GLADSTONE COMMERCIAL CORP
Form 424B5
January 23, 2012
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**Filed pursuant to Rule 424(b)(5)**
**Registration No. 333-169290**

**The information contained in this preliminary prospectus supplement and the accompanying prospectus is not complete and may be changed. A registration statement relating to the securities has been declared effective by the Securities and Exchange Commission. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities and are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.**

SUBJECT TO COMPLETION, DATED JANUARY 23, 2012

**PRELIMINARY PROSPECTUS SUPPLEMENT**

(to Prospectus dated September 27, 2010)

# 1,000,000 Shares

# Gladstone Commercial Corporation

# % Series C Cumulative Term Preferred Stock

# (Liquidation Preference $25 Per Share)

We are offering 1,000,000 shares of our % Series C Cumulative Term Preferred Stock, par value $0.001 per share, or the Series C Term Preferred Stock. No public market currently exists for the Series C Term Preferred Stock. We intend to apply to list the Series C Term Preferred Stock on The NASDAQ Global Select Market under the symbol GOODN.

Dividends on the Series C Term Preferred Stock will be cumulative from, but excluding, the date of original issue and payable monthly in arrears, beginning on , 2012, at an annual rate of % of the liquidation preference, or $ per share, of Series C Term Preferred Stock.

Generally, we may not redeem shares of the Series C Term Preferred Stock prior to January 31, 2016, except in limited circumstances to preserve our status as a real estate investment trust, or REIT. On or after January 31, 2016, we may redeem the shares at a redemption price of $25 per share of Series C Term Preferred Stock, plus any accumulated and unpaid dividends to and including the date of redemption. The shares of Series C Term Preferred Stock have a maturity and mandatory redemption date of January 31, 2017. If a Change of Control Triggering Event, as described herein, occurs, unless we have exercised our option to redeem the Series C Term Preferred Stock, holders of the Series C Term Preferred Stock may require us to redeem the Series C Term Preferred Stock at the price described in this prospectus supplement under Description of the Series C Term Preferred Stock Redemption Change of Control.

We believe that we qualify, and have elected to be taxed, as a REIT for federal income tax purposes. To assist us in complying with certain federal income tax requirements applicable to REITs, our charter contains certain restrictions relating to the ownership and transfer of our capital stock, including an ownership limit of 9.8% on the Series C Term Preferred Stock.

**Investing in the Series C Term Preferred Stock involves a high degree of risk. Before investing, please read Risk Factors beginning on page S-9 of this prospectus supplement and on page 3 of the accompanying prospectus.**

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

| | PER SHARE | TOTAL |
|---|---|---|
| Public Offering Price | $ 25.00 | $ 25,000,000 |
| Underwriting Discounts and Commissions | $ 1.00 | $ 1,000,000 |
| Proceeds to Gladstone Commercial Corporation, before expenses | $ 24.00 | $ 24,000,000 |

Delivery of the Series C Term Preferred Stock is expected to be made on or about , 2012. We have granted the underwriters an option for a period of 30 days to purchase an additional 150,000 shares of Series C Term Preferred Stock solely to cover any over-allotments. If the underwriters exercise the option in full, the total underwriting discounts and commissions payable by us will be $1,150,000, and the total proceeds to us, before expenses, will be $27,600,000.

*Sole Book-Running Manager*

**Jefferies**

*Co-Managers*

**J.J.B. Hilliard, W.L. Lyons, LLC** **Wunderlich Securities** **Dominick & Dominick**

Prospectus Supplement dated , 2012

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## ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is the prospectus supplement, which describes the specific terms of this offering and also adds to and updates information contained in the accompanying prospectus and the documents incorporated by reference into this prospectus supplement and the accompanying prospectus. The second part, the accompanying prospectus, gives more general information about securities we may offer from time to time, some of which does not apply to this offering. To the extent the information contained in this prospectus supplement differs or varies from the information contained in the accompanying prospectus, the information in this prospectus supplement controls. Before you invest in shares of our Series C Term Preferred Stock, you should carefully read this prospectus supplement, along with the accompanying prospectus, in addition to the information contained in the documents referred to under the headings Where You Can Find More Information and Incorporation of Certain Information by Reference in this prospectus supplement.

You should rely only on the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus or any free writing prospectus we may authorize to be delivered to you. Neither we nor the underwriters have authorized anyone to provide you with information that is different. If anyone provides you with different or inconsistent information, you should not rely on it. We do not, and the underwriters and their affiliates do not, take any responsibility for, and can provide no assurances as to, the reliability of any information that others may provide to you. This prospectus supplement is not an offer to sell or a solicitation of an offer to buy shares of our Series C Term Preferred Stock in any jurisdiction where such offer or any sale would be unlawful. You should not assume that the information in this prospectus supplement, the accompanying prospectus or any free writing prospectus we may authorize to be delivered to you, including any information incorporated by reference, is accurate as of any date other than their respective dates. If any statement in one of these documents is inconsistent with a statement in another document having a later date for example, a document incorporated by reference in this prospectus supplement or the accompanying prospectus the statement in the document having the later date modifies or supersedes the earlier statement.

The distribution of this prospectus supplement and the accompanying prospectus and this offering of securities in certain jurisdictions may be restricted by law. Persons who come into possession of this prospectus supplement and the accompanying prospectus should inform themselves of and observe any such restrictions.

**The shares of Series C Term Preferred Stock do not represent a deposit or obligation of, and are not guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.**

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**PROSPECTUS SUMMARY**

*This summary highlights information contained elsewhere or incorporated by reference in this prospectus supplement and the accompanying prospectus. This summary does not contain all of the information that you should consider before deciding to invest in our Series C Term Preferred Stock. You should read this entire prospectus supplement and the accompanying prospectus carefully, including the Risk Factors section contained in this prospectus supplement, our consolidated financial statements and the related notes thereto and the other documents and information incorporated by reference in this prospectus supplement and the accompanying prospectus and the information included in any free writing prospectus that we have authorized for use in connection with this offering.*

*Unless the context otherwise requires or indicates, all references in this prospectus supplement and the accompanying prospectus to (i) we, our, us and the Company each mean Gladstone Commercial Corporation, a Maryland corporation, and its consolidated subsidiaries, (ii) Operating Partnership means Gladstone Commercial Limited Partnership, a subsidiary of the Company and a Delaware limited partnership, and (iii) Adviser means Gladstone Management Corporation, the external adviser of the Company and a Delaware corporation.*

**The Company**

We were incorporated under the Maryland General Corporation Law on February 14, 2003 primarily for the purpose of investing in and owning net leased industrial and commercial real estate property and selectively making long-term industrial and commercial mortgage loans to creditworthy entities. We have elected to be treated as a REIT for federal income tax purposes. We are a publicly-traded REIT because shares of our common stock, 7.75% Series A Cumulative Redeemable Preferred Stock, par value $0.001 per share, and 7.50% Series B Cumulative Redeemable Preferred Stock, par value $0.001 per share, trade on the NASDAQ Global Select Market, or NASDAQ, under the trading symbols GOOD, GOODP and GOODO, respectively.

Our properties are leased to a variety of tenants ranging from small businesses to large public companies, many of which do not have publicly-rated debt. We have in the past entered into, and intend in the future to enter into, purchase agreements for properties that have triple net leases with terms of 10 to 15 years and built-in rental increases. Under a triple net lease, the tenant is required to pay all operating, maintenance and insurance costs and real estate taxes with respect to the leased property. We actively communicate with buyout funds, real estate brokers and other third parties to identify properties for potential acquisition, disposition or mortgage financing in an effort to build our portfolio. We currently own 72 properties located in 21 states that contain approximately 7.1 million rentable square feet.

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

Our Operating Partnership is also the sole member of Gladstone Commercial Lending, LLC, one of our subsidiaries and a Delaware limited liability company that was formed to conduct all of our operations related to real estate mortgage loans. We currently have no mortgage loans outstanding.

Our Adviser is an affiliated registered investment adviser under the Investment Advisers Act of 1940, as amended. Our Adviser is responsible for managing our business on a daily basis and for identifying and making acquisitions and dispositions that it believes satisfy our investment criteria.

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**Our Competitive Strengths**

We believe that the following strengths differentiate us from our competitors:

- **Conservative Dual Underwriting Strategy:** When underwriting a tenant s business and the real estate it occupies, we focus on the cash flow of the tenant and the intrinsic value of the property.

- **Proven Track Record:** As of January 1, 2012, we had investments in 72 properties and gross and net assets, including intangible assets, of approximately $502.9 million and $426.4 million, respectively. All of our tenants are current in their lease payments, and the weighted average yield on our portfolio is approximately 9.4%. Currently, 70 of our properties, or approximately 98.7% of our portfolio, are fully leased while two of our properties, or approximately 1.3% of our portfolio, do not have leases in place. We are currently seeking tenants for these two properties while concurrently researching alternative uses for these properties.

- **Distribution Stability:** We declare quarterly and pay monthly distributions to holders of shares of our common stock at the rate of $0.125 per share. Since inception, we have never reduced the amount of the distribution paid in respect of shares of common stock.

- **Attractive Market Opportunities:** We believe that attractive investment opportunities currently exist that will allow us to capitalize on the lack of buyers of real estate that is leased to mid-sized businesses.

- **Focused Business Model:** Our business model seeks to foster investment opportunities that are generated from our strategic relationships with leveraged buyout funds and other real estate intermediaries.

- **Experienced Management Team:** Our management team has a successful track record of underwriting industrial, commercial and other types of real estate and conducting extensive due diligence on the management teams, cash flows, financial statements and risk ratings of our respective tenants.

**Recent Developments**

***Preliminary Results For Year Ended December 31, 2011***

Set forth below are certain preliminary estimates of our results of operations for the year ended December 31, 2011. These estimates are subject to completion of our financial closing procedures. These estimates are not a comprehensive statement of our financial results for the year ended December 31, 2011, and our actual results may differ materially from these estimates as a result of the completion of our financial closing procedures, final adjustments and other developments arising between now and the time that our financial results for the year ended December 31, 2011 are finalized.

The preliminary financial data included herein has been prepared by, and is the responsibility of, our management. PricewaterhouseCoopers LLP, or PwC, our independent registered public accounting firm, has not audited, reviewed, compiled or performed any procedures with respect to the accompanying preliminary financial data. Accordingly, PwC does not express an opinion or any other form of assurance with respect thereto.

The following are preliminary estimates for the year ended December 31, 2011.

Total operating revenues for the year ended December 31, 2011 are estimated to be between $43.5 million and $44.5 million, compared to $41.9 million for the year ended December 31, 2010.

Total expenses net of credits for the year ended December 31, 2011 are estimated to be between $38.0 million and $39.0 million, compared to total expenses net of credits of $40.5 million for the year ended December 31, 2010. The estimated decrease in total expenses net of credits for the year ended December 31, 2011 when compared to the year ended December 31, 2010 was primarily due to decreases in both the net incentive fee and in professional fees. We had a one-time gain of $3.3 million on the early repayment of a mortgage loan in 2010 that caused the net incentive fee to be approximately $2.0 million higher in 2010

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coupled with the write-off of $1.6 million of professional fees in 2010 associated with the termination of our continuous private offering of unregistered senior common stock, which was partially offset by an increase in both depreciation and due diligence expense during 2011 from acquisitions during the year combined with an increase in the base management fee during 2011.

Net income for the year ended December 31, 2011 is estimated to be between $5.2 million and $6.2 million, compared to $4.9 million for the year ended December 31, 2010.

Funds from operations, or FFO, for the year ended December 31, 2011 is estimated to be between $15.2 million and $16.2 million, compared to $14.1 million for the year ended December 31, 2010.

Additionally, we estimate that our total assets will be approximately $453.0 million at December 31, 2011, compared to $410.6 million as of December 31, 2010, primarily due to the acquisition of seven properties during 2011. The borrowings outstanding under our line of credit decreased to $18.7 million at December 31, 2011 as compared to $27.0 million as of December 31, 2010, primarily due to proceeds from two common equity offerings and long-term financings that closed during 2011, which were used to pay down the line of credit.

The following table reflects our comparative operating results and reconciles FFO with net income for the years ended December 31, 2011 and December 31, 2010.

| (dollar amounts in thousands) | FOR THE YEAR ENDED DECEMBER 31, | |
|---|---|---|
| | 2011 [1] (UNAUDITED) | 2010 |
| Net income | $ 5,700 | $ 4,900 |
| Less: Distributions attributable to preferred and senior common stock | (4,200) | (4,100) |
| Net income available to common stockholders | 1,500 | 800 |
| Add: Real estate depreciation and amortization | 14,200 | 13,300 |
| FFO available to common stockholders [2] | $ 15,700 | $ 14,100 |
| Weighted average shares outstanding basic | 10,200 | 8,600 |
| Weighted average shares outstanding diluted | 10,300 | 8,600 |

(1) These numbers are estimates from which the reported ranges derive.

(2) The National Association of Real Estate Investment Trusts, or NAREIT, developed FFO as a relative non-GAAP supplemental measure of operating performance of an equity REIT in order to recognize that income-producing real estate historically has not depreciated on the basis determined under GAAP. FFO, as defined by NAREIT, is net income (computed in accordance with GAAP), excluding gains (or losses) from sales of property, plus depreciation and amortization of real estate assets, and after adjustments for unconsolidated partnerships and joint ventures. FFO does not represent cash flows from operating activities determined in accordance with GAAP and should not be considered an alternative to net income as an indication of our performance or to cash flow from operations as a measure of liquidity or ability to make distributions. We believe that FFO per share provides investors with an additional context for evaluating our financial performance and as a supplemental measure to compare us to other REITs; however, comparisons of our FFO to the FFO of other REITs may not necessarily be meaningful due to potential differences in the application of the NAREIT definition used by such other REITs. To learn more about FFO, please refer to our Annual Report on Form 10-K for the year ended December 31, 2010 and Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2011, which are incorporated by reference into this prospectus supplement.

***Investment Activities***

On October 20, 2011, we acquired a 25,000 square foot office building located in Boston Heights, Ohio for $4.4 million, excluding related acquisition expenses of $56,000. We funded this acquisition using borrowings from our line of credit. The property was a new build-to-suit for Paychex North America, a subsidiary of Paychex, Inc. The tenant has leased the property for ten years and has three options to renew the lease for additional periods of three years each. The lease provides for prescribed rent escalations over the life of the lease, with annualized straight line rents of $377,000.

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On October 28, 2011, we acquired a 60,111 square foot office building located in Parsippany, New Jersey for $11.1 million, excluding related acquisition expenses of $390,000. We funded this acquisition through a combination of borrowings from our line of credit and the issuance of $7.2 million of mortgage debt on the property. The tenant has leased the property for 15 years and has one option to renew the lease for an additional period of three years. The lease provides for prescribed rent escalations over the life of the lease, with annualized straight line rents of $1.1 million.

On November 18, 2011, we acquired the leasehold interests in a 16,340 square foot retail building located in Dartmouth, Massachusetts for $5.8 million, excluding related acquisition expenses of $56,000. We funded this acquisition through a combination of borrowings from our line of credit and the issuance of $4.4 million of mortgage debt on the property. The property was a new build-to-suit and is primarily leased to the Walgreens Company. Walgreens has leased the property for 75 years with the rights to terminate in years 26 through 75. The lease provides for prescribed rent escalations over the life of the lease with annualized straight line rents, net of ground lease payments, of $414,000.

On December 13, 2011, we acquired the leasehold interests in a 14,560 square foot retail building located in Springfield, Missouri for $2.7 million, excluding related acquisition expenses of $42,000. We funded this acquisition using borrowings from our line of credit. The property is leased to the Walgreens Company. Walgreens has 62 years remaining on the lease with the rights to terminate in years 19 through 62. The lease provides for prescribed rent escalations over the life of the lease with annualized straight line rents, net of ground lease payments, of $222,000.

On December 28, 2011, we acquired a 26,080 square foot office building located in Pittsburgh, Pennsylvania for $4.2 million, excluding related acquisition expenses of $140,000. We funded this acquisition using borrowings from our line of credit. Expedient Communications, a data center operator, is the tenant in this building and has leased the property for 15 years and has two options to renew the lease for additional periods of five years each. The lease provides for prescribed rent escalations over the life of the lease, with annualized straight line rents of $400,000.

***Financing Activities***

On October 28, 2011, we borrowed $7.2 million pursuant to a long-term note payable from The Provident Bank, which is collateralized by a security interest in our Parsippany, New Jersey property acquired on the same date. The note accrues interest at a rate of 6.00% per year and we may not repay this note prior to the last two years of the term, without subjecting us to a substantial prepayment penalty. The note has a maturity date of November 1, 2021.

On November 18, 2011, we borrowed $4.4 million pursuant to a long-term note payable from Liberty Bank, which is collateralized by a security interest in our Dartmouth, Massachusetts property acquired on the same date. The note accrues interest at a rate of 4.50% per year and we may not repay this note prior to the last three months of the term, without subjecting us to a substantial prepayment penalty. The note has a maturity date of November 1, 2018, with a three-year extension period through November 1, 2021.

On December 6, 2011, we borrowed $8.5 million pursuant to a long-term note payable from Great Southern Bank, which is collateralized by a security interest in our Tulsa, Oklahoma property. The note accrues interest for the first five years at a rate of 6.00% per year, after the fifth year the rate is based on the prime rate, with a floor of 6.00%. We may not repay this note prior to December 6, 2015, without subjecting us to a substantial prepayment penalty. The note has a maturity date of December 6, 2019.

***Equity Activities***

During December 2011 and January 2012, we issued 11,933 shares of our senior common stock at $15.00 per share in an ongoing best-efforts underwritten public offering. The net proceeds, after deducting the underwriting discount and commission, were $161,100. We used the net proceeds of the offering to repay a portion of the outstanding balance under our line of credit and for general corporate purposes.

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**Corporate Information**

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

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## THE OFFERING

The following is a brief summary of certain terms of this offering. For a more complete description of the terms of the Series C Term Preferred Stock, see Description of the Series C Term Preferred Stock beginning on page S-16 in this prospectus supplement.

| | |
|---|---|
| **Issuer** | Gladstone Commercial Corporation |
| **Securities Offered** | 1,000,000 shares of % Series C Cumulative Term Preferred Stock, par value $0.001 per share. The underwriters have the option to purchase up to 150,000 additional shares of Series C Term Preferred Stock from us to cover over-allotments, if any. |
| **Dividends** | Investors will be entitled to receive preferential cumulative cash dividends on the Series C Term Preferred Stock at a rate of % per annum of the $25.00 per share liquidation preference (equivalent to $ per annum per share). Beginning on the date of issuance, dividends on the Series C Term Preferred Stock will be payable monthly in arrears. The first dividend will be payable on , 2012. Dividends on the Series C Term Preferred Stock will be cumulative from (but excluding) the date of original issuance. |
| **Mandatory Redemption** | The Series C Term Preferred Stock has a mandatory redemption date of January 31, 2017. We are not required to set aside funds to redeem the Series C Term Preferred Stock. Accordingly, the shares of Series C Term Preferred Stock will remain outstanding until redeemed on January 31, 2017, unless redeemed earlier under the circumstances set forth below under Optional Redemption or in connection with a Change of Control Triggering Event. |
| **Optional Redemption** | We may not redeem the Series C Term Preferred Stock prior to January 31, 2016, except in limited circumstances relating to our continuing qualification as a REIT. On and after January 31, 2016 and before January 31, 2017, we may, at our option, redeem the Series C Term Preferred Stock, in whole or in part, at any time or from time to time, by payment of $25.00 per share, plus any accumulated and unpaid dividends to and including the date of redemption. |
| **Liquidation Preference** | If we liquidate, dissolve or wind up, holders of the Series C Term Preferred Stock will have the right to receive the $25.00 per share liquidation preference, plus any accumulated and unpaid dividends to and including the date of payment, but without interest, before any payment is made to the holders of our common stock, par value $0.001 per share, senior common stock par value $0.001 per share, or any other class or series of our capital stock ranking junior to the Series C Term Preferred Stock. |
| **Change of Control** | If a Change of Control Triggering Event occurs, unless we have exercised our option to redeem the Series C Term Preferred Stock, holders of the Series C Term Preferred Stock may require us to redeem the Series C Term Preferred Stock at a specified price. See Description of the Series C Term Preferred Stock Redemption Change of Control. |

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| **Rank** | With respect to the payment of dividends and amounts upon liquidation, dissolution or winding up, the Series C Term Preferred Stock will be: (i) equal in rank with our 7.75% Series A Perpetual Cumulative Redeemable Preferred Stock, par value $0.001 per share, or the Series A Preferred Stock, our 7.50% Series B Perpetual Cumulative Redeemable Preferred Stock, par value $0.001 per share, or the Series B Preferred Stock, and all other equity securities we issue, the terms of which specifically provide that such equity securities rank on a parity with the Series C Term Preferred Stock with respect to dividend rights or rights upon our liquidation, dissolution or winding up, which we refer to collectively as the Parity Preferred Stock; (ii) senior to our Common Stock and Senior Common Stock; and (iii) junior to all our existing and future indebtedness. |
| **Voting Rights** | Holders of Series C Term Preferred Stock generally have no voting rights. However, if dividends on any shares of the Series C Term Preferred Stock are in arrears for 18 or more consecutive months, then holders of the Series C Term Preferred Stock (voting together as a single class with holders of shares of any Parity Preferred Stock) will have the right to elect two additional directors to serve on our Board of Directors until such dividend arrearage is eliminated. In addition, if we fail to redeem or call for redemption the Series C Term Preferred Stock pursuant to the mandatory redemption required on January 31, 2017, then holders of the Series C Term Preferred Stock, as a class, to the exclusion of the holders of all other securities and classes of our stock, will be entitled to elect a majority of our directors. Further, we may not change the designations, rights, preferences, privileges or limitations with respect to the Series C Term Preferred Stock in a manner that would be materially adverse to the rights of holders of the Series C Term Preferred Stock without the affirmative vote of at least two-thirds of the shares of Series C Term Preferred Stock then outstanding. |
| **Restrictions on Ownership and Transfer** | Our articles of incorporation state that no person, directly or indirectly, may own more than 9.8% in value of our outstanding capital stock. Shares of Series C Term Preferred Stock acquired or transferred in breach of this limitation will be automatically deemed held in trust for the exclusive benefit of the transferees to whom that capital stock may be transferred without violating the 9.8% ownership limitation. In such event, the purchaser-transferee shall not be entitled to vote or to participate in dividends or other distributions with respect to such stock. The Series C Term Preferred Stock is subject to the general restrictions on ownership and transferability described under Certain Provisions of Maryland Law and of our Charter and Bylaws Restrictions on Ownership and Transfer on page 20 in the accompanying prospectus. |
| **Risk Factors** | An investment in shares of our Series C Term Preferred Stock involves substantial risks, and prospective investors should carefully consider the matters discussed in the Risk Factors sections of this prospectus supplement and in the accompanying prospectus and our |

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|---|---|
| | most recent Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q and other information that we file from time to time with the SEC, which is incorporated by reference into this prospectus supplement and the accompanying prospectus. |
| **Conversion** | Shares of Series C Term Preferred Stock are not convertible into or exchangeable for any other securities or property. |
| **Use of Proceeds** | We estimate that our net proceeds from the offering will be approximately $23.80 million (approximately $27.40 million if the underwriters over-allotment option is exercised in full). We intend to use the net proceeds from the offering of Series C Term Preferred Stock to repay any outstanding indebtedness under our line of credit and for acquisitions of real estate. |
| **U.S. Federal Income Taxes** | Prospective investors are urged to consult their own tax advisors regarding these matters in light of their personal investment circumstances. |
| **Listing** | We intend to file an application to list the Series C Term Preferred Stock on the NASDAQ under the symbol GOODN. If the application is approved, trading of the Series C Term Preferred Stock on NASDAQ is expected to begin within 30 days after the date of initial delivery of the Series C Term Preferred Stock. Prior to the expected commencement of trading on NASDAQ, the underwriters do not intend to make a market in the Series C Term Preferred Stock. |

## RISK FACTORS

*An investment in shares of our Series C Term Preferred Stock involves a high degree of risk. Before deciding whether to invest in our Series C Term Preferred Stock, you should consider carefully, among other matters, the risks described below and discussed under the section captioned Risk Factors contained in our Annual Report on Form 10-K for the year ended December 31, 2010, as filed with the SEC on March 8, 2011, and our Quarterly Reports for the quarters ended March 31, 2011, June 30, 2011 and September 30, 2011, filed with the SEC on May 2, 2011, August 2, 2011 and November 1, 2011, respectively, which are incorporated by reference into this prospectus supplement and the accompanying prospectus in their entirety, together with other information in this prospectus supplement, the accompanying prospectus, the information and documents incorporated by reference, and in any free writing prospectus that we have authorized for use in connection with this offering. If any of these risks actually occurs, our business, financial condition, results of operation or cash flow could be seriously harmed. This could cause the market price of our Series C Term Preferred Stock to decline, resulting in a loss of all or part of your investment.*

**Our issuance of additional preferred stock equal in rank with or senior to the Series C Term Preferred Stock could dilute the interests of the holders of the Series C Term Preferred Stock.**

Our articles of incorporation currently authorize the issuance of up to 50,000,000 shares of capital stock, of which 10,945,379 shares of common stock, 70,990 shares of senior common stock, 1,000,000 shares of Series A Preferred Stock, 1,150,000 shares of Series B Preferred Stock and 1,150,000 shares of Series C Term Preferred Stock will be outstanding immediately following the completion of this offering (assuming the underwriters exercise their overallotment option in full).

Our Board of Directors may classify the remaining shares of unissued capital stock by setting or changing the preferences, conversion or other rights, voting powers restrictions, limitations as to dividends, qualifications and terms and conditions of redemption of such stock, subject to the rights of the holders of the Series C Term Preferred Stock to consent to any such classification that would materially and adversely affect any right, preference, privilege or voting power of the Series C Term Preferred Stock. As of the date of this prospectus supplement, shares of the Parity Preferred Stock are equal in rank with the Series C Term Preferred Stock with respect to the payment of dividends and amounts on liquidation, dissolution and winding up. The issuance of additional shares of other series of preferred stock equal in rank with or senior to the Series C Term Preferred Stock could have the effect of diluting the interests of holders of the Series C Term Preferred Stock.

**The market value of the Series C Term Preferred Stock could be substantially affected by various factors.**

The shares of Series C Term Preferred Stock are a new issue of securities with no established trading market. Although we intend to file an application to list the Series C Term Preferred Stock on NASDAQ and expect our application to be approved, an active trading market on NASDAQ may not develop or last, in which case the trading price of the Series C Term Preferred Stock could be adversely affected. If an active trading market does develop on NASDAQ, the Series C Term Preferred Stock may trade at prices higher or lower than their initial offering price. The trading price of our Series C Term Preferred Stock would depend on many factors, including prevailing interest rates, the market for similar securities, general economic conditions, and our financial condition, results of operations and prospects.

**There will be no initial secondary trading market due to delayed listing, and even after listing a liquid secondary trading market may not develop.**

During a period of up to 30 days from the date of this prospectus supplement, the Series C Term Preferred Stock will not be listed on any securities exchange. During this period, the underwriters do not intend to make a market in the Series C Term Preferred Stock. Consequently, an investment in the Series C Term Preferred Stock during this period will be illiquid, and holders of such shares may not be able to sell them during that period as it is unlikely that a secondary market for the Series C Term Preferred Stock will develop. If a secondary market does develop during this period, holders of the Series C Term Preferred Stock may be able to sell such shares only at substantial discounts from the liquidation preference. If we are unable to list the Series C Term Preferred Stock on the NASDAQ or another

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national securities exchange, holders of such shares may be unable to sell them at all or, if they are able to, only at substantial discounts from the liquidation preference. Even if the Series C Term Preferred Stock are listed on the NASDAQ as anticipated, there is a risk that such shares may be thinly traded, and the market for such shares may be relatively illiquid compared to the market for other types of securities, with the spread between the bid and asked prices considerably greater than the spreads of other securities with comparable terms and features.

**An investment in term preferred stock with a fixed interest rate bears interest rate risk.**

Term preferred stock pays dividends at a fixed dividend rate. Prices of fixed income investments vary inversely with changes in market yields. The market yields on securities comparable to the Series C Term Preferred Stock may increase, which would likely result in a decline in the secondary market price of the Series C Term Preferred Stock prior to the term redemption date. For additional information concerning dividends on the Series C Term Preferred Stock, see Description of the Series C Term Preferred Stock Dividends.

**The Series C Term Preferred Stock will not be rated.**

We do not intend to have the Series C Term Preferred Stock rated by any rating agency. Unrated securities usually trade at a discount to similar, rated securities. As a result, there is a risk that the Series C Term Preferred Stock may trade at a price that is lower than they might otherwise trade if rated by a rating agency. It is possible, however, that one or more rating agencies might independently determine to assign a rating to the Series C Preferred Shares. In addition, we may elect to issue other securities for which we may seek to obtain a rating. If any ratings are assigned to the Series C Term Preferred Stock in the future or if we issue other securities with a rating, such ratings, if they are lower than market expectations or are subsequently lowered or withdrawn, could adversely affect the market for or the market value of the Series C Term Preferred Stock.

**The Series C Term Preferred Stock will bear a risk of early redemption by us.**

We may voluntarily redeem some or all of the Series C Term Preferred Stock on or after January 31, 2016. Any such redemptions may occur at a time that is unfavorable to holders of the Series C Term Preferred Stock. We may have an incentive to redeem the Series C Term Preferred Stock voluntarily before the mandatory redemption date, January 31, 2017, if market conditions allow us to issue other preferred stock or debt securities at a rate that is lower than the rate on the Series C Term Preferred Stock. For further information regarding our ability to redeem the Series C Term Preferred Stock, see Description of the Series C Term Preferred Stock Redemption.

**Holders of the Series C Term Preferred Stock will be subject to inflation risk.**

Inflation is the reduction in the purchasing power of money resulting from the increase in the price of goods and services. Inflation risk is the risk that the inflation-adjusted, or real, value of an investment in term preferred stock or the income from that investment will be worth less in the future. As inflation occurs, the real value of the Series C Term Preferred Stock and dividends payable on such shares declines.

**Holders of the Series C Term Preferred Stock will bear reinvestment risk.**

Given the five-year term and potential for early redemption of the Series C Term Preferred Stock, holders of such shares may face an increased reinvestment risk, which is the risk that the return on an investment purchased with proceeds from the sale or redemption of the Series C Term Preferred Stock may be lower than the return previously obtained from the investment in such shares.

**Shares of the Series C Term Preferred Stock are subordinated to existing and future debt and your interests could be diluted by the issuance of additional preferred stock, including the Parity Preferred Stock, and by other transactions.**

Payment of accrued dividends on the Series C Term Preferred Stock will be subordinated to all of our existing and future debt and will be structurally subordinate to the obligations of our subsidiaries. In addition, we may issue additional shares of Parity Preferred Stock or shares of another class or series of preferred stock ranking on parity with the Series C Term Preferred Stock with respect to the payment of dividends and the distribution of assets upon liquidation, dissolution or winding up. None of the provisions relating to the Series C Term Preferred Stock relate to or limit our indebtedness or afford the holders of the Series C Term Preferred Stock protection in the event of a highly leveraged or other transaction, including a merger or the sale, lease or conveyance of all or substantially all our assets or business, that might adversely affect the holders of the Series C Term Preferred Stock, other than in connection with a Change of Control Triggering Event. These factors may affect the trading price of the Series C Term Preferred Stock.

**As a holder of Series C Term Preferred Stock you have extremely limited voting rights.**

Your voting rights as a holder of Series C Term Preferred Stock will be extremely limited. Our common stock is currently the only class or series of our stock carrying full voting rights. Voting rights for holders of Series C Term Preferred Stock exist primarily with respect to material and adverse changes in the terms of the Series C Term Preferred Stock, the creation of additional classes or series of preferred stock that are senior to the Series C Term Preferred Stock, our failure to pay dividends on the Series C Term Preferred Stock and our failure to redeem the Series C Term Preferred Stock pursuant to the mandatory redemption required on January 31, 2017. See Description of the Series C Term Preferred Stock Voting Rights in this prospectus supplement.

**We may not have sufficient earnings and profits in order for distributions on the Series C Term Preferred Stock to be treated as dividends.**

The dividends payable by us on the Series C Term Preferred Stock may exceed our current and accumulated earnings and profits, as calculated for U.S. federal income tax purposes, at the time of payment. If that were to occur, it would result in the amount of dividends that exceed our earnings and profits being treated first as a return of capital to the extent of the holder s adjusted tax basis in the Series C Term Preferred Stock and then, to the extent of any excess over such adjusted tax basis, as capital gain. See Additional Material U.S. Federal Income Tax Considerations and Material U.S. Federal Income Tax Considerations Taxation of Taxable U.S. Stockholders.

**We may not be able to redeem the Series C Term Preferred Stock upon a Change of Control Triggering Event.**

Upon the occurrence of a Change of Control Triggering Event, unless we have exercised our right to redeem the Series C Term Preferred Stock, each holder of the Series C Term Preferred Stock will have the right to require us to redeem all or any part of such holder s Series C Term Preferred Stock at a price equal to the liquidation preference of $25.00 per share, plus an amount equal to any accumulated and unpaid dividends up to and including the date of payment, but without interest. If we experience a Change of Control Triggering Event, there can be no assurance that we would have sufficient financial resources available to satisfy our obligations to redeem the Series C Term Preferred Stock and any indebtedness that may be required to be repaid or repurchased as a result of such event. Our failure to redeem the Series C Term Preferred Stock could have material adverse consequences for us and the holders of the Series C Term Preferred Stock. See Description of the Series C Term Preferred Stock Redemption Change of Control.

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**FORWARD-LOOKING STATEMENTS**

This prospectus supplement and the accompanying prospectus, including the documents incorporated by reference herein and therein, contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or Exchange Act. Forward-looking statements provide our current expectations or forecasts of future events and are not statements of historical fact. These forward-looking statements include information about possible or assumed future events, including, among other things, discussion and analysis of our future financial condition, results of operations and FFO, our strategic plans and objectives, cost management, occupancy and leasing rates and trends, liquidity and ability to refinance our indebtedness as it matures, anticipated capital expenditures (and access to capital) required to complete projects, amounts of anticipated cash distributions to our stockholders in the future and other matters. Words such as anticipates, expects, intends, plans, believes, seeks, estimates and variation words and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements will contain these words. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control, are difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements. Statements regarding the following subjects, among others, are forward-looking by their nature:

- our business and financing strategy;
- our ability to implement our business plan;
- pending transactions;
- our projected operating results;
- our ability to obtain future financing arrangements;
- estimates relating to our future distributions;
- our understanding of our competition and our ability to compete effectively;
- market and industry trends;
- interest and insurance rates;
- estimates of our future operating expenses, including payments to our Adviser under the terms of our advisory agreement;
- projected capital expenditures; and
- use of the proceeds of our line of credit, mortgage notes payable and other future capital resources, if any.

Forward-looking statements involve inherent uncertainty and may ultimately prove to be incorrect or false. You are cautioned to not place undue reliance on forward-looking statements. Except as otherwise may be required by law, we undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or actual operating results. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including, but not limited to:

- the loss of any of our key officers, such as Mr. David Gladstone, our Chairman and Chief Executive Officer, Mr. Terry Lee Brubaker, our Vice Chairman and Chief Operating Officer, or Mr. George Stelljes III, our President and Chief Investment Officer;
- our ability to identify, hire and retain other highly-qualified personnel in the future;
- general volatility of the capital markets and the market price of our common stock;
- risks associated with negotiation and consummation of pending and future transactions;
- changes in our business strategy;
- the adequacy of our cash reserves and working capital;
- our failure to successfully integrate and operate acquired properties and operations;
- defaults upon or non-renewal of leases by tenants;
- decreased rental rates or increased vacancy rates;

- the degree and nature of our competition;
- availability, terms and deployment of capital, including the ability to maintain and borrow under our line of credit, arrange for long-term mortgages on our properties, secure one or more additional long-term lines of credit and raise equity capital;
- changes in our industry or the general economy;
- changes in real estate and zoning laws and increases in real property tax rates;
- changes in governmental regulations, tax rates and similar matters; and
- environmental uncertainties and risks related to natural disasters.

This list of risks and uncertainties, however, is only a summary of some of the most important factors to us and is not intended to be exhaustive. You should carefully review the risks and information contained in, or incorporated by reference into, this prospectus supplement and the accompanying prospectus, including, without limitation, the Risk Factors incorporated by reference herein and therein from our most recent Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q and other reports and information that we file with the SEC. New factors that are not currently known to us or of which we are currently unaware may also emerge from time to time that could materially and adversely affect us.

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## USE OF PROCEEDS

We estimate the net proceeds we will receive from this offering will be approximately $23.80 million (or approximately $27.40 million if the underwriters over-allotment option is exercised in full), after deducting underwriting discounts and commission, and paying offering expenses of approximately $0.2 million. We intend to use the net proceeds to repay any outstanding indebtedness under our line of credit and for acquisitions of real estate.