equal to the LIBOR plus an applicable margin of up to 3.0%, 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 \$0.03 million per year and an unused commitment fee of 25 basis points per year, which accrues quarterly. 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 100% of our FFO, with acquisition-related costs required to be expensed under ASC 805 added back to FFO. In addition, the maximum amount we may draw under the Line of Credit is based on a percentage of the value of a pool of unencumbered properties which must meet agreed upon eligibility standards.

If and when long-term mortgages are arranged for properties in the unencumbered pool, the banks will reduce the availability under the Line of Credit by the amount advanced against that property's value. Conversely, as we purchase new properties meeting the eligibility standards, we may add these new properties to the unencumbered pool to obtain additional availability under the Line of Credit. The availability under the Line of Credit is also 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.

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As of September 30, 2014, there was \$45.6 million outstanding under our Line of Credit at an interest rate of approximately 2.9% and \$5.8 million outstanding under letters of credit at a weighted average interest rate of 2.75%. As of September 30, 2014, the maximum additional amount we could draw was \$5.3 million. We were in compliance with all covenants under the Line of Credit as of September 30, 2014. The amount outstanding on the Line of Credit as of September 30, 2014 approximates fair value, because the debt is subject to a variable interest rate, determined by market forces, as well as a recently negotiated interest rate spread.

8. Mandatorily Redeemable Preferred Stock

In February 2012, we completed a public offering of 1,540,000 shares of 7.125% Series C Cumulative Term Preferred Stock, par value \$0.001 per share, or the Term Preferred Stock, at a public offering price of \$25.00 per share. Gross proceeds of the offering totaled \$38.5 million and net proceeds, after deducting offering expenses borne by us, were \$36.7 million and were used to repay a portion of outstanding borrowings under our Line of Credit, for acquisitions of real estate and for working capital. The Term Preferred Stock is traded under the ticker symbol GOODN on the NASDAQ Global Select Market, or 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 \$25.00 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 costs on the condensed consolidated balance sheets and will be amortized over the redemption period ending January 31, 2017.

The Term Preferred Stock is 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 condensed consolidated statements of operations.

The fair value of our Term Preferred Stock as of September 30, 2014, was \$40.5 million, as compared to the carrying value stated above of \$38.5 million. The fair value is calculated based on the closing share price as of September 30, 2014 of \$26.28. The fair value was calculated using Level 1 inputs of the hierarchy established by ASC 820, Fair Value Measurements and Disclosures.

9. 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 for the remainder of 2014 and each of the five succeeding years and thereafter, are as follows (dollars in thousands):

Location	Lease End Date	For the year ended December 31,						
		2014	2015	2016	2017	2018	2019	Thereafter
Tulsa, OK	Apr-21	\$ 38	\$ 153	\$ 153	\$ 153	\$ 153	\$ 153	\$ 229
Dartmouth, MA	May-36	44	174	174	174	174	174	3,300
Springfield, MA	Feb-30	21	86	86	89	90	90	972

\$ 103 \$ 413 \$ 413 \$ 416 \$ 417 \$ 417 \$ 4,501

Rental expense for the properties listed above is recorded straight-line over the term of the lease and was \$0.3 million during both the nine months ended September 30, 2014 and 2013. Rental expenses are reflected in property operating expenses on the condensed consolidated statements of operations.

Table of Contents*Tenant Improvements*

We have committed to provide tenant improvement funding for certain properties. The following table reflects unconditional purchase obligations which have not been recognized on the balance sheet as of September 30, 2014. Future tenant improvement payments due on these properties for the remainder of 2014 and each of the five succeeding years and thereafter, are as follows (dollars in thousands):

Location	Lease End Date	For the year ended December 31,							
		2014	2015	2016	2017	2018	2019	Thereafter	
Burnsville, MN	Jan-23	\$ 53	\$ 1,000	\$	\$	\$	\$	\$	\$
		\$ 53	\$ 1,000	\$	\$	\$	\$	\$	\$

10. Stockholders Equity

The following table summarizes the changes in our stockholders equity for the nine months ended September 30, 2014 (dollars in thousands):

	Preferred Stock	Senior Stock	Common Stock	Common Stock	Additional Paid in Capital	Notes Receivable from Employees	Distributions in Excess of Accumulated Earnings	Total Stockholders Equity
Balance at December 31, 2013	\$ 2	\$	\$ 16	\$ 16	\$ 298,751	\$ (375)	\$ (115,248)	\$ 183,146
Issuance of senior common stock and common stock, net			1	2	40,332			40,335
Distributions declared to common, senior common and preferred stockholders							(22,219)	(22,219)
Net loss							(12,066)	(12,066)
Balance at September 30, 2014	\$ 2	\$ 1	\$ 18	\$ 18	\$ 339,083	\$ (375)	\$ (149,533)	\$ 189,196

Distributions

Our Board of Directors declared the following distributions per share for the three and nine months ended September 30, 2014 and 2013:

For the three months ended September 30, 2014 For the nine months ended September 30, 2013

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	2014	2013	2014	2013
Common Stock	\$ 0.375	\$ 0.375	\$ 1.125	\$ 1.125
Senior Common Stock	0.2625	0.2625	0.7875	0.7875
Series A Preferred Stock	0.4843749	0.4843749	1.4531247	1.4531247
Series B Preferred Stock	0.4688	0.4688	1.4063	1.4063
Series C Preferred Stock	0.4453	0.4453	1.3359	1.3359

Recent Activity

On June 6, 2014, we completed a public offering of 1,610,000 shares of our common stock at a public offering price of \$17.00 per share. Gross proceeds of the offering totaled \$27.4 million and net proceeds, after deducting offering expenses borne by us, were \$26.0 million, which we used to acquire real estate.

Table of Contents*Ongoing Activity*

On September 2, 2014, we entered into an open market sale arrangement, or the ATM Program, with Cantor Fitzgerald & Co., or Cantor Fitzgerald, pursuant to which we may, from time to time, offer to sell shares of our common stock with an aggregate sales price of up to \$100.0 million on the open market through Cantor Fitzgerald, acting as sales agent and/or principal. Under the open market sales arrangement, Cantor Fitzgerald is entitled to compensation equal to up to 2.0% of the gross proceeds of the common shares it sells. During the three months ended September 30, 2014, we sold a total of 0.2 million shares with aggregate net proceeds of \$3.3 million, and have a remaining capacity to sell up to \$96.6 million of common stock under the ATM program with Cantor Fitzgerald.

On August 26, 2014, we provided notice of our termination of our prior open market sale arrangement, or the Prior ATM program, with Jefferies LLC, or Jefferies, under which we offered 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. From November 2009 through August 2014, we issued and sold \$21.8 million in gross proceeds under the Prior ATM program. During the nine months ended September 30, 2014, we raised approximately \$7.6 million in net proceeds under the Prior ATM program.

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, or the DRIP. We, however, reserve the right to reallocate the number of shares being offered between the primary offering and the DRIP. As of September 30, 2014, we had sold 593,659 shares of senior common stock in this ongoing offering, for gross proceeds of \$8.9 million, and issued an additional 18,479 shares of senior common stock under the DRIP program.

Note to Employee

The following table is a summary of the outstanding note receivable from an employee of the Adviser for the exercise of stock options (dollars in thousands):

Date Issued	Outstanding Balance		Maturity Date of Note	Interest Rate on Note
	of Employee Loan at September 30, 2014	of Employee Loan at December 31, 2013		
Nov 2006	\$ 375	\$ 375	Nov 2015	8.15%

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, this note was recorded as a full recourse loan to the employee and is included in the equity section of the accompanying condensed consolidated balance sheets. As of September 30, 2014, this loan maintained its full recourse status.

11. Subsequent Events

On October 7, 2014, our Board of Directors declared the following monthly distributions:

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Record Date	Payment Date	Common Stock Distributions per Share	Series A Preferred Distributions per Share	Series B Preferred Distributions per Share	Series C Preferred Distributions per Share
October 22, 2014	October 31, 2014	\$ 0.125	\$ 0.1614583	\$ 0.15625	\$ 0.1484375
November 17, 2014	November 26, 2014	0.125	0.1614583	0.15625	0.1484375
December 19, 2014	December 31, 2014	0.125	0.1614583	0.15625	0.1484375
Total		\$ 0.375	\$ 0.4843749	\$ 0.46875	\$ 0.4453125

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Senior Common Stock Distributions

Payable to the

Holders of Record

During the Month of:	Payment Date	Distribution per Share
October	November 7, 2014	\$ 0.0875
November	December 5, 2014	0.0875
December	January 8, 2015	0.0875
Total		\$ 0.2625

On October 16, 2014, we executed a lease with a tenant to occupy our previously vacant property located in Richmond, Virginia. The lease was effective as of September 8, 2014 and has a three-year term. The tenant has an early termination option at any time after July 31, 2016, contingent upon the tenant losing a contract with the vendor supporting their operations in our building. The tenant is subject to a termination payment of approximately \$0.03 million if they exercise this option. The lease provides for prescribed rent escalations over the life of the lease, with annualized straight line rents of approximately \$0.2 million. The tenant has one option to renew the lease for an additional period of three years. In connection with the extension of the lease and modification of certain terms of the lease, we paid \$0.1 million in leasing commissions, no tenant improvements were paid in connection with the lease extension.

On October 22, 2014, we extended the lease with the tenant occupying our property located in Canton, North Carolina. We financed a \$5.5 million expansion project on this property, which added an additional 150,000 square feet to the building, which was completed in September 2014. The lease covering this property was extended for an additional 10 years, through September 2034. The lease was originally set to expire in July 2024. The lease provides for prescribed rent escalations over the life of the lease, with annualized straight line rents of approximately \$1.4 million, as compared to straight line rents of \$0.6 million under the previous lease.

On October 27, 2014, 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 two years through January 2017. The lease was originally set to expire in January 2015. The lease provides a scheduled rent increase over the previous lease, with annualized straight line rents of approximately \$0.3 million. The tenant has two options to renew the lease for additional periods of one year each.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

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, 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 Forward-Looking Statements and Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2013. 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.

All references to we, our, us and the Company in this Report mean Gladstone Commercial Corporation and its consolidated subsidiaries, except where the context indicates that the term means only Gladstone Commercial Corporation.

General

We are an externally-advised 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 actively communicate 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 93 properties totaling 9.8 million square feet, which have a total gross and net carrying value, including intangible assets, of \$816.4 million and \$692.0 million, respectively. These amounts are not inclusive of our Roseville, Minnesota property that is currently in receivership and will be returned to our lender via a deed in lieu transaction. We also currently have one mortgage loan receivable outstanding for \$5.6 million.

Business Environment

The strength of the global economy and the U.S. economy in particular, continues to be uncertain and volatile, and we remain cautious about a long-term economic recovery. Vacancy rates in certain markets are still higher than pre-recessionary levels, as job growth has yet to return to all areas of the country. Major markets however, have experienced reductions in vacancy rates over the past 12 months for both office and industrial properties. These vacancy reductions are the result of increased demand combined with construction activity that is well below prior market peaks. Interest rates have increased since the beginning of the year, but remain at historic lows and this

continued low interest rate environment is leading to increasing competition for new acquisitions. In addition, the federal government shutdown in October 2013 combined with the uncertainty surrounding the ability of the federal government to address its fiscal condition in both the near and long term have increased domestic and global economic instability.

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These developments and the government's credit concerns in general, could cause interest rates and borrowing costs to rise, which may negatively impact our ability to access both the debt and equity markets on favorable terms. In addition, a further decrease to the U.S. credit rating could create broader financial turmoil and uncertainty, which may weigh heavily on our stock price. Continued adverse economic conditions could have a material adverse effect on one or more of our tenants, or our business, financial condition and results of operations.

We continue to focus on re-leasing vacant space, renewing upcoming lease maturities and acquiring additional properties. We now only have one vacant building located in Baytown, Texas. We signed a three-year lease on our Richmond, Virginia property with a new tenant, which was effective September 8, 2014. The available space at the Baytown, Texas property comprises less than 1.0% of our total square footage as of September 30, 2014 and the annual carrying costs are approximately \$0.1 million. We continue to actively seek a new tenant for this property.

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 continues to improve and long-term mortgages are readily obtainable. The collateralized mortgage backed securities, or CMBS, market remains active but it is more conservative and restrictive than it was prior to the recession and uncertainty with regard to interest rates has made the CMBS market less predictable. We continue to look to regional banks, insurance companies and other non-bank lenders, in addition to the CMBS market to issue mortgages to finance our real estate activities.

In addition to leverage, we have been active in the equity markets during 2014. We have issued shares of common stock in both an overnight offering in June and through our at-the-market programs, or ATM Programs, pursuant to our former open market sale agreement with Jefferies, LLC, or Jefferies, and our recent agreement with Cantor Fitzgerald & Co., or Cantor Fitzgerald, each discussed in more detail below. In addition, we have issued shares of our convertible senior common stock, also discussed in more detail below.

Recent Developments

2014 Investment Activities

Allen and Colleyville, Texas: On March 27, 2014, we acquired two office buildings, totaling 42,000 square feet, located in Allen and Colleyville, Texas for a total of \$10.0 million, excluding related acquisition expenses of \$0.07 million. We funded these acquisitions with existing cash on hand as well as assuming \$6.3 million of existing mortgage debt on the properties. The same tenant has leased both properties for 12 years and has 4 options to renew the lease for additional periods of 5 years each. The leases provide for prescribed rent escalations over the life of the lease, with annualized straight line rents of \$1.0 million.

Rancho Cordova, California: On April 22, 2014, we acquired a 61,358 square foot office building located in Rancho Cordova, California for \$8.2 million, excluding related acquisition expenses of \$0.07 million. We funded this acquisition with existing cash on hand and the issuance of \$4.9 million of mortgage debt on the property. The tenant has leased the property for 10 years and has 1 option to renew the lease for an additional 5 years. The lease provides for prescribed rent escalations over the life of the lease, with annualized straight line gross rents of \$0.9 million.

Coppell, Texas: On May 8, 2014, we acquired an office building, totaling 21,171 square feet, located in Coppell, Texas for a total of \$5.8 million, excluding related acquisition expenses of \$0.03 million. We funded these acquisitions with existing cash on hand as well as assuming \$3.8 million of existing mortgage debt on this property. The tenant has leased this property for 12 years and has 4 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 \$0.6 million.

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Columbus, Ohio: On May 13, 2014, we acquired a 114,786 square foot office building located in Columbus, Ohio for \$11.8 million, excluding related acquisition expenses of \$0.07 million. We funded this acquisition with existing cash on hand. There are 2 tenants in this property, the largest of which occupies 92% of the space and has 9.5 years remaining on the lease. The other tenant has 2.5 years remaining on the lease. The two leases provide for prescribed rent escalations over the life of the respective leases, with annualized straight line rents of \$1.3 million.

Taylor, Pennsylvania: On June 9, 2014, we acquired a 955,935 square foot bulk distribution warehouse located in a submarket of Scranton, Pennsylvania for \$39.0 million, excluding related acquisition expenses of \$0.7 million. We funded this acquisition with existing cash on hand as well as the issuance of \$22.6 million of mortgage debt on the property. The tenant has leased the property for 10 years and has 3 options to renew the lease for an additional 5 years each and a fourth successive term of 4 years and 11 months. The lease provides for prescribed rent escalations over the life of the lease, with annualized straight line rents of \$3.4 million.

Aurora, Colorado: On July 1, 2014, we acquired a 124,800 square foot building located in Aurora, Colorado, an eastern submarket of Denver near the Denver International Airport, for \$8.3 million, excluding related acquisition expenses of \$0.09 million. We funded this acquisition with existing cash on hand. The tenant has leased the property for 15 years and has 2 options to renew the lease for an additional 5 years each. The lease provides for prescribed rent escalations over the life of the lease, with annualized straight line rents of \$0.8 million.

Phoenix, Arizona: On July 25, 2014, we closed a \$5.6 million second mortgage development loan for the construction of an 81,371 square foot, build-to-suit transitional care facility located on a major hospital campus in Phoenix, Arizona. Construction is scheduled to be completed by July 2015 and we will earn 9.0% interest, paid currently in cash, on the loan during construction and through maturity. Prior to completion of the facility, we will be granted a right of first offer to purchase the property at fair value. If we do not purchase the property we will receive an exit fee when the property is sold and the loan is repaid in an amount sufficient for us to earn an internal rate of return of 22% on the second mortgage development loan. The loan is scheduled to mature in July 2016, but has a one year extension option.

Indianapolis, Indiana: On September 3, 2014, we acquired an 86,495 square foot office building located in Indianapolis, Indiana for \$10.5 million, excluding related acquisition expenses of \$0.06 million. We funded this acquisition with existing cash on hand as well as the issuance of \$6.1 million of mortgage debt on the property. There are 7 tenants in this property, the largest of which occupies 71% of the space and has 11.5 years remaining on the lease. This tenant has 2 options to renew the lease for an additional 5 years each. The remaining tenants are occupying between 1,427 and 7,639 square feet in their respective suites, with lease terms expiring from December 2015 through October 2018. Six out of seven leases provide for prescribed rent escalations over the life of the respective leases, with annualized straight line gross rents for all leases of \$1.5 million.

2014 Sale Activity

Sterling Heights, Michigan: On June 6, 2014, we completed the sale of our Sterling Heights, Michigan property for \$11.4 million and recognized a gain on sale of \$1.2 million. We considered this industrial asset to be non-core to our long term strategy, and we re-deployed the proceeds from this sale into new acquisitions described above.

2014 Financing Activities

The following is a summary of our recent financings:

Wells Fargo: On March 27, 2014, through two wholly-owned subsidiaries, we assumed \$6.3 million pursuant to a long-term note payable from Wells Fargo, which is collateralized by a security interest in two of our properties. The note accrues interest at a fixed rate of 5.583% per year and the note has a maturity date of February 2016. We assumed the note in connection with the acquisition of the two properties located in Allen and Colleyville, Texas.

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KeyBank Line of Credit: On March 28, 2014, we amended our Line of Credit to extend the maturity date one additional year to August 2017. We also modified certain terms under the Line of Credit, including the calculation of the total asset value and unencumbered asset value. The applicable London Interbank Offered Rate, or LIBOR, margins were also reduced by 25 basis points at each pricing level. As a result of these modifications, the availability under our Line of Credit increased by \$1.3 million.

KeyBank: On April 22, 2014, through a wholly-owned subsidiary, we borrowed \$4.9 million pursuant to a long-term note payable from KeyBank National Association, which is collateralized by a security interest in one of our properties. The note accrues interest at a fixed rate of 4.9% 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 prepayment penalty. The note has a maturity date of May 1, 2024. We used the proceeds from the note to acquire the property in Rancho Cordova, California on the same date.

Wells Fargo: On May 8, 2014, through a wholly-owned subsidiary, we assumed \$3.8 million pursuant to a long-term note payable from Wells Fargo, which is collateralized by a security interest in one of our properties. The note accrues interest at a fixed rate of 6.3% per year and has a maturity date of June 2016. We assumed the note in connection with the acquisition of the property located in Coppell, Texas on the same date.

Prudential: On June 9, 2014, through a wholly-owned subsidiary, we borrowed \$22.6 million pursuant to a long-term note payable from Prudential Mortgage Capital Company, which is collateralized by a security interest in one of our properties. The note accrues interest at a fixed rate of 4.23% per year and has a maturity date of July 1, 2019. We used the proceeds from the note to acquire the property in Taylor, Pennsylvania on the same date.

Everbank: On September 3, 2014, through a wholly-owned subsidiary, we borrowed \$6.1 million pursuant to a long-term note payable from Everbank, which is collateralized by a security interest in one of our properties. The note accrues interest at a fixed rate of 4.4% per year and has a maturity date of October 1, 2024. We used the proceeds from the note to acquire the property in Indianapolis, Indiana on the same date.

2014 Leasing Activities

Newburyport, Massachusetts: On April 4, 2014, our tenant occupying our Newburyport, Massachusetts property notified us of their intention not to exercise their renewal option as the tenant is relocating to Rhode Island. The tenant will continue paying rent and operating expenses through the lease termination date of April 30, 2015. A marketing representative has been hired and re-leasing activity is currently underway.

Austin, Texas: On May 6, 2014, we extended the lease with the tenant occupying our property located in Austin, Texas. The lease covering this property was extended for an additional eight years, through June 2022. The lease was originally set to expire in June 2015. The lease provides for prescribed rent escalations over the life of the lease, with annualized straight line rents of approximately \$0.7 million. In connection with the extension of the lease and modification of certain terms of the lease, we paid \$0.2 million in leasing commissions, and will pay \$1.3 million in tenant improvements prior to second quarter 2015.

Burnsville, Minnesota: On June 11, 2014, we extended the lease with the tenant occupying our property located in Burnsville, Minnesota. The new lease covers approximately two-thirds of the space and was extended for an additional eight years, through January 2023. The lease was originally set to expire in June 2015. The tenant in this property will continue to pay rent on the entire building through June 2015, and we are working to identify tenants to lease the remaining one-third of the building. The new lease provides for prescribed rent escalations over the life of the lease, with annualized straight line rents of \$1.0 million. Rental income per square foot increased 14% from the previous lease. The lease grants the tenant two options to extend the lease for an additional three years each. In

connection with the extension of the lease and the modification of certain terms under the lease, we paid \$0.5 million in leasing commissions, and will pay \$3.3 million in tenant improvements prior to the end of first quarter 2015.

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Akron, Ohio: On July 7, 2014, we extended the lease with one of the tenants occupying our property located in Akron, Ohio. The new lease covers approximately two-thirds of the space and was extended for an additional five years, through March 2020. The lease was originally set to expire in March 2015. This tenant will continue to pay its existing rent through March 2015. The new lease provides for prescribed rent escalations over the life of the lease, with annualized straight line rents of \$0.6 million. The lease grants the tenant two options to extend the lease for an additional five years each. In connection with the extension of the lease and the modification of certain terms under the lease, we paid \$0.2 million in leasing commissions, and will pay \$0.9 million in tenant improvements prior to the end of second quarter 2015. The second tenant in the property continues to occupy the remaining one-third of space.

Austin and San Antonio, Texas: On August 1, 2014, we modified the lease with the tenant occupying two of our properties located in Austin and San Antonio, Texas. The leases covering these respective properties were adjusted to defer rental payments covering the period September 1, 2014 through November 30, 2014. The tenants are current on their rental payments through the quarter ended September 30, 2014.

Concord Township, Ohio: On September 25, 2014, we modified the lease with the tenant occupying our property located in Concord Township, Ohio. The lease covering this property was adjusted to defer a portion of rental payments covering the period August 2014 through December 2014. The tenant will repay the deferred rent balance monthly during calendar year 2015. This rental deferral has no impact on the annualized straight line rents recognized on this property. The tenant is current on their rental payments through the quarter ended September 30, 2014.

Richmond, Virginia: On October 16, 2014, we executed a lease with a tenant to occupy our previously vacant property located in Richmond, Virginia. The lease became effective as of September 8, 2014 and has a three-year term. The tenant has an early termination option at any time after July 31, 2016, contingent upon the tenant losing a contract with the vendor supporting their operations in our building. The tenant is subject to a termination payment of approximately \$0.03 million if they exercise this option. The lease provides for prescribed rent escalations over the life of the lease, with annualized straight line rents of approximately \$0.2 million. The tenant has one option to renew the lease for an additional period of three years. In connection with the extension of the lease and modification of certain terms of the lease, we paid \$0.1 million in leasing commissions, no tenant improvements were paid in connection with the lease extension.

Canton, North Carolina: On October 22, 2014, we extended the lease with the tenant occupying our property located in Canton, North Carolina. We financed a \$5.5 million expansion project on this property, which added an additional 150,000 square feet to the building, which was completed in September 2014. The lease covering this property was extended for an additional 10 years, through September 2034. The lease was originally set to expire in July 2024. The lease provides for prescribed rent escalations over the life of the lease, with annualized straight line rents of approximately \$1.4 million, as compared to straight line rents of \$0.6 million under the previous lease.

South Hadley, Massachusetts: On October 27, 2014, 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 two years through January 2017. The lease was originally set to expire in January 2015. The lease provides a scheduled rent increase over the previous lease, with annualized straight line rents of approximately \$0.3 million. The tenant has two options to renew the lease for additional periods of one year each.

Table of Contents*2014 Equity Activities*

The equity issuances summarized below were issued under our universal shelf registration statement (File No. 333-190931) that was effective and on file with the Securities and Exchange Commission at the time of each respective issuance.

Common Equity: We completed a public offering totaling 1,610,000 shares of common stock, which closed on June 6, 2014, at a public offering price of \$17.00 per share. Gross proceeds of this offering totaled \$27.4 million and net proceeds, after deducting offering expenses and underwriter discounts, were \$26.0 million. The proceeds from this offering were used to acquire real estate.

ATM Programs: During 2014, we have raised an aggregate of \$28.1 million in net proceeds under our ATM Programs with both Jefferies and Cantor Fitzgerald. Proceeds from these offerings were used to acquire real estate, repay indebtedness and for other general corporate purposes. On August 26, 2014, we provided notice of termination of our prior open market sale agreement with Jefferies LLC, or Jefferies, under which we offered 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. We raised \$7.6 million in net proceeds under the Prior ATM sales agreement during the nine months ended September 30, 2014. On September 2, 2014, we entered into a new At the Market sales agreement with Cantor Fitzgerald, or the New ATM program. Under this agreement we may, from time to time, offer to sell shares of our common stock with an aggregate sales price of up to \$100.0 million on the open market through Cantor Fitzgerald, as agent, or to Cantor Fitzgerald, as principal, based upon our instructions (including any price, time or size limits or other customary parameters or conditions that we may impose). We have raised \$20.5 million in net proceeds under the New ATM program. Sales of shares of our common stock through our New ATM Program will be executed by means of ordinary brokers' transactions on the NASDAQ Global Select Market, or the NASDAQ, or otherwise at market prices, in privately negotiated transactions, crosses or block transactions, as may be agreed between us and Cantor Fitzgerald, including a combination of any of these transactions.

Senior Common Equity: During 2014, we have sold 285,680 shares of our senior common stock at \$15.00 per share in an ongoing best-efforts public offering and issued 9,226 shares of our senior common stock under the Dividend Reinvestment Plan, or DRIP, program. The net proceeds, after deducting the underwriting discount and commission were \$3.9 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, 2015 or the date on which a total of 3,000,000 shares of senior common stock are sold. Proceeds from this offering were used to acquire real estate and 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, industry or geographic market. 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. The table below reflects the breakdown of our total rental income by tenant industry classification for the nine months ended September 30, 2014 and 2013, respectively (dollars in thousands):

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Industry Classification	For the nine months ended September 30,			
	2014		2013	
	Rental Income	Percentage of Rental Income	Rental Income	Percentage of Rental Income
Telecommunications	\$ 9,453	18.0%	\$ 7,322	16.8%
Automobile	6,522	12.3	3,455	7.9
Healthcare	6,199	11.7	5,605	12.8
Electronics	4,414	8.4	3,604	8.3
Personal, Food & Miscellaneous Services	3,996	7.6	3,899	8.9
Diversified/Conglomerate Manufacturing	2,940	5.6	2,748	6.3
Chemicals, Plastics & Rubber	2,467	4.7	2,399	5.5
Beverage, Food & Tobacco	2,246	4.3	2,260	5.2