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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2006

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

COMMISSION FILE NUMBER: 0-50363

GLADSTONE COMMERCIAL CORPORATION

(Exact name of registrant as specified in its charter)

MARYLAND
(State or other jurisdiction of
incorporation or organization)

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

1521 WESTBRANCH DRIVE, SUITE 200
MCLEAN, VIRGINIA 22102
(Address of principal executive office)
(703) 287-5800

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No .

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large Accelerated Filer .

Accelerated Filer .

Non-Accelerated Filer .

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

The number of shares of the registrant's Common Stock, \$0.001 par value, outstanding as of May 1, 2006 was 7,709,422.

GLADSTONE COMMERCIAL CORPORATION
TABLE OF CONTENTS

	PAGE
PART I FINANCIAL INFORMATION	
Item 1. Consolidated Financial Statements (Unaudited)	3
Consolidated Balance Sheets as of March 31, 2006 and December 31, 2005	
Consolidated Statements of Operations for the three months ended March 31, 2006 and 2005	
Consolidated Statements of Cash Flows for the three months ended March 31, 2006 and 2005	
Notes to Financial Statements	
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	23
Item 3. Quantitative and Qualitative Disclosures About Market Risk	40
Item 4. Controls and Procedures	41
PART II OTHER INFORMATION	
Item 1. Legal Proceedings	42
Item 1A. Risk Factors	42
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	42
Item 3. Defaults Upon Senior Securities	42
Item 4. Submission of Matters to a Vote of Security Holders	42
Item 5. Other Information	42
Item 6. Exhibits	42
SIGNATURES	44

GLADSTONE COMMERCIAL CORPORATION

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	March 31, 2006	December 31, 2005
ASSETS		
Real estate, net of accumulated depreciation of \$4,562,992 and \$3,408,878, respectively	\$ 204,739,533	\$ 161,634,761
Lease intangibles, net of accumulated amortization of \$1,902,039 and \$1,221,413, respectively	22,593,292	13,947,484
Mortgage notes receivable	21,000,455	21,025,815
Cash and cash equivalents	1,280,038	1,740,159
Restricted cash	1,935,741	1,974,436
Funds held in escrow	1,730,346	1,041,292
Interest receivable – mortgage note	70,586	70,749
Interest receivable – employees	5,548	—
Deferred rent receivable	2,751,382	2,590,617
Deferred financing costs, net of accumulated amortization of \$381,970 and \$260,099, respectively	2,762,706	1,811,017
Prepaid expenses	471,160	385,043
Deposits on real estate	200,000	600,000
Accounts receivable	266,312	225,581
TOTAL ASSETS	<u>\$ 259,807,099</u>	<u>\$ 207,046,954</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Mortgage notes payable	\$ 108,558,267	\$ 61,558,961
Borrowings under line of credit	22,260,000	43,560,000
Deferred rent liability	3,698,616	—
Asset retirement obligation liability	1,428,964	—
Accounts payable and accrued expenses	743,560	493,002
Due to adviser	196,148	164,155
Rent received in advance, security deposits and funds held in escrow	2,488,362	2,322,300
Total Liabilities	<u>139,373,917</u>	<u>108,098,418</u>
STOCKHOLDERS' EQUITY		
Redeemable preferred stock, \$0.001 par value; \$25 liquidation preference; 1,150,000 shares authorized and 1,000,000 shares issued and outstanding at March 31, 2006	1,000	—
Common stock, \$0.001 par value, 18,850,000 shares authorized and 7,672,000 shares issued and outstanding at both December 31, 2005 and March 31, 2006	7,672	7,672
Additional paid in capital	129,245,756	105,502,544
Notes receivable — employees	(432,282)	(432,282)
Distributions in excess of accumulated earnings	(8,388,964)	(6,129,398)
Total Stockholders' Equity	<u>120,433,182</u>	<u>98,948,536</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 259,807,099</u>	<u>\$ 207,046,954</u>

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

GLADSTONE COMMERCIAL CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	<u>For the three months ended March 31, 2006</u>	<u>For the three months ended March 31, 2005</u>
Operating revenues		
Rental income	\$ 5,021,485	\$ 1,847,007
Interest income from mortgage notes receivable	552,913	295,583
Tenant recovery revenue	5,623	2,043
Total operating revenues	<u>5,580,021</u>	<u>2,144,633</u>
Operating expenses		
Depreciation and amortization	1,834,740	537,755
Management advisory fee	652,742	471,861
Professional fees	202,936	331,244
Taxes and licenses	54,259	128,273
Insurance	82,999	70,383
General and administrative	145,958	132,828
Asset retirement obligation expense	55,143	—
Stock option compensation expense	46,216	—
Total operating expenses	<u>3,074,993</u>	<u>1,672,344</u>
Other income (expense)		
Interest income from temporary investments	7,373	94,521
Interest income — employee loans	5,548	4,685
Interest expense	(1,682,948)	(36,219)
Income before realized and unrealized losses	<u>835,001</u>	<u>535,276</u>
Realized and unrealized loss from foreign currency		
Net realized loss from foreign currency transactions	(816)	(347)
Net unrealized gain from foreign currency transactions	12,615	255
Total net realized and unrealized gain (loss) from foreign currency	<u>11,799</u>	<u>(92)</u>
Net income	846,800	535,184
Dividends attributable to preferred stock	(344,444)	—
Net income available to common stockholders	<u>\$ 502,356</u>	<u>\$ 535,184</u>
Earnings per weighted average common share		
Basic	<u>\$ 0.07</u>	<u>\$ 0.07</u>
Diluted	<u>\$ 0.06</u>	<u>\$ 0.07</u>
Weighted average shares outstanding		
Basic	<u>7,672,000</u>	<u>7,667,000</u>
Diluted	<u>7,821,658</u>	<u>7,733,335</u>

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

GLADSTONE COMMERCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the three months ended March 31, 2006	For the three months ended March 31, 2005
Cash flows from operating activities:		
Net income	\$ 846,800	\$ 535,184
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,834,740	537,755
Amortization of deferred financing costs	121,871	16,246
Amortization of deferred rent asset	63,374	6,136
Amortization of deferred rent liability	(80,290)	—
Asset retirement obligation expense	55,143	—
Stock compensation	46,216	—
Unrealized gain from foreign currency transactions	(12,615)	(255)
Changes in assets and liabilities:		
Decrease (increase) in mortgage interest receivable	163	(6,314)
(Increase) decrease in employee interest receivable	(5,548)	107
Increase in prepaid expenses	(86,117)	(32,341)
(Increase) decrease in other assets	(40,730)	48,170
Increase in deferred rent receivable	(224,386)	(97,244)
Increase in accounts payable and accrued expenses	250,558	249,075
Increase in due to Adviser	31,993	13,367
Increase in rent received in advance and security deposits	204,757	75,098
Payments to lenders for operating reserves held in escrow	(872,926)	—
Increase in operating reserves from tenants	451,969	—
Net cash provided by operating activities	<u>2,584,972</u>	<u>1,344,984</u>
Cash flows from investing activities:		
Real estate investments	(18,302,939)	(12,485,610)
Decrease in restricted cash	38,695	—
Receipts from tenants for capital reserves	301,808	—
Payments to tenants from capital reserves	(230,141)	—
Payments to lenders for capital reserves held in escrow	(414,360)	—
Receipts from lenders for capital reserves held in escrow	35,901	—
Deposits on future acquisitions	(350,000)	(550,000)
Deposits applied against real estate investments	750,000	350,000
Principal repayments on mortgage loans	25,360	25,786
Net cash used in investing activities	<u>(18,145,676)</u>	<u>(12,659,824)</u>
Cash flows from financing activities:		
Proceeds from share issuance	25,000,000	—
Offering costs	(1,302,006)	—
Borrowings under mortgage note payable	17,000,000	3,150,000
Principal repayments on mortgage note payable	(117,486)	—
Borrowings from line of credit	35,200,000	—
Repayments on line of credit	(56,500,000)	—
Principal repayments on employee loans	—	208
Payments for deferred financing costs	(1,073,561)	(629,380)
Dividends paid for common and preferred	(3,106,364)	(2,300,100)
Net cash provided by financing activities	<u>15,100,583</u>	<u>220,728</u>
Net decrease in cash and cash equivalents	(460,121)	(11,094,112)
Cash and cash equivalents, beginning of period	1,740,159	29,153,987
Cash and cash equivalents, end of period	<u>\$ 1,280,038</u>	<u>\$ 18,059,875</u>
Cash paid during period for interest	<u>\$ 1,545,821</u>	<u>\$ 8,862</u>
NON-CASH INVESTING ACTIVITIES		
Increase in asset retirement obligation	<u>\$ 1,373,820</u>	<u>\$ —</u>
NON-CASH FINANCING ACTIVITIES		
Fixed rate debt assumed in connection with acquisitions	<u>\$ 30,129,654</u>	<u>\$ —</u>

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

GLADSTONE COMMERCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Significant Accounting Policies

Gladstone Commercial Corporation, a Maryland corporation (the "Company"), was incorporated on February 14, 2003 under the General Corporation Law of Maryland for the purpose of engaging in the business of investing in property net leased to creditworthy entities and making mortgage loans to creditworthy entities. Subject to certain restrictions and limitations, the business of the Company is managed by Gladstone Management Corporation (the "Adviser").

Subsidiaries

On May 28, 2003, the Company completed the formation of a subsidiary, Gladstone Commercial Limited Partnership (the "Operating Partnership"). The Company conducts substantially all of its operations through the Operating Partnership. As the Company currently owns all of the general and limited partnership interests of the Operating Partnership, the financial position and results of operations of the Operating Partnership are consolidated with those of the Company.

On July 17, 2003, the Company completed the formation of a subsidiary, Gladstone Commercial Partners, LLC ("Commercial Partners"). Commercial Partners was organized to engage in any lawful act or activity for which a limited liability company may be organized in Delaware. Commercial Partners has the power to make and perform all contracts and to engage in all activities to carry out the purposes of the Company, and all other powers available to it as a limited liability company. As the Company currently owns all of the membership interests of Commercial Partners, the financial position and results of operations of Commercial Partners are consolidated with those of the Company.

On January 27, 2004, the Company completed the formation of a subsidiary, Gladstone Lending LLC ("Gladstone Lending"). Gladstone Lending 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 Lending, the financial position and results of operations of Gladstone Lending are consolidated with those of the Operating Partnership and the Company.

On August 23, 2004, the Company completed the formation of a subsidiary, Gladstone Commercial Advisers, Inc. ("Commercial Advisers"). Commercial Advisers is a taxable real estate investment trust ("REIT") subsidiary, which was created to collect all non-qualifying income related to the Company's real estate portfolio. It is currently anticipated that this income will predominately consist of fees received by the Company related to the leasing of real estate. Since the Company owns 100% of the voting securities of Commercial Advisers, the financial position and results of operations of Commercial Advisers are consolidated with those of the Company. There have been no such fees earned to date.

On December 28, 2005, GCLP Business Trust I and GCLP Business Trust II, each a business trust formed under the laws of the Commonwealth of Massachusetts, were established by the Company. On December 31, 2005, the Company transferred its 99% limited partnership interest in the Operating Partnership to GCLP Business Trust I in exchange for 100 trust shares. Also on December 31, 2005, 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

Interim financial statements of the Company are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain disclosures accompanying annual financial statements prepared in accordance with GAAP are omitted. In the opinion of management, all adjustments, consisting solely of normal recurring accruals, necessary for the fair statement of financial statements for the interim period have been included.

Investments in real estate

The Company accounts for its acquisitions of real estate in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 141, “Business Combinations”, which requires the purchase price of real estate to be allocated to the acquired tangible assets and liabilities, consisting of land, building, tenant improvements, long-term debt and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases, the value of in-place leases, the value of unamortized lease origination costs and the value of tenant relationships, based in each case on their fair values.

The Company records investments in real estate at cost and capitalizes improvements and replacements when they extend the useful life or improve the efficiency of the asset. The Company expenses costs of repairs and maintenance as incurred. The Company computes depreciation using the straight-line method over the estimated useful life of 39 years for buildings and improvements, five to seven years for equipment and fixtures and the shorter of the useful life or the remaining lease term for tenant improvements and leasehold interests.

Management’s estimates of value are made using methods similar to those used by independent appraisers (e.g., discounted cash flow analysis). Factors considered by management in its analysis include an estimate of carrying costs during hypothetical expected lease-up periods considering current market conditions, and costs to execute similar leases. The Company also considers information obtained about each property as a result of its pre-acquisition due diligence, marketing and leasing activities in estimating the fair value of the tangible and intangible assets and liabilities acquired. In estimating carrying costs, management also includes real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods, which primarily range from nine 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.

The Company allocates 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 \$1,154,114 and \$423,643 for the three months ended March 31, 2006 and 2005, respectively.

Above-market and below-market in-place lease values for owned properties are recorded based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) 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. The capitalized above-market lease values, included in the accompanying balance sheet as part of deferred rent receivable, are amortized as a reduction of rental income over the remaining non-cancelable terms of the respective leases. The value of these above-market leases as of March 31, 2006 was \$1,753,398, and total amortization related to above-market lease values was \$63,374 for the three months ended March 31, 2006. There were no above-market lease values for the three months ended March 31, 2005. The capitalized below-market lease values, included in the accompanying balance sheet as deferred rent liability, are amortized as an increase to rental income over the initial term and any fixed-rate renewal periods in the respective leases. The value of these below-

market leases as of March 31, 2006 was \$3,698,616 and total amortization related to below-market lease values was \$80,291 for the three months ended March 31, 2006. There were no below-market lease values for the three months ended March 31, 2005.

The Company has determined that certain of its properties, which were originally not treated as business combinations under SFAS No. 141 because there was not an existing lease in place at the time of acquisition, should have been treated as business combinations when determining the purchase price of the real estate. These properties had leases that were put in place on the date of acquisition and thus were implicitly included in the purchase price and should have been considered as leases in place for purposes of determining if the acquisitions were business combinations. As a result, the Company reallocated approximately \$1.2 million of land, building and tenant improvements to intangible assets and recognized additional depreciation of \$140,606, offset by increased rental revenue related to below market rents of approximately \$28,000, for a net decrease in income of approximately \$112,000 for the quarter ended March 31, 2006. Of the additional \$112,000 recognized in the quarter ended March 31, 2006, approximately \$90,000 relates to periods prior to 2006.

The total amount of the remaining intangible assets acquired, which consist 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 the Company's overall relationship with that respective tenant. Characteristics to be considered by management in allocating 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 expectations of lease renewals (including those existing under the terms of the lease agreement), among other factors.

The value of in-place leases and unamortized lease origination costs are amortized to expense over the remaining term of the respective leases, which range from 5 to 20 years. The value of customer relationship intangibles are amortized to expense over the remaining term and any 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 in-place lease value and customer relationship intangibles will be charged to expense. Total amortization expense related to these intangible assets was \$680,626 and \$114,113 for the three months ended March 31, 2006 and 2005, respectively.

The following table summarizes the net value of other intangible assets and the weighted average amortization period for each major intangible asset class:

	March 31, 2006		December 31, 2005	
	Lease Intangibles	Weighted Average Amortization Period	Lease Intangibles	Weighted Average Amortization Period
In-place leases	\$ 10,178,997	11.46	\$ 5,625,736	11.82
Leasing costs	5,302,506	10.95	5,047,033	11.33
Customer relationships	9,013,828	14.79	4,496,128	15.43
Accumulated amortization	(1,902,039)		(1,221,413)	
	<u>\$ 22,593,292</u>	<u>12.35</u>	<u>\$ 13,947,484</u>	<u>12.69</u>

The estimated aggregate amortization expense for each of the five succeeding fiscal years are as follows:

Year	Estimated Amortization Expense
2006	\$ 2,331,159
2007	2,772,488
2008	2,772,488
2009	2,594,848
2010	2,499,080

Impairment*Investments in Real Estate*

The Company accounts for the impairment of real estate in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which requires that the Company periodically review the carrying value of each property to determine if circumstances that indicate impairment in the carrying value of the investment exist or that depreciation periods should be modified. If circumstances support the possibility of impairment, the Company prepares a projection of the undiscounted future cash flows, without interest charges, of the specific property and determines if the investment in such property is recoverable. If impairment is indicated, the carrying value of the property would be written down to its estimated fair value based on the Company's best estimate of the property's discounted future cash flows. There have been no impairments recognized on the Company's real estate assets at March 31, 2006.

Provision for Loan Losses

The Company's accounting policies require that it reflect in its financial statements an allowance for estimated credit losses with respect to mortgage loans it has made based upon its evaluation of known and inherent risks associated with its private lending assets. The Company has extended two mortgage loans and has not experienced any actual losses in connection with its lending investments. Management reflects provisions for loan losses based upon its assessment of general market conditions, its internal risk management policies and credit risk rating system, industry loss experience, its assessment of the likelihood of delinquencies or defaults, and the value of the collateral underlying its investments. Actual losses, if any, could ultimately differ from these estimates. There have been no provisions for loan losses at March 31, 2006.

Cash and cash equivalents

The Company considers all short-term, highly liquid investments that are both readily convertible to cash and have a maturity of three months or less at the time of purchase to be cash equivalents; except that any such investments purchased with funds held in escrow or similar accounts are classified as restricted cash. Items classified as cash equivalents include commercial paper and money-market funds. All of the Company's cash and cash equivalents at March 31, 2006 were held in the custody of three financial institutions, and the Company's balance at times may exceed federally insurable limits. The Company mitigates this risk by depositing funds with major financial institutions.

Restricted cash

Restricted cash consists of security deposits and funds held in escrow for certain tenants. The funds held in escrow are for capital improvements, taxes, insurance and other replacement reserves for certain of our tenants. These funds will be released to the tenants upon completion of agreed upon tasks as specified in the lease agreements, mainly consisting of maintenance and repairs on the buildings, and when evidence of insurance and tax payments has been submitted to the Company.

Funds held in escrow

Funds held in escrow consists of funds held by certain of the Company's lenders for properties held as collateral by these lenders. These funds consist of replacement reserves for capital improvements, repairs and maintenance, insurance and taxes. These funds will be released to the Company upon completion of agreed upon tasks as specified in the mortgage agreements, mainly consisting of maintenance and repairs on the buildings, and when evidence of insurance and tax payments has been submitted to the lenders.

Deferred financing costs

Deferred financing costs consist of costs incurred to obtain long-term 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 financing secured. Total amortization expense related to deferred financing costs was \$121,871 and \$16,246 for the three months ended March 31, 2006 and 2005, respectively.

Revenue recognition

Rental revenues include rents that each tenant pays in accordance with the terms of its respective lease reported on a straight-line basis over the non-cancelable term of the lease. Certain of the Company's leases currently contain rental increases at specified intervals, and straight-line basis accounting requires the Company to record an asset, and include in revenues, deferred rent receivable that will be received if the tenant makes all rent payments required through the expiration of the initial term of the lease. Deferred rent receivable in the accompanying 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 lease values of certain acquired properties. Accordingly, the Company determines, in its judgment, to what extent the deferred rent receivable applicable to each specific tenant is collectible. The Company reviews deferred rent receivable, as is it relates to straight line rents, on a quarterly basis and takes into consideration the tenant's payment history, the financial condition of the tenant, business conditions in the industry in which the tenant operates and economic conditions in the area in which the property is located. In the event that the collectibility of deferred rent with respect to any given tenant is in doubt, the Company records an increase in the allowance for uncollectible accounts or records a direct write-off of the specific rent receivable, which would have an adverse effect on the net income for the year in which the reserve is increased or the direct write-off is recorded and would decrease total assets and stockholders' equity. No such reserves have been recorded as of March 31, 2006.

Management considers its loans and other lending investments to be held-for-investment. The Company reflects held-for-investment investments at amortized cost less allowance for loan losses, acquisition premiums or discounts, deferred loan fees and undisbursed loan funds. On occasion, the Company may acquire loans at small premiums or discounts based on the credit characteristics of such loans. These premiums or discounts are recognized as yield adjustments over the lives of the related loans. Loan origination or exit 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, loan origination or exit fees are prepaid, the Company immediately recognizes 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.

Stock based compensation

In December of 2004, the Financial Accounting Standards Board ("FASB") approved the revision of SFAS No. 123, "Accounting for Stock-Based Compensation, and issued the revised SFAS No. 123(R), "Share-Based Payment." In April of 2005, the effective date of adoption was changed from interim periods ending after June 15, 2005 to annual periods beginning after June 15, 2005. SFAS No. 123(R) effectively replaces SFAS No. 123, and supersedes APB Opinion No. 25. The new standard is effective for awards that are granted, modified, or settled in cash for annual periods beginning after June 15, 2005. The Company adopted SFAS No. 123(R) on January 1, 2006 using the modified prospective approach. Under the modified prospective approach, stock-based compensation expense was recorded for the unvested portion of previously issued awards that remained outstanding at January 1, 2006 using the same estimate of the grant date fair value and the same attribution method used to determine the pro forma disclosure under SFAS No. 123. SFAS No. 123(R) also requires that all share-based payments to employees after January 1, 2006, including employee stock options, be recognized in the financial statements as stock-based compensation expense based on the fair value on the date of grant.

In October of 2005, FASB released FASB Staff Position No. FAS 123(R)-2 (“FSP FAS 123(R)-2”), *Practical Accommodation to the Application of Grant Date as Defined in FASB Statement No. 123(R)*. FSP FAS 123(R)-2 provides guidance on the application of grant date as defined in SFAS No. 123(R). The FASB addresses the notion of “mutual understanding,” specifically that a mutual understanding shall be presumed to exist at the date the award is approved in accordance with the relevant corporate governance requirements if, the award is a unilateral grant and therefore the recipient does not have the ability to negotiate the terms and conditions of the award with the employer and, the key terms and conditions of the award are expected to be communicated to an individual recipient within a relatively short time period for the date of approval. The Company applied FSP FAS 123(R)-2 in conjunction with the adoption of SFAS No. 123(R) on January 1, 2006.

Income taxes

The Company has operated and intends to continue to operate in a manner that will allow it to qualify as a REIT under the Internal Revenue Code of 1986, as amended, and accordingly will not be subject to Federal income taxes on amounts distributed to stockholders (except income from foreclosure property), provided it distributes at least 90% of its real estate investment trust taxable income to its stockholders and meets certain other conditions. To the extent that the Company satisfies the distribution requirement but distributes less than 100% of its taxable income, the Company will be subject to federal corporate income tax on its undistributed income. Because the Company is not able to deduct any of its unrealized losses on the translation of assets and liabilities in a foreign currency for tax purposes, the Company must distribute these amounts to its stockholders or the Company would be subject to federal and state corporate income tax on the amounts of these losses.

Commercial Advisers is a wholly-owned taxable REIT subsidiary (“TRS”) that is subject to federal and state income taxes. The Company accounts for such income taxes in accordance with the provisions of SFAS No. 109, “Accounting for Income Taxes.” Under SFAS No. 109, the Company accounts for income taxes using the asset and liability method under which deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

Segment information

SFAS No. 131, “*Disclosures about Segments of an Enterprise and Related Information*” provides standards for public companies relating to the reporting of financial and descriptive information about their operating segments in financial statements. Operating segments are defined as components of an enterprise for which separate financial information is available and is evaluated regularly by the chief operating decision maker or decision making group in determining how to allocate resources and in assessing performance. Company management is the chief decision making group. As discussed in Note 8, the Company’s operations are derived from two operating segments, one segment purchases real estate (land, buildings and other improvements), which is simultaneously leased to existing users and the other segment originates mortgage loans and collects principal and interest payments.

Foreign Currency Transactions

The Company purchased two properties in Canada in October of 2004. Rental payments from these properties are received in Canadian dollars. In accordance with SFAS No. 52 “*Foreign Currency Translation*,” the rental revenue received is recorded using the exchange rate as of the transaction date, which is the first day of each month. If the rental payment is received on a date other than the transaction date, then a realized foreign currency gain or loss would be recorded on the financial statements. Straight line rent and any deferred rent asset or liability recorded in connection with monthly rental payments are also recorded using the exchange rate as of the transaction date. The Company also remits quarterly tax payments to Canada from amounts withheld from the tenants in the Canadian properties. Since these

payments are received from the tenants on dates different than the remittance date to Canada, the tax payments also result in realized foreign currency gains and losses on the income statement. In addition to rental payments that are denominated in Canadian dollars, the Company also has a bank account in Canada and the long-term financings on the two Canadian properties were also issued in Canadian dollars. All cash, deferred rent assets and mortgage notes payable related to the Canadian properties are re-valued at each balance sheet date to reflect the current exchange rate. The gains or losses from the valuation of the cash is recorded on the income statement as a realized gain or loss, and the valuation of the deferred rent assets and mortgage notes payable is recorded on the income statement as unrealized gains or losses on the translation of assets and liabilities. Realized foreign currency losses of \$816 and \$347 were recorded for the three months ended March 31, 2006 and 2005, respectively. Unrealized foreign currency gains of \$12,615 and \$255 were recorded for the three months ended March 31, 2006 and 2005, respectively.

Asset retirement obligations

In March of 2005, the FASB issued Interpretation No. 47 "Accounting for Conditional Asset Retirement Obligations" ("FIN 47"). FIN 47 requires an entity to recognize a liability for a conditional asset retirement obligation when incurred if the liability can be reasonably estimated. FIN 47 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. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. The Company accrued a liability and corresponding increase to the cost of the related properties of \$1,428,964, approximately \$700,000 of which related to properties acquired in the first quarter of 2006, for disposal related to all properties constructed prior to 1985 that have, or may have, asbestos present in the building. During the three months ended March 31, 2006, the Company recorded \$55,143 of expense related to the cumulative accretion of the obligation from the Company's acquisition of the related properties through March 31, 2006, approximately \$50,000 of which related to periods prior to December 31, 2005. The Company adopted FIN 47 as of December 31, 2005, but did not record the liability and the related cumulative effect as of December 31, 2005 because the Company deemed the impact of its initial estimates immaterial and worked to further refine these estimates.

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 period. Actual results could differ from those estimates.

Reclassifications

Certain amounts from prior years' financial statements have been reclassified to conform to the current year presentation. These reclassifications had no effect on previously reported net income or stockholders' equity.

2. Management Advisory Fee

The Company has no employees, and all of the Company's operations are managed by the Company's Adviser pursuant to an advisory agreement. Pursuant to the advisory agreement, the Adviser is responsible for managing the Company on a day-to-day basis and for identifying, evaluating, negotiating and consummating investment transactions consistent with the Company's criteria. In exchange for such services, the Company pays the Adviser a management advisory fee, which consists of the reimbursement of certain expenses of the Adviser. The Company reimburses the Adviser for its pro-rata share of the payroll and related benefit expenses on an employee-by-employee basis, based on the percentage of each employee's time devoted to Company matters. The Company also reimburses the Adviser for general overhead expenses multiplied by the ratio of hours worked by the Adviser's employees on Company matters to the total hours worked by the Adviser's employees.

The Company compensates its Adviser through reimbursement of its portion of the Adviser's payroll, benefits and general overhead expenses. This reimbursement is generally subject to a combined annual management fee limitation of 2.0% of the Company's average invested assets for the year, with certain exceptions. Reimbursement for overhead expenses is only required up to the point that reimbursed overhead expenses and payroll and benefits expenses, on a combined basis, equal 2.0% of the Company's average invested assets for the year, and general overhead expenses are required to be reimbursed only if the amount of payroll and benefits reimbursed to the Adviser is less than 2.0% of its average invested assets for the year. However, payroll and benefits expenses are required to be reimbursed by the Company to the extent that they exceed the overall 2.0% annual management fee limitation. To the extent that overhead expenses payable or reimbursable by the Company exceed this limit and the Company's independent directors determine that the excess expenses were justified based on unusual and nonrecurring factors which they deem sufficient, the Company may reimburse the Adviser in future years for the full amount of the excess expenses, or any portion thereof, but only to the extent that the reimbursement would not cause the Company's overhead expense reimbursements to exceed the 2.0% limitation in any year. To date, the advisory fee has not exceeded the annual cap.

For the three months ended March 31, 2006 and 2005, the Company incurred approximately \$653,000 and \$472,000, respectively, in management advisory fees. Approximately \$196,000 and \$164,000 was unpaid at March 31, 2006 and December 31, 2005, respectively.

The following table shows the breakdown of the management advisory fee for three months ended March 31, 2006 and 2005:

	For the three months ended March 31, 2006	For the three months ended March 31, 2005
Allocated payroll and benefits	\$ 467,719	\$ 347,314
Allocated overhead expenses	\$ 185,023	\$ 124,547
Total management advisory fee	<u>\$ 652,742</u>	<u>\$ 471,861</u>

In a proxy statement for the Company's 2006 Annual Meeting of Stockholders, mailed to stockholders and filed with the U.S. Securities and Exchange Commission on March 24, 2006, the Company has asked its stockholders to approve a proposal to enter into an amended and restated investment advisory agreement (the "Proposed Agreement") with its Adviser and an administration agreement (the "Administration Agreement") between the Company and Gladstone Administration, LLC (the "Administrator"), a wholly owned subsidiary of the Adviser. Stockholders will vote on the proposal at the Annual Meeting to be held on May 24, 2006.

The Proposed Agreement provides for an annual base management fee equal to 2% of the Company's total stockholders equity (less the recorded value of any preferred stock) and an incentive fee based on fund from operations, or "FFO," which would reward the Adviser if the Company's quarterly FFO (before giving effect to any incentive fee) exceeds 1.75% (7% annualized) of total stockholders' equity (less the recorded value of any preferred stock). Under the Administration Agreement, the Company would pay separately for its allocable portion of the Administrator's overhead expenses in performing its obligations, including rent, and the Company's allocable portion of the salaries and benefits expenses of its chief financial officer, chief compliance officer, controller and their respective staffs.

If the Company's stockholders approve the Proposed Agreement and Administration Agreement, the Company will terminate the 2003 Plan, and seek agreement from all holders of stock options to exercise or terminate their options within a limited period of time. Pending stockholder approval, the Proposed Agreement and the Administration Agreement would become effective upon the later of (i) January 1,

2007; or (ii) the first day of the first fiscal quarter beginning after the last of the outstanding stock options are either exercised or terminated. The Proposed Agreement and Administration Agreement will not become effective as long as the 2003 Plan is in effect or as long as there are any outstanding stock options. The current investment advisory agreement with Gladstone Management will continue in effect until these new agreements become effective. As of March 31, 2006, as no formal plan had been approved or enacted, there is no change in the contractual lives of the outstanding options.

3. Stock Options

Effective January 1, 2006, the Company adopted the provisions of FASB Statement No. 123(R), "Share-Based Payment," for its stock-based compensation plans. The Company previously accounted for these plans under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations and disclosure requirements established by SFAS 123, "Accounting for Stock-Based Compensation." In this regard, these options have been granted to individuals who are the Company's officers, and who would qualify as leased employees under FASB Interpretation No. 44 ("FIN 44"), "Accounting for Certain Transactions Involving Stock Compensation, an Interpretation of APB Opinion No. 25."

Under APB 25, no expense was recorded in the income statement for the Company's stock options. The pro forma effects on income for stock options were instead disclosed in a footnote to the financial statements. Under SFAS 123(R), all share-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as an expense in the income statement over an employee's requisite service period.

The Company adopted SFAS 123(R) using the modified prospective method. Under this transition method, compensation cost recognized during the three months ended March 31, 2006 includes the cost for all stock-based payments granted prior to, but not yet vested, as of January 1, 2006. This cost was based on the grant-date fair value estimated in accordance with the original provisions of SFAS 123. For the three months ended March 31, 2006 the Company recorded stock option compensation expense of \$46,216, using an estimated weighted average fair value of \$1.26 using the Black-Scholes option-pricing model, based on options issued from date of inception forward, and the following weighted-average assumptions: dividend yield of 5.07%, risk-free interest rate of 2.61%, expected volatility factor of 18.15%, and expected lives of 3 years.

The following table illustrates the effect on net income and earnings per share as if the company had applied the fair-value recognition provisions of SFAS 123 to stock options, stock appreciation rights, performance units and restricted stock units for periods prior to adoption of SFAS 123(R).

	For the three months ended March 31, 2005
Net income, as reported	\$ 535,184
Less: Stock-based compensation expense determined using the fair value based method	<u>(95,792)</u>
Net income, pro-forma	\$ 439,392
Basic, as reported	\$ 0.07
Basic, pro-forma	<u>\$ 0.06</u>
Diluted, as reported	\$ 0.07
Diluted, pro-forma	<u>\$ 0.06</u>

The stock-based compensation expense under the fair value method, as reported in the above table, was computed using an estimated weighted average fair value of \$1.29 using the Black-Scholes option-pricing model, based on options issued from date of inception forward, and the following weighted-average assumptions: dividend yield of 4.99%, risk-free interest rate of 2.54%, expected volatility factor of 18.40%, and expected lives of 3 years.

As of March 31, 2006, there was approximately \$61,000 of total unrecognized compensation cost related to non-vested stock-based compensation awards granted. That cost is expected to be recognized over the next 1.3 years.

At March 31, 2006, 916,000 options were outstanding with exercise prices ranging from \$15 to \$16.85 with terms of ten years.

A summary of the status of the Company's 2003 Equity Incentive Plan for the three months ended March 31, 2006 is as follows:

	Shares	Weighted Average Exercise Price
Options outstanding at December 31, 2005, of which 744,250 shares are exercisable	<u>916,000</u>	\$ 15.39
Granted	—	\$ —
Exercised	—	\$ —
Forfeited	—	\$ —
Options outstanding at March 31, 2006, of which 744,250 shares are exercisable	<u>916,000</u>	\$ 15.39

The following table is a summary of all notes issued to employees for the exercise of stock options:

Date Issued	Number of Options Exercised	Strike Price of Options Exercised	Amount of Promissory Note	Term of Note	Interest Rate on Note
Sep-04	25,000	\$ 15.00	\$ 375,000	9 years	5.0%
May-05	5,000	\$ 15.00	\$ 75,000	9 years	6.0%

These notes were recorded as loans to employees in the equity section of the accompanying consolidated balance sheets. As of March 31, 2006, approximately \$432,000 of indebtedness was owed by current employees to the Company, and no current or former directors or executive officers had any loans outstanding.

4. Earnings per Common Share

The following tables set forth the computation of basic and diluted earnings per share for the three months ended March 31, 2006 and 2005:

	For the three months ended March 31, 2006	For the three months ended March 31, 2005
Net income available to common stockholders	\$ 502,356	\$ 535,184
Denominator for basic weighted average shares	7,672,000	7,667,000
Dilutive effect of stock options	<u>149,658</u>	<u>66,335</u>
Denominator for diluted weighted average shares	<u>7,821,658</u>	<u>7,733,335</u>
Basic earnings per common share	<u>\$ 0.07</u>	<u>\$ 0.07</u>
Diluted earnings per common share	<u>\$ 0.06</u>	<u>\$ 0.07</u>

5. Real Estate

A summary of the 33 properties held by the Company as of March 31, 2006 is as follows:

Date Acquired	Location	Square Footage (unaudited)	Property Description	Net Real Estate
Dec-03	Raleigh, North Carolina	58,926	Office	\$ 4,968,511
Jan-04	Canton, Ohio	54,018	Office and Warehouse	3,078,010
Apr-04	Akron, Ohio	83,891	Office and Laboratory	8,414,213
Jun-04	Charlotte, North Carolina	64,500	Office	8,837,611
Jul-04	Canton, North Carolina	228,000	Commercial and Manufacturing	4,976,182
Aug-04	Snyder Township, Pennsylvania	290,000	Commercial and Warehouse	6,389,350
Aug-04	Lexington, North Carolina	154,000	Commercial and Warehouse	2,873,216
Sep-04	Austin, Texas	51,993	Flexible Office	7,075,067
Oct-04	Norfolk, Virginia	25,797	Commercial and Manufacturing	919,418
Oct-04	Mt. Pocono, Pennsylvania	223,275	Commercial and Manufacturing	5,965,661
Oct-04	Granby, Quebec	99,981	Commercial and Manufacturing	3,017,470
Oct-04	Montreal, Quebec	42,490	Commercial and Manufacturing	1,810,905
Feb-05	San Antonio, Texas	60,245	Flexible Office	8,083,146
Feb-05	Columbus, Ohio	39,000	Industrial	2,723,352
Apr-05	Big Flats, New York	120,000	Industrial	6,601,497
May-05	Wichita, Kansas	69,287	Office	11,036,428
May-05	Arlington, Texas	64,000	Warehouse and Bakery	4,024,885
Jun-05	Dayton, Ohio	59,894	Office	2,409,159
Jul-05	Eatontown, New Jersey	30,268	Office	4,789,574
Jul-05	Franklin Township, New Jersey	183,000	Office and Warehouse	7,626,240
Jul-05	Duncan, South Carolina	278,020	Office and Manufacturing	15,254,836
Aug-05	Hazelwood, Missouri	51,155	Office and Warehouse	3,060,466
Sep-05	Angola, Indiana	52,080	Industrial	1,166,732
Sep-05	Angola, Indiana	50,000	Industrial	1,166,732
Sep-05	Rock Falls, Illinois	52,000	Industrial	1,166,732
Oct-05	Newburyport, Massachusetts	70,598	Industrial	7,092,037
Oct-05	Clintonville, Wisconsin	291,142	Industrial	4,719,867
Dec-05	Maple Heights, Ohio	347,218	Industrial	11,862,804
Dec-05	Richmond, Virginia	42,213	Office	6,064,897
Dec-05	Toledo, Ohio	23,368	Office	3,092,996
Feb-06	South Hadley, Massachusetts	150,000	Industrial	3,236,717
Feb-06	Champaign, Illinois	108,262	Office	14,205,278
Feb-06	Roseville, Minnesota	359,540	Office	27,029,544
		<u>3,878,161</u>		<u>\$ 204,739,533</u>

The following table sets forth the components of the Company's investments in real estate:

	March 31, 2006	December 31, 2005
Real estate:		
Land	\$ 26,411,783	\$ 20,329,568
Building	178,132,801	141,660,553
Tenant improvements	4,757,941	3,053,518
Accumulated depreciation	<u>(4,562,992)</u>	<u>(3,408,878)</u>
Real estate, net	<u>\$ 204,739,533</u>	<u>\$ 161,634,761</u>

On February 15, 2006, the Company acquired a 150,000 square foot industrial facility in South Hadley, Massachusetts for \$3.5 million, including transaction costs, and the purchase was funded using borrowings from the Company's line of credit. Upon acquisition of the property, the Company was assigned the previously existing triple net lease with the sole tenant, which had a remaining term of approximately four years at the time of assignment, and the tenant has one option to extend the lease for additional period of five years. The lease provides for annual rents of approximately \$353,000 in 2007, with prescribed escalations thereafter.

On February 21, 2006, the Company acquired four office buildings located in the same business park in Champaign, Illinois, from a single seller totaling 108,262 square feet. The Company acquired the four properties for approximately \$15.1 million, including transaction costs, which was funded by a combination of borrowings from the existing line of credit, and the assumption of approximately \$10.0 million of financing on the property. At closing, the Company was assigned the previously existing triple net leases with the sole tenant, which had remaining terms ranging from five to six years at the time of assignment, and the tenant has options to extend each lease for additional periods of three years each. The leases provide for annual rents of approximately \$1.3 million in 2007.

On February 21, 2006, the Company acquired a 359,540 square foot office building in Roseville, Minnesota for approximately \$29.7 million, including transaction costs, which was funded by a combination of borrowings from the existing line of credit, and the assumption of approximately \$20.0 million of financing on the property. At closing, the Company was assigned the previously existing triple net lease with the sole tenant, which had a remaining term of approximately seven years at the time of assignment, and the tenant has one option to extend the lease for an additional period of five years. The lease provides for annual rents of approximately \$2.4 million in 2007, with prescribed escalations thereafter.

In accordance with SFAS No. 141, "Business Combinations," the Company allocated the purchase price of the properties acquired during the three months ended March 31, 2006 as follows:

	Land	Building	Tenant Improvements	Lease Intangibles	Total Purchase Price
South Hadley, Massachusetts	\$ 470,636	\$ 2,775,163	\$ —	\$ 418,699	\$ 3,664,498
Champaign, Illinois	3,587,711	10,428,904	221,778	861,237	15,099,630
Roseville, Minnesota	2,480,548	23,498,730	1,133,284	3,112,447	30,225,009
	<u>\$ 6,538,895</u>	<u>\$ 36,702,797</u>	<u>\$ 1,355,062</u>	<u>\$ 4,392,383</u>	<u>\$ 48,989,137</u>

Future operating lease payments under non-cancelable leases, excluding customer reimbursement of expenses, in effect at March 31, 2006 are as follows:

Year	Rental Payments
2006	\$ 16,114,536
2007	21,776,570
2008	22,140,535
2009	21,413,955
2010	20,547,390
Thereafter	85,001,572

Lease payments for certain properties, where payments are denominated in Canadian dollars, have been translated to US dollars using the exchange rate as of March 31, 2006 for the purposes of the table above.

In accordance with the lease terms, substantially all tenant expenses are required to be paid by the tenant, however, the Company would be required to pay property taxes on the respective property in the event the tenant fails to pay them. The total property taxes, on an annual basis, for all properties outstanding as of March 31, 2006 is summarized in the table below:

Location	Real Estate Taxes
Raleigh, North Carolina	\$ 45,743
Canton, Ohio	6,374
Akron, Ohio	133,630
Charlotte, North Carolina	65,724
Canton, North Carolina	47,877
Snyder Township, Pennsylvania	99,222
Lexington, North Carolina	21,102
Austin, Texas	167,499
Norfolk, Virginia	11,570
Mt. Pocono, Pennsylvania	115,232
Granby, Quebec	37,885
Montreal, Quebec	81,502
San Antonio, Texas	159,444
Columbus, Ohio	37,610
Big Flats, New York	24,594
Wichita, Kansas	5,222
Arlington, Texas	66,312
Dayton, Ohio	56,108
Eatontown, New Jersey	53,240
Franklin Township, New Jersey	140,280
Duncan, South Carolina	319,757
Hazelwood, Missouri	75,876
Angola, Indiana	12,934
Angola, Indiana	12,934
Rock Falls, Illinois	17,723
Newburyport, Massachusetts	27,663
Clintonville, Wisconsin	130,757
Maple Heights, Ohio	336,163
Richmond, Virginia	39,024
Toledo, Ohio	48,824
South Hadley, Massachusetts	30,911
Champaign, Illinois	242,264
Roseville, Minnesota	721,384
	<u>\$ 3,392,384</u>

6. Mortgage Notes Receivable

On February 18, 2004, the Company originated a promissory mortgage note in the amount of \$11,170,000 collateralized by property in Sterling Heights, Michigan. The note was issued from a portion of the net proceeds of the Company's initial public offering of common stock. The note accrues interest at the greater of 11% per year or the one month LIBOR rate plus 5% per year, and is for a period of 10 years maturing on February 18, 2014. At March 31, 2006, the outstanding balance of the note was \$11,000,455.

On April 15, 2005, the Company originated a mortgage loan in the amount of \$10.0 million collateralized by an office building in McLean, Virginia, where the Company's Adviser is a subtenant in the building. The loan was funded using a portion of the net proceeds from the Company's initial public offering. This 12 year mortgage loan accrues interest at the greater of 7.5% per year or the one month LIBOR rate plus 6.0% per year, with a ceiling of 10.0%. The mortgage loan is interest only for the first nine years of the term, with payments of principal commencing after the initial period. The balance of the principal and all interest remaining is due at the end of the 12 year term.

7. Mortgage Notes Payable

As of March 31, 2006 the Company had 8 fixed-rate mortgage notes payable collateralized by a total of 16 properties. The weighted-average interest rate on the mortgage notes payable as of March 31, 2006 was approximately 5.53%. A summary of the mortgage notes payable as of March 31, 2006 are as follows:

Date of Issuance of Note	Principal Maturity Date	Interest Rate	Balance Outstanding	
			March 31, 2006	December 31, 2005
3/16/2005	4/1/2030	6.3300%	\$ 3,099,488	\$ 3,113,102
7/19/2005	8/1/2015	5.2200%	4,608,079	4,644,859
8/25/2005	9/1/2015	5.3310%	21,757,000	21,757,000
9/12/2005	9/1/2015	5.2100%	12,588,000	12,588,000
12/21/2005	12/8/2015	5.7107%	19,456,000	19,456,000
2/21/2006	12/1/2013	5.9100%	9,717,698	—
2/21/2006	6/1/2014	5.2000%	20,332,002	—
3/29/2006	4/1/2016	5.9200%	17,000,000	—
			<u>\$ 108,558,267</u>	<u>\$ 61,558,961</u>

The fair market value of all fixed-rate debt outstanding as of March 31, 2006 is approximately \$106,000,000, as compared to the carrying value stated above of approximately \$108,000,000.

On February 21, 2006, the Company assumed approximately \$10.0 million pursuant to a long-term note payable from Wells Fargo Bank, National Association, in connection with the Company's acquisition, on the same date, of a property located in Champaign, Illinois. The note accrues interest at a rate of 5.91% per year, and the Company may not repay this note prior to the last 3 months of the term, or the Company would be subject to a prepayment penalty. The note matures on December 1, 2013.

On February 21, 2006, the Company assumed approximately \$20.0 million pursuant to a long-term note payable from Greenwich Capital Financial Products, Inc. in connection with the Company's acquisition, on the same date, of a property located in Roseville, Minnesota. The note accrues interest at a rate of 5.20% per year, and the Company may not repay this note prior to the last 3 months of the term, or the Company would be subject to a prepayment penalty. The note matures on June 1, 2014.

On March 29, 2006, the Company, through wholly-owned subsidiaries, borrowed \$17.0 million pursuant to a long-term note payable from CIBC Inc. which is collateralized by security interests in its Big Flats, New York, property its Eatontown, New Jersey property, and its Franklin Township, New Jersey property in the amounts of approximately \$5.6 million, \$4.6 million and \$6.8 million, respectively. The note accrues interest at a rate of 5.92% per year, and the Company may not repay this note until after January 1, 2016, or the Company would be subject to a substantial prepayment penalty. The note has an anticipated maturity date of April 1, 2016, with a clause in which the lender has the option of extending the maturity date to April 1, 2036. The Company used the proceeds from the note to pay down its line of credit.

8. Stockholders' Equity

The following table summarizes the changes in stockholders' equity for the three months ended March 31, 2006:

	Common Stock	Preferred Stock	Capital in Excess of Par Value	Notes Receivable From Sale of Common Stock	Distributions in Excess of Accumulated Earnings	Total Stockholders' Equity
Balance at December 31, 2005	\$ 7,672	\$ —	\$ 105,502,544	\$ (432,282)	\$ (6,129,398)	\$ 98,948,536
Issuance of Common Stock Under Stock Option Plan	—	—	—	—	—	—
Issuance of Preferred Stock	—	1,000	24,999,000	—	—	25,000,000
Public Offering Costs	—	—	(1,302,006)	—	—	(1,302,006)
Stock Options	—	—	46,216	—	—	46,216
Distributions Declared to Common and Preferred Stockholders	—	—	—	—	(3,106,364)	(3,106,364)
Net income	—	—	—	—	846,800	846,800
Balance at March 31, 2006	<u>\$ 7,672</u>	<u>\$ 1,000</u>	<u>\$ 129,245,754</u>	<u>\$ (432,282)</u>	<u>\$ (8,388,962)</u>	<u>\$ 120,433,182</u>

On January 18, 2006, the Company completed the public offering of 1,000,000 shares of 7.75% Series A Cumulative Redeemable Preferred Stock (the "Preferred Stock"), par value \$0.001 per share, at a price of \$25.00 per share, under the Company's shelf registration statement on Form S-3, and pursuant to the terms set forth in a prospectus dated October 24, 2005, as supplemented by a final prospectus supplement dated January 18, 2006. The preferred stock may be redeemed at a liquidation preference in the amount of \$25.00 per share plus any unpaid dividends at the election of the Company on or after January 30, 2011. These securities have no stated maturity, sinking fund or mandatory redemption and are not convertible into any other securities of the Company. The closing of the offering occurred on January 26, 2006, and the preferred stock is traded on the Nasdaq National Market under the trading symbol "GOODP." Net proceeds of the offering, after underwriting discounts and offering expenses, were approximately \$23.7 million, and the net proceeds were used to repay outstanding indebtedness under the Company's line of credit.

Dividends paid per common share for the three months ended March 31, 2006 and 2005 were \$0.36 and \$0.18 per share, respectively. Dividends paid per preferred share for the three months ended March 31, 2006 were approximately \$0.34 per share.

9. Segment Information

As of March 31, 2006, the Company's operations are derived from two operating segments. One segment purchases real estate (land, buildings and other improvements), which is simultaneously leased to existing users and the other segment extends mortgage loans and collects principal and interest payments. The following table summarizes the Company's consolidated operating results and total assets by segment as of and for the three months ended March 31, 2006 and 2005:

	As of and for the three months ended March 31, 2006			
	Real Estate Leasing	Real Estate Lending	Other	Total
Operating revenues	\$ 5,027,108	\$ 552,913	\$ —	\$ 5,580,021
Operating expenses	(1,944,142)	—	(1,084,635)	(3,028,777)
Other income (loss)	—	—	(1,716,243)	(1,716,243)
Net realized and unrealized loss from foreign currency	11,799	—	—	11,799
Net income (loss)	<u>\$ 3,094,765</u>	<u>\$ 552,913</u>	<u>\$ (2,800,878)</u>	<u>\$ 846,800</u>
Total Assets	<u>\$ 232,323,606</u>	<u>\$ 21,071,041</u>	<u>\$ 6,412,452</u>	<u>\$ 259,807,099</u>

	As of and for the three months ended March 31, 2005			
	Real Estate Leasing	Real Estate Lending	Other	Total
Operating revenues	\$ 1,849,050	\$ 295,583	\$ —	\$ 2,144,633
Operating expenses	(666,028)	—	(1,006,316)	(1,672,344)
Other income (loss)	—	—	62,987	62,987
Net realized and unrealized loss from foreign currency	(92)	—	—	(92)
Net income (loss)	<u>\$ 1,182,930</u>	<u>\$ 295,583</u>	<u>\$ (943,329)</u>	<u>\$ 535,184</u>
Total Assets	<u>\$ 76,146,541</u>	<u>\$ 11,153,040</u>	<u>\$ 19,691,498</u>	<u>\$ 106,991,079</u>

10. Line of Credit

On February 28, 2005, the Company entered into a line of credit agreement with a syndicate of banks led by Branch Banking & Trust Company. This line of credit initially provided the Company with up to \$50 million of financing, with an option to increase the line of credit up to a maximum of \$75 million upon agreement of the syndicate of banks. On July 6, 2005, the Company amended the line of credit to increase the maximum availability under the line from \$50 million to \$60 million, and on March 17, 2006 the Company amended the line of credit again to increase the maximum availability from \$60 million to \$67.5 million. The line of credit matures on February 28, 2008. The interest rate charged on the advances under the facility is based on LIBOR, the prime rate or the federal funds rate, depending on market conditions, and adjusts periodically. The unused portion of the line of credit is subject to a fee of 0.25% per year. The Company's ability to access this funding source is subject to the Company continuing to meet customary lending requirements such as compliance with financial and operating covenants and meeting certain lending limits and, as of March 31, 2006, the Company is in compliance with all financial and operating covenants. For example, as is customary with such line of credit facilities, the maximum amount the Company may draw under this agreement is based on the percentage of the value of its properties meeting agreed-upon eligibility standards that the Company has pledged as collateral to the banks. As the Company arranges for long-term mortgages for these properties, the banks will release the properties from the line of credit and reduce the availability under the line of credit by the advanced amount of the removed property. Conversely, as the Company purchases new properties meeting the eligibility standards, the Company may pledge these new properties to obtain additional advances under this agreement. The Company may use the advances under the line of credit for both general corporate purposes and the acquisition of new investments. As of March 31, 2006 and December 31, 2005, there was \$22.3 million and \$43.6 million outstanding under the line of credit at an interest rate of 6.64% and 6.31% per year, respectively.

11. Pro Forma Financial Information

The Company acquired 3 properties during the three months ended March 31, 2006. The following table reflects pro-forma consolidated income statements as if the 3 properties were acquired on January 1, 2006 and January 1, 2005:

	For the three months ended March 31, 2006	For the three months ended March 31, 2005
Operating Data:		
Total operating revenue	\$ 6,238,795	\$ 3,294,351
Total operating expenses	(3,578,845)	(2,549,430)
Other income (expense)	(1,670,027)	62,987
Income before realized and unrealized losses	989,923	807,908
Realized and unrealized loss from foreign currency	11,799	(92)
Net income (loss)	<u>1,001,722</u>	<u>807,816</u>
Share and Per Share Data:		
Basic net income (loss)	\$ 0.13	\$ 0.11
Diluted net income (loss)	\$ 0.13	\$ 0.10
Weighted average shares outstanding-basic	7,672,000	7,667,000
Weighted average shares outstanding-diluted	7,821,658	7,733,335

These pro-forma consolidated income statements are not necessarily indicative of what actual results would have been had the Company acquired the 3 properties on January 1, 2006 and 2005.

12. Subsequent Events

On April 11, 2006, the Board of Directors declared cash dividends of \$0.12 per common share for each of the months of April, May and June of 2006. Monthly dividends will be payable on April 28, 2006, May 31, 2006 and June 30, 2006, to those shareholders of record for those dates on April 20, 2006, May 22, 2006 and June 22, 2006, respectively.

On April 11, 2006, the Board of Directors declared cash dividends of \$0.1614583 per preferred share for each of the months of April, May and June of 2006. Monthly dividends will be payable on April 28, 2006, May 31, 2006 and June 30, 2006, to those shareholders of record for those dates on April 20, 2006, May 22, 2006 and June 22, 2006, respectively.

On April 20, 2006, an employee of the Company exercised 25,000 options at \$15.00 per share for an equal number of shares of common stock in consideration for a promissory note in the principal amount of \$375,000. This note has full recourse back to the employee, has a term of five years and bears interest at 7.77% per year. No compensation expense was recorded related to this transaction.

On April 20, 2006, an employee of the Company exercised 12,422 options at \$16.10 per share for an equal number of shares of common stock in consideration for a promissory note in the principal amount of \$199,994.20. This note has full recourse back to the employee, has a term of nine years and bears interest at 7.77% per year. No compensation expense was recorded related to this transaction.

On April 27, 2006, the Company, through wholly-owned subsidiaries, borrowed \$14.9 million pursuant to a long-term note payable from IXIS Real Estate Capital Inc. which is collateralized by security interests in its Wichita, Kansas, property its Clintonville Wisconsin property, its Rock Falls, Illinois property and its Angola, Indiana properties in the amounts of approximately \$9.0 million, \$3.6 million, \$0.7 million and \$1.6 million, respectively. The note accrues interest at a rate of 6.58% per year, and the Company may not repay this note until after February 5, 2016, or the Company would be subject to a substantial prepayment penalty. The note has a maturity date of May 5, 2016, and the Company used the proceeds from the note to pay down its line of credit.

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

The following analysis of our financial condition and results of operations should be read in conjunction with our financial statements and the notes thereto contained elsewhere in this Form 10-Q.

Forward-Looking Statements

Some of the statements in this Quarterly Report on Form 10-Q constitute forward-looking statements under Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements made with respect to possible or assumed future results of our business, financial condition, liquidity, results of operations, plans and objectives. Such forward-looking statements can generally be identified by the use of the words "may," "will," "intend," "believe," "expect," "anticipate," "estimate" or similar expressions. You should not place undue reliance on these forward-looking statements. Statements regarding the following subjects are forward-looking by their nature:

- our business strategy;*
- pending transactions;*
- our projected operating results;*
- our ability to obtain future financing arrangements;*
- estimates relating to our future distributions;*
- our understanding of our competition;*
- market trends;*
- 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 credit facilities, mortgage notes payable, offerings of equity securities and other future capital resources, if any.*

These statements involve known and unknown risks, uncertainties and other factors that may cause results, levels of activity, growth, performance, tax consequences or achievements to be materially different from any future results, levels of activity, growth, performance, tax consequences or achievements expressed or implied by such forward-looking statements.

The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. Although we believe that these beliefs, assumptions and expectations are reasonable, we cannot guarantee future results, levels of activity, performance, growth or achievements. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in or implied by our forward-looking statements. You should carefully consider these risks before you make an investment decision with respect to our common and preferred stock, along with the following factors that could cause actual results to vary from our forward-looking statements:

- the loss of any of our key employees, such as Mr. David Gladstone, our chairman and chief executive officer, Mr. Terry Lee Brubaker, our president and chief operating officer, or Mr. George Stelljes III, our executive vice president and chief investment officer;*
- general volatility of the capital markets and the market price of our securities;*
- risks associated with negotiation and consummation of pending and future transactions;*
- changes in our business strategy;*
- availability, terms and deployment of capital, including the ability to maintain and borrow under our existing credit facility, arrange for long-term mortgages on our properties; secure one or more additional long-term credit facilities, and to raise equity capital;*
- availability of qualified personnel;*
- changes in our industry, interest rates, exchange rates or the general economy; and*
- the degree and nature of our competition.*

We are under no duty to update any of the forward-looking statements after the date of this report to conform such statements to actual results.

Overview

We were 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 and commercial real property and selectively making long-term industrial and commercial mortgage loans. Most of the portfolio of real estate we currently own is leased to a wide cross section of tenants ranging from small businesses to large public companies, many of which do not have publicly rated debt. We have in the past entered into, and intend in the future to enter into, purchase agreements for real estate having triple net leases with terms of approximately 10 to 15 years, with rental increases built into the leases. 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. At March 31, 2006, we owned 33 properties and had two mortgage loans outstanding. We are actively communicating with buyout funds, real estate brokers and other third parties to locate properties for potential acquisition or to provide mortgage financing in an effort to build our portfolio.

We conduct substantially all of our activities, including ownership of all of our properties, through Gladstone Commercial Limited Partnership, a Delaware limited partnership formed on May 28, 2003, which we refer to as our "Operating Partnership." We control our Operating Partnership through our ownership of GCLP Business Trust II, a Massachusetts business trust, which is the general partner of our Operating Partnership, and through our ownership of GCLP Business Trust I, a Massachusetts business trust, which holds all of the limited partnership units of our Operating Partnership. We expect that our Operating Partnership may issue limited partnership units from time to time in exchange for industrial and commercial real property. By structuring our acquisitions in this manner, the sellers of the real estate will generally be able to defer the recognition of gains associated with the dispositions of their properties until they redeem the limited partnership units. Limited partners who hold limited partnership units in our Operating Partnership will be entitled to redeem their units for cash or, at our election, shares of our common stock on a one-for-one basis at any time. Whenever we issue common stock for cash, we are obligated to contribute the net proceeds we receive from the sale of the stock to our Operating Partnership, and our Operating Partnership is, in turn, obligated to issue an equivalent number of limited partnership units to us. Our Operating Partnership will distribute the income it generates from its operations to its partners, including GCLP Business Trust I and GCLP Business Trust II, both of which are beneficially owned by us, on a pro rata basis. We will, in turn, distribute the amounts we receive from our Operating Partnership to fund distributions to our stockholders in the form of monthly cash dividends. We have historically operated, and intend to continue to operate, so as to qualify as a REIT for federal income tax purposes, thereby generally avoiding federal income taxes on the distributions we make to our stockholders.

Gladstone Management Corporation, a registered investment adviser and an affiliate of ours, serves as our external adviser (our "Adviser"). Our Adviser is responsible for managing our business on a day-to-day basis and for identifying and making acquisitions and dispositions in accordance with our investment criteria.

Recent Events

Investments

On February 15, 2006, we acquired a 150,000 square foot industrial facility in South Hadley, Massachusetts for approximately \$3.5 million, including transaction costs, which was funded using borrowings from our line of credit. At closing, we were assigned the previously existing triple net lease with the sole tenant, which had a remaining term of approximately four years at the time of assignment, and the tenant has one option to extend the lease for additional period of five years. The lease provides for annual rents of approximately \$353,000 in 2007, with prescribed escalations thereafter.

On February 21, 2006, we acquired four office buildings located in the same business park in Champaign, Illinois, from a single seller totaling 108,262 square feet. We acquired the four properties for approximately \$15.1 million, including transaction costs, which was funded by a combination of

borrowings from our line of credit, and the assumption of approximately \$10.0 million of financing on the property. At closing, we were assigned the previously existing triple net leases with the sole tenant, which had remaining terms ranging from five to six years at the time of assignment, and the tenant has options to extend each lease for additional periods of three years each. The leases provide for annual rents of approximately \$1.3 million in 2007.

On February 21, 2006, we acquired a 359,540 square foot office building in Roseville, Minnesota for approximately \$29.7 million, including transaction costs, which was funded by a combination of borrowings from our line of credit, and the assumption of approximately \$20.0 million of financing on the property. At closing, we were assigned the previously existing triple net lease with the sole tenant, which had a remaining term of approximately seven years at the time of assignment, and the tenant has one option to extend the lease for an additional period of five years. The lease provides for annual rents of approximately \$2.4 million in 2007, with prescribed escalations thereafter.

Mortgage Loans

On February 21, 2006, we assumed approximately \$10.0 million pursuant to a long-term note payable from Wells Fargo Bank, National Association, in connection with our acquisition, on the same date, of a property located in Champaign, Illinois. The note accrues interest at a rate of 5.91% per year, and we may not repay this note prior to the last 3 months of the term, or we would be subject to a substantial prepayment penalty. The note matures on December 1, 2013.

On February 21, 2006, we assumed approximately \$20.0 million pursuant to a long-term note payable from Greenwich Capital Financial Products, Inc. in connection with our acquisition, on the same date, of a property located in Roseville, Minnesota. The note accrues interest at a rate of 5.20% per year, and we may not repay this note prior to the last 3 months of the term, or we would be subject to a substantial prepayment penalty. The note matures on June 1, 2014.

On March 29, 2006, we, through wholly-owned subsidiaries, borrowed \$17.0 million pursuant to a long-term note payable from CIBC Inc. which is collateralized by security interests in our Big Flats, New York, property our Eatontown, New Jersey property, and our Franklin Township, New Jersey property in the amounts of approximately \$5.6 million, \$4.6 million and \$6.8 million, respectively. The note accrues interest at a rate of 5.92% per year, and we may not repay this note until after January 1, 2016, or we would be subject to a substantial prepayment penalty. The note has an anticipated maturity date of April 1, 2016, with a clause in which the lender has the option of extending the maturity date to April 1, 2036. We used the proceeds from the note to pay down our line of credit.

On April 27, 2006, we, through wholly-owned subsidiaries, borrowed \$14.9 million pursuant to a long-term note payable from IXIS Real Estate Capital Inc. which is collateralized by security interests in our Wichita, Kansas, property our Clintonville Wisconsin property, our Rock Falls, Illinois property and our Angola, Indiana properties in the amounts of approximately \$9.0 million, \$3.6 million, \$0.7 million and \$1.6 million, respectively. The note accrues interest at a rate of 6.58% per year, and we may not repay this note until after February 5, 2016, or we would be subject to a substantial prepayment penalty. The note has a maturity date of May 5, 2016, and we used the proceeds from the note to pay down our line of credit.

Preferred Stock Financing

On January 18, 2006, we completed a public offering of 1,000,000 shares of 7.75% Series A Cumulative Redeemable Preferred Stock, par value \$0.001 per share, at a price of \$25.00 per share, under our shelf registration statement on Form S-3, and pursuant to the terms set forth in a prospectus dated October 24, 2005, as supplemented by a final prospectus supplement dated January 18, 2006. Net proceeds of the offering, after underwriting discounts and offering expenses, were approximately \$23.7 million and were used to repay outstanding indebtedness under our line of credit. The preferred stock may be redeemed at a liquidation preference in the amount of \$25.00 per share plus any unpaid dividends at our election on or after January 30, 2011. These securities have no stated maturity, sinking fund or mandatory redemption and are not convertible into any other securities. The closing of the offering took place on January 26, 2006, and the preferred stock is traded on the Nasdaq National Market under the trading symbol "GOODP."

Expenses

All of our personnel are directly employed by our Adviser. Pursuant to the terms of our advisory agreement, we are responsible for a portion of our Adviser's total payroll and benefits expenses (based on the percentage of time our Adviser's employees devote to our matters on an employee-by-employee basis) and a portion of our Adviser's total overhead expense (based on the percentage of time worked by all of our Adviser's employees on our matters).

We compensate our Adviser through reimbursement of our portion of our Adviser's payroll, benefits and general overhead expenses. This reimbursement is generally subject to a combined annual management fee limitation of 2.0% of our average invested assets for the year, with certain exceptions. Reimbursement for overhead expenses is only required up to the point that reimbursed overhead expenses and payroll and benefits expenses, on a combined basis, equal 2.0% of our average invested assets for the year, and general overhead expenses are required to be reimbursed only if the amount of payroll and benefits reimbursed to our Adviser is less than 2.0% of our average invested assets for the year. However, payroll and benefits expenses are required to be reimbursed by us to the extent that they exceed the overall 2.0% annual management fee limitation. To the extent that overhead expenses payable or reimbursable by us exceed this limit and our independent directors determine that the excess expenses were justified based on unusual and nonrecurring factors which they deem sufficient, we may reimburse our Adviser in future years for the full amount of the excess expenses, or any portion thereof, but only to the extent that the reimbursement would not cause our overhead expense reimbursements to exceed the 2.0% limitation in any year. To date, the advisory fee has not exceeded the annual cap.

During the three months ended March 31, 2006 and 2005, payroll and benefits expenses, which are part of the management fee paid to our Adviser, were approximately \$468,000 and \$347,000 respectively. The actual amount of payroll and benefits expenses which we will be required to reimburse our Adviser in the future is not determinable, but we currently estimate that during the year ending December 31, 2006 this amount will be approximately \$2.2 million. This estimate is based on our current expectations regarding our Adviser's payroll and benefits expenses and the proportion of our Adviser's time we believe is likely to be spent on matters relating to our business. To the extent that our Adviser's payroll and benefits expenses are greater than we currently expect or our Adviser allocates a greater percentage of its time to our business, our actual reimbursement to our Adviser for our share of its payroll and benefits expenses could be materially greater than we currently estimate.

During the three months ended March 31, 2006 and 2005, we reimbursed our Adviser approximately \$185,000 and \$125,000, respectively, for overhead expenses. The actual amount of overhead expenses for which we will be required to reimburse our Adviser in the future is not determinable at this time, but we currently estimate that, during the year ending December 31, 2006, this amount will be approximately \$800,000.

Under the terms of the advisory agreement, we are responsible for all expenses incurred for our direct benefit. Examples of these expenses include, legal, accounting, interest, tax preparation, directors and officers insurance, stock transfer services, shareholder related fees, consulting and related fees. During the three months ended March 31, 2006 and 2005, the total amount of these expenses that we incurred was approximately \$2,100,000 and \$699,000, respectively.

In addition, we are also responsible for all fees charged by third parties that are directly related to our business, which may include real estate brokerage fees, mortgage placement fees, lease-up fees and transaction structuring fees (although we may be able to pass some or all of such fees on to our tenants and borrowers). The actual amount of such fees that we incur in the future will depend largely upon the aggregate costs of the properties we acquire, the aggregate amount of mortgage loans we make, and the extent to which we are able to shift the burden of such fees to our tenants and borrowers. Accordingly, the amount of these fees that we will pay in the future is not determinable at this time.

In a proxy statement for our 2006 Annual Meeting of Stockholders, mailed to stockholders and filed with the U.S. Securities and Exchange Commission on March 24, 2006, we asked our stockholders to approve a proposal to enter into an amended and restated investment advisory agreement (the "Proposed Agreement") with our Adviser and an administration agreement (the "Administration Agreement") between us and Gladstone Administration, LLC (the "Administrator"), a wholly owned subsidiary of our Adviser. Stockholders will vote on the proposal at our Annual Meeting to be held on May 24, 2006.

The Proposed 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 an incentive fee based on our fund from operations, or "FFO," which would reward the Adviser if our quarterly FFO (before giving effect to any incentive fee) exceeds 1.75% (7% annualized) of our total stockholders' equity (less the recorded value of any preferred stock). Under the Administration Agreement, we would pay separately for our allocable portion of the Administrator's overhead expenses in performing its obligations, including rent, and the Company's allocable portion of the salaries and benefits expenses of our chief financial officer, chief compliance officer, controller and their respective staffs.

If our stockholders approve the Proposed Agreement and Administration Agreement, we will terminate the 2003 Plan, and seek agreement from all holders of stock options to exercise or terminate their options within a limited period of time. Pending stockholder approval, the Proposed Agreement and the Administration Agreement would become effective upon the later of (i) January 1, 2007; or (ii) the first day of the first fiscal quarter beginning after the last of our outstanding stock options are either exercised or terminated. The Proposed Agreement and Administration Agreement will not become effective as long as the 2003 Plan is in effect or as long as there are any outstanding stock options. The current investment advisory agreement with Gladstone Management will continue in effect until these new agreements become effective. As of March 31, 2006, as no formal plan had been approved or enacted, there is no change in the contractual lives of the outstanding options.

Critical Accounting Policies

Management believes our most critical accounting policies are revenue recognition (including straight-line rent), investment accounting, purchase price allocation, accounting for our investments in real estate, provision for loans losses, the accounting for our derivative and hedging activities, if any, income taxes and stock based compensation. Each of these items involves estimates that require management to make judgments that are subjective in nature. Management relies on its experience, collects historical data and current market data, and analyzes these assumptions in order to arrive at what it believes to be reasonable estimates. Under different conditions or assumptions, materially different amounts could be reported related to the accounting policies described below. In addition, application of these accounting policies involves the exercise of judgments on the use of assumptions as to future uncertainties and, as a result, actual results could materially differ from these estimates.

Revenue Recognition

Rental income includes rents that each tenant pays in accordance with the terms of its respective lease reported on a straight-line basis over the initial term of the lease. Because certain of our leases contain rental increases at specified intervals, straight-line basis accounting requires us to record as an asset, and include in revenues, deferred rent receivable that we will only receive if the tenant makes all rent payments required through the expiration of the initial term of the lease. Deferred rent receivable in the accompanying balance sheets 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 lease values of certain acquired properties. Accordingly, our management must determine, in its judgment, to what extent the deferred rent receivable applicable to each specific tenant is collectible. We review deferred rent receivable, as is 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 area in which the property is located. In the event that the collectibility of deferred rent with respect to any given tenant is in

doubt, we would record an increase in our allowance for uncollectible accounts or record a direct write-off of the specific rent receivable, which would have an adverse effect on our net income for the year in which the reserve is increased or the direct write-off is recorded and would decrease our total assets and stockholders' equity.

Management considers its loans and other lending investments to be held-for-investment. We reflect held-for-investment investments at amortized cost less allowance for loan losses, acquisition premiums or discounts, deferred loan fees and undisbursed loan funds. On occasion, we may acquire loans at small premiums or discounts based on the credit characteristics of such loans. These premiums or discounts are recognized as yield adjustments over the lives of the related loans. Loan origination or exit 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, loan origination or exit fees are prepaid, we 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, if any, are recognized as additional income when received.

Purchase Price Allocation

We account for acquisitions of real estate in accordance with Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," which requires the purchase price of real estate to be allocated to the acquired tangible assets, consisting of land, building and tenant improvements, and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases, the value of in-place leases, the value of unamortized lease origination costs and the value of tenant relationships, based in each case on their fair values.

Management's estimates of value are made using methods similar to those used by independent appraisers (e.g., discounted cash flow analysis). Factors considered by management in its analysis include an estimate of carrying costs during hypothetical expected lease-up periods considering current market conditions, and costs to execute similar leases. We also consider information obtained about each property as a result of our pre-acquisition due diligence, marketing and leasing activities in estimating the fair value of the tangible and intangible assets acquired. In estimating carrying costs, management also includes real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods, which primarily range from nine to eighteen months, depending on specific local market conditions. Management also estimates costs to execute similar leases including leasing commissions, legal and other related expenses to the extent that such costs are not already incurred in connection with a new lease origination as part of the transaction.

The total amount of other intangible assets acquired are allocated to in-place lease values and customer relationship intangible values 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 allocating 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 expectations of lease renewals (including those existing under the terms of the lease agreement), among other factors.

We amortize the value of in-place leases to expense over the initial term of the respective leases, which generally range from five to twenty years. The value of customer relationship intangibles are amortized to expense over the initial term and any renewal periods in the respective leases, but in no event will 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 in-place lease value and customer relationship intangibles would be charged to expense.

We record above-market and below-market in-place lease values for owned properties 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. We amortize the capitalized above-market lease values, included in the accompanying balance sheet as part of deferred rent receivable, as a reduction of rental income over the remaining non-cancelable terms of the respective leases. We amortize the capitalized below-market lease values, included in the accompanying balance sheet as part of the deferred rent liability, as an increase to rental income over the initial term and any fixed-rate renewal periods in the respective leases.

We have determined that certain of our properties, which were originally not treated as business combinations under SFAS No. 141 because there was not an existing lease in place at the time of acquisition, should have been treated as business combinations when determining the purchase price of the real estate. These properties had leases that were put in place on the date of acquisition and thus were implicit in the purchase price and should have been considered as leases in place for purposes of determining if the acquisitions were business combinations. As a result, we reallocated approximately \$1.2 million of land, building and tenant improvements to intangible assets and recognized additional depreciation of \$140,606, offset by increased rental revenue related to below market rents of approximately \$28,000, for a net decrease in income of approximately \$112,000 for the quarter ended March 31, 2006. Of the additional \$112,000 recognized in the quarter ended March 31, 2006, approximately \$90,000 relates to periods prior to 2006.

Risk Rating

In evaluating each transaction that it considers for investment, our Adviser seeks to assess the risk associated with the potential tenant or borrower. For companies that have debt that has been rated by a national credit rating agency, our Adviser uses the rating as determined by such ratings agency. For tenants or borrowers that do not have a publicly traded debt, our Adviser calculates and assigns to our tenants and borrowers a risk rating under our ten-point risk rating scale. Our Adviser seeks to have the risk rating system mirror the risk rating systems of major risk rating organizations such as those provided by nationally recognized statistical rating organizations (“NRSRO”). While we seek to mirror the NRSRO systems, we cannot provide any assurance that our risk rating system provides the same risk rating as a NRSRO. The following chart is an estimate of the relationship of our risk rating system to the designations used by two NRSROs as they risk rate debt securities of major companies. Because we have established our system to rate debt securities of companies that are unrated by any NRSRO, there can be no assurance that the correlation to the NRSRO set out below is accurate. We believe our risk rating would be significantly higher than a typical NRSRO risk rating because the risk rating of the typical NRSRO is designed for larger businesses that can afford to pay an NRSRO to rate their securities. However, our risk rating has been designed to risk rate the securities of smaller businesses that are not rated by a typical NRSRO. Therefore, when we use our risk rating on larger business securities, the risk rating is higher than a typical NRSRO rating. The primary difference between our risk rating and the rating of a typical NRSRO is that our risk rating uses more quantitative determinants and includes qualitative determinants that are not used in the NRSRO rating. It is our understanding that most debt securities of middle market companies do not exceed the grade of BBB on a NRSRO scale, so there would be no debt securities in the middle market that would meet the definition of AAA, AA or A, therefore, our scale begins with the designation BBB.

<u>Our System</u>	<u>First Ratings Agency</u>	<u>Second Ratings Agency</u>	<u>Description (a)</u>
>10	Baa2	BBB	Probability of default during the next ten years is 4% and the expected loss is 1% or less
10	Baa3	BBB-	Probability of default during the next ten years is 5% and the expected loss is 1% to 2%
9	Ba1	BB+	Probability of default during the next ten years is 10% and the expected loss is 2% to 3%
8	Ba2	BB	Probability of default during the next ten years is 16% and the expected loss is 3% to 4%
7	Ba3	BB-	Probability of default during the next ten years is 17.8% and the expected loss is 4% to 5%
6	B1	B+	Probability of default during the next ten years is 22% and the expected loss is 5% to 6.5%

<u>Our System</u>	<u>First Ratings Agency</u>	<u>Second Ratings Agency</u>	<u>Description (a)</u>
5	B2	B	Probability of default during the next ten years is 25% and the expected loss is 6.5% to 8%
4	B3	B-	Probability of default during the next ten years is 27% and the expected loss is 8% to 10%
3	Caa1	CCC+	Probability of default during the next ten years is 30% and the expected loss is 10% to 13.3%
2	Caa2	CCC	Probability of default during the next ten years is 35% and the expected loss is 13.3% to 16.7%
1	Caa3	CC	Probability of default during the next ten years is 65% and the expected loss is 16.7% to 20%
0	N/a	D	Probability of default during the next ten years is 85%, or there is a payment default, and the expected loss is greater than 20%

(a) *The default rates set forth above assume a ten year lease or mortgage loan. If the particular investment has a term other than ten years, the probability of default is adjusted to reflect the reduced risk associated with a shorter term or the increased risk associated with a longer term.*

We generally anticipate entering into transactions with tenants or borrowers that have a risk rating of at least 4 based on the above scale which would equate to tenants or borrowers whose debt rating would be at least B3 or B-. Once we have entered into a transaction, we periodically re-evaluate the risk rating, or debt rating as applicable, of the investment for purposes of determining whether we should increase our reserves for loan losses or allowance for uncollectible rent. To date, there have been no allowances for uncollectible rent or reserves for loan losses. Our board of directors may alter our risk rating system from time to time.

The following table reflects the average risk rating of our tenants and borrowers:

<u>Rating</u>	<u>3/31/2006</u>	<u>12/31/2005</u>
Average	8.6	8.6
Weighted Average	8.6	8.7
Highest	10.0	10.0
Lowest	6.0	6.0

Investments in Real Estate

We record investments in real estate at cost, and we 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 incurred. We compute depreciation using the straight-line method over the estimated useful life of 39 years for buildings and improvements, five to seven years for equipment and fixtures, and the shorter of the useful life or the remaining lease term for tenant improvements and leasehold interests.

We are required to make subjective assessments as to the useful lives of our properties for purposes of determining the amount of depreciation to record on an annual basis with respect to our investments in real estate. These assessments have a direct impact on our net income because, if we were to shorten the expected useful lives of our investments in real estate, we would depreciate these investments over fewer years, resulting in more depreciation expense and lower net income on an annual basis.

We have adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which establishes a single accounting model for the impairment or disposal of long-lived assets including discontinued operations. SFAS No. 144 requires that the operations related to properties that have been sold or that we intend to sell be presented as discontinued operations in the statement of operations for all periods presented, and properties we intend to sell be designated as "held for sale" on our balance sheet.

When circumstances such as adverse market conditions indicate a possible impairment of the value of a property, we review the recoverability of the property's carrying value. The review of recoverability is based on our estimate of the future undiscounted cash flows, excluding interest charges, expected to result from the property's use and eventual disposition. Our forecast of these cash flows considers factors such as expected future operating income, market and other applicable trends and residual value, as well as the effects of leasing demand, competition and other factors. If impairment exists due to the inability to recover the carrying value of a property, an impairment loss is recorded to the extent that the carrying value exceeds the estimated fair value of the property. We are required to make subjective assessments as to whether there are impairments in the values of our investments in real estate.

Provision for Loan Losses

Our accounting policies require that we reflect in our financial statements an allowance for estimated credit losses with respect to mortgage loans we have made based upon our evaluation of known and inherent risks associated with our private lending assets. We have extended two mortgage loans and have not experienced any actual losses in connection with our lending investments. Management reflects provisions for loan losses on a portfolio basis based upon our assessment of general market conditions, our internal risk management policies and credit risk rating system, industry loss experience, our assessment of the likelihood of delinquencies or defaults, and the value of the collateral underlying our investments. Actual losses, if any, could ultimately differ materially from these estimates.

Income Taxes

Our financial results generally do not reflect provisions for current or deferred income taxes. Management believes that we have operated, and we intend to continue to operate, in a manner that will allow us to qualify as a REIT for federal income tax purposes, and, as a result, we do not expect to pay substantial corporate-level income taxes. Many of the requirements for REIT qualification, however, are highly technical and complex. If we were to fail to meet these requirements, we would be subject to federal income tax which could have a material adverse impact on our results of operations and amounts available for distributions to our stockholders.

Stock Based Compensation

We adopted the fair value method to account for the issuance of stock options under our 2003 Equity Incentive Plan in accordance with SFAS No. 123(R), *Share-Based Payment*, in January of 2006. In this regard, a substantial portion of these options were granted to individuals who are our officers and who qualify as leased employees under FASB Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation, an Interpretation of APB Opinion No. 25*. We adopted SFAS No. 123(R) using the modified prospective approach, where stock-based compensation expense was recorded for the unvested portion of previously issued awards that remained outstanding at January 1, 2006 using the same estimate of the grant date fair value and the same attribution method used to determine the pro forma disclosure under SFAS No. 123, *Accounting for Stock-Based Compensation*. SFAS No. 123(R) also requires that all share-based payments to employees after January 1, 2006, including employee stock options, be recognized in the financial statements as stock-based compensation expense based on the fair value on the date of grant.

In October of 2005, the Financial Accounting Standards Board ("FASB") released FASB Staff Position No. FAS 123(R)-2 ("FSP FAS 123(R)-2"), *Practical Accommodation to the Application of Grant Date as Defined in FASB Statement No. 123(R)*. FSP FAS 123(R)-2 provides guidance on the application of grant date as defined in SFAS No. 123(R). The FASB addresses the notion of "mutual understanding," specifically that a mutual understanding shall be presumed to exist at the date the award is approved in accordance with the relevant corporate governance requirements if the award is a unilateral grant and therefore the recipient does not have the ability to negotiate the terms and conditions of the award with the employer, and the key terms and conditions of the award are expected to be communicated to an individual recipient within a relatively short time period for the date of approval. We applied FSP FAS 123(R)-2 in conjunction with the adoption of SFAS No. 123(R) on January 1, 2006.

Results of Operations

Our weighted-average yield on the portfolio as of March 31, 2006 was approximately 9.59%. The weighted-average yield was calculated by taking the annualized straight line rent, reflected as rental income on our Consolidated Statements of Operations, or mortgage interest payments, reflected at interest income from mortgage notes receivable on our Consolidated Statements of Operations, of each acquisition as a percentage of the acquisition price.

A comparison of our operating results for the three months ended March 31, 2006 and 2005 is below:

	March 31, 2006	March 31, 2005	\$ Change	% Change
Operating revenues				
Rental income	\$ 5,021,485	\$ 1,847,007	\$ 3,174,478	172%
Interest income from mortgage note receivable	552,913	295,583	257,330	87%
Tenant recovery revenue	5,623	2,043	3,580	175%
Total operating revenues	5,580,021	2,144,633	3,435,388	160%
Operating expenses				
Depreciation and amortization	1,834,740	537,755	1,296,985	241%
Management advisory fee	652,742	471,861	180,881	38%
Professional fees	202,936	331,244	(128,308)	-39%
Taxes and licenses	54,259	128,273	(74,014)	-58%
Insurance	82,999	70,383	12,616	18%
General and administrative	145,958	132,828	13,130	10%
Asset retirement obligation expense	55,143	—	55,143	100%
Stock option compensation expense	46,216	—	46,216	100%
Total operating expenses	3,074,993	1,672,344	1,402,649	84%
Other income (expense)				
Interest income from temporary investments	7,373	94,521	(87,148)	-92%
Interest income — employee loans	5,548	4,685	863	18%
Interest expense	(1,682,948)	(36,219)	(1,646,729)	4547%
Income before realized and unrealized losses	835,001	535,276	299,725	56%
Realized and unrealized loss from foreign currency	11,799	(92)	11,891	100%
Net income	846,800	535,184	311,616	58%
Dividends attributable to preferred stock	(344,444)	—	(344,444)	100%
Net income available to common stockholders	<u>\$ 502,356</u>	<u>\$ 535,184</u>	<u>\$ (32,828)</u>	-6%

Comparison of the three months ended March 31, 2006 to the three months ended March 31, 2005

Revenues

For the three months ended March 31, 2006, we earned \$5,021,485 of rental income as compared to \$1,847,007 for the three months ended March 31, 2005. The increase of \$3,174,478 or 172%, in rental income is primarily due to the acquisition of 19 properties subsequent to March 31, 2005, and properties acquired during the first quarter of 2005 that were held for the full first quarter of 2006.

Interest income from the mortgage loans increased to \$552,913 for the three months ended March 31, 2006, as compared to \$295,583 for the three months ended March 31, 2005. The increase of \$257,330, or 87%, is a result of an additional mortgage loan issued in April of 2005.

Tenant recovery revenue increased to \$5,623 for the three months ended March 31, 2006, as compared to \$2,043 for the three months ended March 31, 2005. This tenant recovery revenue resulted from approximately \$5,000 of franchise taxes that will be recovered for the 2006 tax year from the tenants, approximately \$2,300 of management fees reimbursed by tenants, and approximately \$15,000 of insurance premiums reimbursed from several of our tenants. These amounts were partially offset by approximately \$17,000 in franchise taxes that were over-accrued for the 2005 tax year.

Expenses

Depreciation and amortization expenses of \$1,834,740 were recorded for the three months ended March 31, 2006, as compared to \$537,755 for the three months ended March 31, 2005. The increase of \$1,296,985, or 241%, is a result of the 19 property acquisitions completed between March 31, 2005 and March 31, 2006, and properties acquired during the three months ended March 31, 2005 that were held for the full three months ended March 31, 2006, and the approximately \$140,000 adjustment to depreciation discussed above under "Purchase Price Allocation."

The management advisory fee for the three months ended March 31, 2006 increased to \$652,742, as compared to \$471,861 for the three months ended March 31, 2005. The increase of \$180,881, or 38%, is primarily a result of the increased number of our Adviser's employees who spent time on our company matters, coupled with an increase in overhead expenses incurred by our Adviser for our benefit. The management advisory fee consists of the reimbursement of expenses, including direct allocation of employee salaries and benefits, as well as general overhead expense, to our Adviser in accordance with the terms of the advisory agreement.

Professional fees, consisting primarily of legal and accounting fees, were \$202,936 for the three months ended March 31, 2006, as compared to \$331,244 for the three months ended March 31, 2005. The decrease of \$128,038, or 39%, was primarily a result of \$100,000 of legal fees that were accrued and expensed in the quarter ended March 31, 2005 that were subsequently capitalized on the balance sheet as a cost of the line of credit in the quarter ended June 30, 2005. The amount of accounting fees expensed during the quarter ended March 31, 2006 also decreased from the quarter ended March 31, 2005, because more accounting fees were accrued for the year end audit at December 31, 2005 than were accrued at December 31, 2004, resulting in less of the expense of the audit being incurred in the first quarter of 2006. The overall accounting fees increased year over to year due to the increased fees related to the audit of our internal controls over financial reporting performed in order to comply with the Sarbanes-Oxley Act of 2002, coupled with increased fees for the audit of the financial statements from the increased portfolio of investments.

Taxes and licenses for the three months ended March 31, 2006 were \$54,259, a decrease of \$74,014 or 58%, from \$128,273 for the three months ended March 31, 2005. This decrease is primarily attributable to the payment of approximately \$100,000 of franchise taxes paid for doing business in certain states in the first quarter of 2005, which related to taxes incurred in 2004.

Insurance expense increased to \$82,999 for the three months ended March 31, 2006, as compared to \$70,383 for the three months ended March 31, 2005. The increase of \$12,616, or 18%, is a result of an increase in insurance premiums from the prior year, coupled with an increased number of properties that required insurance.

General and administrative expenses were \$145,958 for the three months ended March 31, 2006, as compared to \$132,828 for the three months ended March 31, 2005, and consisted mainly of directors' fees, stockholder-related expenses, and external management fees. The increase of \$13,130, or 10%, was a result of approximately \$16,000 in operating expenses that we were required to pay on behalf of a tenant under the terms of their lease, coupled with an increase of approximately \$8,000 of management fees due to the increased number of properties in our portfolio, and increased director fees of approximately \$9,000 due to an increase in the number of directors on the board, and special board meetings related to our preferred stock offering. These expenses were partially offset by a decrease in shareholder related expenses of approximately \$15,000 due to lower costs related to the annual report and filing costs related to the form 10-K.

Asset retirement obligation expense for the three months ended March 31, 2006 was \$55,143. This is the result of the adoption of FASB Interpretation No. 47 "Accounting for Conditional Asset Retirement Obligations ("FIN 47"). FIN 47 requires an entity to recognize a liability for a conditional asset retirement obligation when incurred if the liability can be reasonably estimated. FIN 47 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. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. We did not record a liability as of December 31, 2005 because we did not have enough information available at that date to reasonably estimate the liability. We have accrued a liability for disposal related to all properties constructed prior to 1985 that have, or may have, asbestos present in the building. There was no asset retirement obligation expense recorded for the three months ended March 31, 2005.

Stock option compensation expense for the three months ended December 31, 2005 was \$46,216. This is the result of the adoption of the Statement of Financial Accounting Standards No. 123 (revised 2004) ("SFAS No. 123(R)") *Share-based Payment*. SFAS No. 123(R) replaces SFAS No. 123, *Accounting for Stock-Based Compensation* and supersedes Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB No. 25"). Under the modified prospective approach, stock-based compensation expense was recorded for the unvested portion of previously issued awards that remain outstanding at January 1, 2006 using the same estimate of the grant date fair value and the same attribution method used to determine the pro forma disclosure under SFAS No. 123. There was no stock option compensation expense recorded for the three months ended March 31, 2005.

Interest expense was \$1,682,948 for the three months ended March 31, 2006, as compared to \$36,219 for the three months ended March 31, 2005. This increase of \$1,646,729 or 4,547% is primarily a result of an increase in interest expense and amortization of deferred financing fees related to the long-term financings on 15 properties that closed subsequent to March 31, 2005, coupled with an increased amount outstanding on our line of credit during the three months ended March 31, 2006.

Interest Income

Interest income on cash and cash equivalents decreased during the three months ended March 31, 2006 to \$7,373, as compared to \$94,521 for the three months ended March 31, 2005. The decrease of \$87,148, or 92%, is primarily a result of the increase in our portfolio of investments in real estate and mortgage loans, resulting in lower average cash balances invested. This interest represents the interest earned on the investment of the net proceeds from our initial public offering in short-term investment grade securities, primarily U.S. Treasury Bills.

During the three months ended March 31, 2006, we earned interest income on employee loans of \$5,548, as compared to \$4,685 for the three months ended March 31, 2005. This increase of \$863 or 18%, is a result of an employee loan that was originated during May of 2005, and thus no interest was earned on this loan for three months ended March 31, 2005.

Foreign Currency Gains and Losses

Net realized foreign currency loss during the three months ended March 31, 2006 was \$816, as compared to \$347 for the three months ended March 31, 2005, which represents the gains and losses in connection with the translation of monthly rental payments, the valuation of cash and quarterly tax payments denominated in Canadian dollars. The net unrealized gain from foreign currency transactions was \$12,615 during the three months ended March 31, 2006, as compared to \$255 during the three months ended March 31, 2005, which includes the valuation of the deferred rent asset and the mortgage notes payable.

Net Income available to common stockholders

For the three months ended March 31, 2006, we recorded net income available to common stockholders of \$502,356, as compared to \$535,184 for the three months ended March 31, 2005. This decrease of \$32,828 is primarily a result of the increase in our portfolio of investments in the past year and the corresponding increase in our revenues and the other events described above, partially offset by the increased depreciation from the one time depreciation adjustment discussed above, the stock option expense, the asset retirement obligation expense and the preferred dividends paid for the three months ended March 31, 2006. Based on the basic and diluted weighted average common shares outstanding of 7,672,000 and 7,821,658, respectively, for the three months ended March 31, 2006, the basic and diluted earnings per weighted average common share were \$0.07 and \$0.06, respectively. Based on the basic and diluted weighted average common shares outstanding of 7,667,000 and 7,733,335, respectively, for the three months ended March 31, 2005, the basic and diluted earnings per weighted average common share were both \$0.07.

Liquidity and Capital Resources

Cash and Cash Equivalents

At March 31, 2006, we had approximately \$1.3 million in cash and cash equivalents. We have now fully invested the proceeds from our initial public offering of our common stock, and have access to our existing line of credit and have obtained mortgages on 16 of our properties. We expect to obtain additional mortgages secured by some or all of our real property in the future. We anticipate continuing to borrow funds and issuing additional equity securities in order to obtain additional capital. To this end, and as described in greater detail below, we executed an underwriting agreement in connection with the public offering of 1,000,000 shares of 7.75% Series A Cumulative Redeemable Preferred Stock, par value \$0.001 per share, at a price of \$25.00 per share, under our shelf registration statement on Form S-3, and pursuant to the terms set forth in a prospectus dated October 24, 2005, as supplemented by a final prospectus supplement dated January 18, 2006. We expect that the funds from our line of credit, additional mortgages and securities offerings will provide us with sufficient capital to make additional investments and to fund our continuing operations for the foreseeable future.

Operating Activities

Net cash provided by operating activities during the three months ended March 31, 2006, consisting primarily of the items described in "Results of Operations," was approximately \$2.5 million compared to net cash provided by operating activities of \$1.3 million for the three months ended March 31, 2005.

Investing Activities

Net cash used in investing activities during the three months ended March 31, 2006 was \$18.1 million, which primarily consisted of the purchase of 3 properties, as described in the "Investments" section above, as compared to net cash used in investing activities during the three months ended March 31, 2005 of \$12.7 million, which primarily consisted of the purchases of 2 properties.

Financing Activities

Net cash provided by financing activities for the three months ended March 31, 2006 was approximately \$15.1 million, which primarily consisted of the proceeds received from the long-term financing of 5 of our properties, the proceeds from borrowings under our line of credit, and the proceeds from the offering of our preferred stock, partially offset by repayments on the line of credit, payments for deferred financing costs and dividend payments. Net cash provided by financing activities for the three months ended March 31, 2005 was approximately \$220,000, which consisted of the proceeds received from the long-term financing of 1 of our properties, partially offset by the dividend payments to our stockholders, and financing costs paid in connection with our line of credit and mortgage note payable.

Future Capital Needs

We had purchase commitments for 1 property at March 31, 2006 in the aggregate amount of approximately \$14.0 million, where a deposit had been placed on the real estate as of March 31, 2006.

As of March 31, 2006, we have investments in 33 real properties for approximately \$229.1 million and two mortgage loans for approximately \$21.0 million. During the remainder of 2006 and beyond, we expect to complete additional acquisitions of real estate and to extend additional mortgage notes. The net proceeds of our initial public offering have been fully invested, and we intend to acquire additional properties by borrowing all or a portion of the purchase price and collateralizing the loan with mortgages secured by some or all of our real property, by borrowing against our existing line of credit, or by issuing additional equity securities. We may also use these funds for general corporate needs. If we are unable to make any required debt payments on any borrowings we make in the future, our lenders could foreclose on the properties collateralizing their loans, which could cause us to lose part or all of our investments in such properties.

Registration Statement

On January 18, 2006 we completed the public offering of 1,000,000 shares of 7.75% Series A Cumulative Redeemable Preferred Stock, par value \$0.001 per share, at a price of \$25.00 per share, under our shelf registration statement on Form S-3, and pursuant to the terms set forth in a prospectus dated October 24, 2005, as supplemented by a final prospectus supplement dated January 18, 2006. The preferred stock may be redeemed at a liquidation preference in the amount of \$25.00 per share plus any unpaid dividends at our election on or after January 30, 2011. These securities have no stated maturity, sinking fund or mandatory redemption and are not convertible into any other securities of the Company. The closing of the offering took place on January 26, 2006, and the stock is traded on the Nasdaq National Market under the trading symbol "GOODP." Net proceeds of the offering, after underwriting discounts and offering expenses, were approximately \$23.7 million, and the net proceeds were used to repay outstanding indebtedness under our line of credit. After completion of the preferred stock offering, we still have \$50 million of common and preferred stock registered for future issuance pursuant to our shelf registration statement.

Line of Credit

On February 28, 2005, we entered into a line of credit agreement with a syndicate of banks led by Branch Banking & Trust Company. This line of credit initially provided us with up to \$50 million of financing, with an option to increase the line of credit up to a maximum of \$75 million upon agreement of the syndicate of banks. On July 6, 2005, we amended the line of credit to increase the maximum availability under the line from \$50 million to \$60 million, and on March 17, 2006 we amended the line of credit again to increase the maximum availability from \$60 million to \$67.5 million. The line of credit matures on February 28, 2008. The interest rate charged on the advances under the facility is based on LIBOR, the prime rate or the federal funds rate, depending on market conditions, and adjusts periodically. The unused portion of the line of credit is subject to a fee of 0.25% per year. Our ability to access this funding source is subject to us continuing to meet customary lending requirements such as compliance with financial and operating covenants and meeting certain lending limits and, as of March 31, 2006, we are in compliance with all financial and operating covenants. For example, as is customary with such line of credit facilities, the maximum amount we may draw under this agreement is based on the percentage of the value of its properties meeting agreed-upon eligibility standards that we have pledged as collateral to the banks. As we arrange for long-term mortgages for these properties, the banks will release the properties from the line of credit and reduce the availability under the line of credit by the advanced amount of the removed property. Conversely, as we purchase new properties meeting the eligibility standards, we may pledge these new properties to obtain additional advances under this agreement. We may use the advances under the line of credit for both general corporate purposes and the acquisition of new investments. As of March 31, 2006, there was \$22.3 million outstanding under the line of credit at an interest rate of 6.64% per year.

Mortgage Notes Payable

On February 21, 2006, we assumed approximately \$10.0 million pursuant to a long-term note payable from Wells Fargo Bank, National Association, in connection with our acquisition, on the same date, of a property located in Champaign, Illinois. The note accrues interest at a rate of 5.91% per year, and we may not repay this note prior to the last 3 months of the term, or we would be subject to a substantial prepayment penalty. The note matures on December 1, 2013.

On February 21, 2006, we assumed approximately \$20.0 million pursuant to a long-term note payable from Greenwich Capital Financial Products, Inc, in connection with our acquisition, on the same date, of a property located in Roseville, Minnesota. The note accrues interest at a rate of 5.20% per year, and we may not repay this note prior to the last 3 months of the term, or we would be subject to a substantial prepayment penalty. The note matures on June 1, 2014.

On March 29, 2006, we, through wholly-owned subsidiaries, borrowed \$17.0 million pursuant to a long-term note payable from CIBC Inc. which is collateralized by security interests in our Big Flats, New York, property our Eatontown, New Jersey property, and our Franklin Township, New Jersey property in the amounts of approximately \$5.6 million, \$4.6 million and \$6.8 million, respectively. The note accrues interest at a rate of 5.92% per year, and we may not repay this note until after January 1, 2016, or we would be subject to a prepayment penalty. The note has an anticipated maturity date of April 1, 2016, with a clause in which the lender has the option of extending the maturity date to April 1, 2036. We used the proceeds from the note to pay down our line of credit.

On April 27, 2006, we, through wholly-owned subsidiaries, borrowed \$14.9 million pursuant to a long-term note payable from IXIS Real Estate Capital Inc. which is collateralized by security interests in our Wichita, Kansas, property our Clintonville Wisconsin property, our Rock Falls, Illinois property and our Angola, Indiana properties in the amounts of approximately \$9.0 million, \$3.6 million, \$0.7 million and \$1.6 million, respectively. The note accrues interest at a rate of 6.58% per year, and we may not repay this note until after February 5, 2016, or we would be subject to a substantial prepayment penalty. The note has a maturity date of May 5, 2016, and we used the proceeds from the note to pay down our line of credit.

Contractual Obligations

The following table reflects our significant contractual obligations as of March 31, 2006:

Contractual Obligations	Total	Payments Due by Period			
		Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-Term Debt Obligations (1)	\$ 130,818,267	\$ 594,904	\$ 24,356,093	\$ 2,955,656	\$ 102,911,614
Interest on Long-Term Debt Obligations (2)	54,617,590	6,065,279	12,031,184	11,697,862	24,823,265
Capital Lease Obligations	—	—	—	—	—
Operating Lease Obligations (3)	—	—	—	—	—
Purchase Obligations (4)	14,000,000	14,000,000	—	—	—
Other Long-Term Liabilities Reflected on the Registrant's Balance Sheet under GAAP	—	—	—	—	—
Total	\$ 199,435,857	\$ 20,660,183	\$ 36,387,277	\$ 14,653,518	\$ 127,734,879

(1) Long-term debt obligations represent both borrowings under our BB&T line of credit and mortgage notes payable that were outstanding as of March 31, 2006. The line of credit matures in February 2008.

(2) Interest on long-term debt obligations does not include interest on our borrowings under our line of credit. The balance and interest rate is variable and, thus, the amount of interest can not be calculated for purposes of this table.

(3) This does not include the portion of the operating lease on office space that is allocated to us by our Adviser in connection with our advisory agreement.

(4) The purchase obligations reflected in the above table represents commitments outstanding at March 31, 2006 to purchase real estate.

Funds from Operations

The National Association of Real Estate Investment Trusts (“NAREIT”) developed Funds from Operations (“FFO”) as a relative non-GAAP (Generally Accepted Accounting Principles in the United States) 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 in accordance with GAAP (which, unlike FFO, generally reflects all cash effects of transactions and other events in the determination of net income) and should not be considered an alternative to net income as an indication of our performance or to cash flows from operations as a measure of liquidity or ability to make distributions. Comparison of FFO, using the NAREIT definition, to similarly titled measures for other REITs may not necessarily be meaningful due to possible differences in the application of the NAREIT definition used by such REITs.

Funds from operations available to common stockholders (“FFO available to common stockholders”) is FFO adjusted to subtract preferred share dividends. We believe that net income available to common stockholders is the most directly comparable GAAP measure to FFO available to common stockholders.

Basic funds from operations per share (“Basic FFO per share”) and diluted funds from operations per share (“Diluted FFO per share”) is FFO available to common stockholders divided by weighted average common shares outstanding and FFO available to common stockholders divided by weighted average common shares outstanding on a diluted basis, respectively, during a period. We believe that FFO available to common stockholders Basic FFO per share and Diluted FFO per share are useful to investors because they provide investors with a further context for evaluating our FFO results in the same manner that investors use net income and earnings per share (“EPS”) in evaluating net income available to common shareholders. In addition, since most REITs provide FFO, Basic FFO and Diluted FFO per share information to the investment community, we believe FFO available to common stockholders, Basic FFO per share and Diluted FFO per share are useful supplemental measures for comparing us to other REITs. We believe that net income is the most directly comparable GAAP measure to FFO, Basic EPS is the most directly comparable GAAP measure to Basic FFO per share, and that diluted EPS is the most directly comparable GAAP measure to Diluted FFO per share.

The following table provides a reconciliation of our FFO for the three months ended March 31, 2006 and 2005, to the most directly comparable GAAP measure, net income, and a computation of basic and diluted FFO per weighed average common share and basic and diluted net income per weighted average common share:

	For the three months ended March 31, 2006	For the three months ended March 31, 2005
Net income	\$ 846,800	\$ 535,184
Add: Real estate depreciation and amortization	1,834,740	537,755
FFO	2,681,540	1,072,939
Less: Dividends attributable to preferred stock	(344,444)	—
FFO available to common stockholders	2,337,096	1,072,939
Weighted average shares outstanding — basic	7,672,000	7,667,000
Weighted average shares outstanding — diluted	7,821,658	7,733,335
Basic net income per weighted average common share	<u>\$ 0.07</u>	<u>\$ 0.07</u>
Diluted net income per weighted average common share	<u>\$ 0.06</u>	<u>\$ 0.07</u>
Basic FFO per weighted average common share	<u>\$ 0.30</u>	<u>\$ 0.14</u>
Diluted FFO per weighted average common share	<u>\$ 0.30</u>	<u>\$ 0.14</u>

Item 3. Quantitative and Qualitative Disclosure About Market Risk

Market risk includes risks that arise from changes in interest rates, foreign currency exchange rates, commodity prices, equity prices and other market changes that affect market sensitive instruments. The primary risks that we believe we will be exposed to are interest rate and foreign currency exchange rate risk. We currently have two variable rate loans, certain of our leases contain escalations based on market interest rates, and the interest rate on our existing line of credit is variable. We seek to mitigate this risk by structuring such provisions to contain a minimum interest rate or escalation rate, as applicable. We are also exposed to the effects of interest rate changes as a result of the holding of our cash and cash equivalents in short-term, interest-bearing investments.

To illustrate the potential impact of changes in interest rates on our net income, we have performed the following analysis, which assumes that our balance sheet remains constant and no further actions beyond a minimum interest rate or escalation rate are taken to alter our existing interest rate sensitivity.

Under this analysis, a hypothetical increase in the one month LIBOR rate by 1% would increase our interest and rental revenue by \$36,500 and increase our interest expense on the line of credit by \$225,692 for a net decrease in our net income of \$189,192, or 5.30%, over the next twelve months, compared to net income for the latest twelve months ended March 31, 2006. A hypothetical decrease in the one month LIBOR by 1% would decrease our interest and rental revenue by \$17,297 and decrease our interest expense on the line of credit by \$225,692 for a net increase in our net income of \$208,395, or 5.8%, over the next twelve months, compared to net income for the latest twelve months ended March 31, 2006. Although management believes that this analysis is indicative of our existing interest rate sensitivity, it does not adjust for potential changes in credit quality, size and composition of our loan and lease portfolio on the balance sheet and other business developments that could affect net income. Accordingly, no assurances can be given that actual results would not differ materially from the results under this hypothetical analysis.

As of March 31, 2006, our fixed rate debt outstanding was approximately \$108.6 million. Interest rate fluctuations may affect the fair value of our fixed rate debt instruments. If interest rates on our fixed rate debt instruments, using rates at March 31, 2006, had been one percentage point higher or lower, the fair value of those debt instruments on that date would have decreased or increased, respectively, by approximately \$7.3 million.

In the future, we may be exposed to additional effects of interest rate changes primarily as a result of our line of credit or long-term debt used to maintain liquidity and fund expansion of our real estate investment portfolio and operations. Our interest rate risk management objectives are to limit the impact of interest rate changes on earnings and cash flows and to lower overall borrowing costs. To achieve this objective, we will borrow primarily at fixed rates or variable rates with the lowest margins available and, in some cases, with the ability to convert variable rates to fixed rates. We may also enter into derivative financial instruments such as interest rate swaps and caps in order to mitigate the interest rate risk on a related financial instrument. We will not enter into derivative or interest rate transactions for speculative purposes.

We have purchased two properties in Canada, and the monthly rental payments on these properties are received in Canadian dollars. In an effort to mitigate at least a portion of the risk of foreign currency rate fluctuations, we have secured loans on these real estate properties in which the mortgage payments are denominated in Canadian dollars. While we have minimized the exchange rate risk, we are still exposed to fluctuations in the exchange rate, as we have to convert the payments into US dollars at each transaction date and value the cash, deferred rent asset, and mortgage notes related to the Canadian properties for the exchange rate at each balance sheet date. For the three months ended March 31, 2006, we had a \$816 realized foreign currency transaction loss in connection with the translation of monthly rental payments, translation of cash balances and quarterly tax payments to Canada, and a \$12,615 gain from valuing the deferred rent asset and the mortgage notes payable related to the Canadian properties at March 31, 2006.

To illustrate the potential impact of changes in exchange rates on our net income, we have performed the following analysis, which assumes that our balance sheet remains constant and no further actions beyond a minimum exchange rate fluctuation are taken to alter our existing foreign currency sensitivity.

Under this analysis, a hypothetical increase (or decrease) in the value of the Canadian dollar to the US dollar by 10% would increase (or decrease) our net income by approximately \$494,000, or 13.8%, over the next twelve months, compared to net income for the latest twelve months ended March 31, 2006. Although management believes that this analysis is indicative of our existing exchange rate sensitivity, no assurances can be given that actual results would not differ materially from the results under this hypothetical analysis.

In addition to changes in interest rates, the value of our real estate is subject to fluctuations based on changes in local and regional economic conditions and changes in the creditworthiness of lessees, all of which may affect our ability to refinance debt if necessary.

Item 4. Controls and Procedures

a) Evaluation of Disclosure Controls and Procedures

As of March 31, 2006, our management, including the chief executive officer and chief financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, management, including the chief executive officer and chief financial officer, concluded that the disclosure controls and procedures were effective.

b) Changes in Internal Control over Financial Reporting

There were no changes in internal controls for the quarter ended March 31, 2006 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There have been no material changes to our risk factors previously disclosed in form 10-K for the year ended December 31, 2005.

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

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were voted on during the three months ended March 31, 2006.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

Exhibit Index

<u>Exhibit</u>	<u>Description of Document</u>
3.1†	Amended and Restated Articles of Incorporation, incorporated by reference to Exhibit 3.1 to the Registration Statement on Form S - -11 (File No. 333-106024), filed June 11, 2003.
3.2†	Bylaws, incorporated by reference to Exhibit 3.2 to the Registration Statement on Form S-11 (File No. 333-106024), filed June 11, 2003.
3.3†	Articles Supplementary Establishing and Fixing the Rights and Preferences of the 7.75% Series A Cumulative Redeemable Preferred Stock, incorporated by reference to Exhibit 3.3 of Form 8-A (File No. 000-50363), filed January 19, 2006.
4.1†	Form of Certificate for 7.75% Series A Cumulative Redeemable Preferred Stock of Gladstone Commercial Corporation, incorporated by reference to Exhibit 4.1 of Form 8-A (File No. 000-50363), filed on January 19, 2006.
10.19†	First Amended and Restated Agreement of Limited Partnership of Gladstone Commercial Limited Partnership, incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K (File No. 000-50363), filed on February 1, 2006.
10.20†	Loan agreement between Stonewater Dox Funding LLC and Wells Fargo Bank, National Association, dated as of November 21, 2003, incorporated by reference to Exhibit 10.20 of the Current Report on Form 8-K (File No. 000-50363), filed on February 24, 2006.

Exhibit	Description of Document
10.21†	Assumption agreement between Stonewater Dox Funding LLC, ACI06 Champaign IL LLC, Gladstone Commercial Corporation and LaSalle Bank National Association, dated as of February 21, 2006, incorporated by reference to Exhibit 10.21 of the Current Report on Form 8-K (File No. 000-50363), filed on February 24, 2006.
10.22†	Promissory note between Stonewater Dox Funding LLC and Wells Fargo Bank, National Association, dated as of November 21, 2003, incorporated by reference to Exhibit 10.22 of the Current Report on Form 8-K (File No. 000-50363), filed on February 24, 2006.
10.23†	Purchase agreement between Stonewater UIS Funding LLC and Gladstone Commercial Limited Partnership, dated as of November 23, 2005, as the same has been modified by that certain Amendment to Purchase Agreement dated December 22, 2005, that certain Amendment to Purchase Agreement dated December 30, 2005, that certain Amendment to Purchase Agreement dated January 6, 2006, that certain Amendment to Purchase Agreement dated January 13, 2006, that certain Amendment to Purchase Agreement dated January 17, 2006 and that certain Amendment to Purchase Agreement dated January 20, 2006., incorporated by reference to Exhibit 10.23 of the Current Report on Form 8-K (File No. 000-50363), filed on February 24, 2006.
10.24†	Loan agreement between Stonewater Dox Funding LLC and Greenwich Capital Financial Products, Inc, dated as of May 12, 2004, incorporated by reference to Exhibit 10.24 of the Current Report on Form 8-K (File No. 000-50363), filed on February 24, 2006.
10.25†	Loan assumption agreement between Stonewater UIS Funding LLC, and UC06 Roseville MN LLC, Gladstone Commercial Corporation and LaSalle Bank National Association, dated as of February 21, 2006, incorporated by reference to Exhibit 10.25 of the Current Report on Form 8-K (File No. 000-50363), filed on February 24, 2006.
10.26†	Promissory note between Stonewater UIS Funding LLC and Greenwich Capital Financial Products, Inc, dated as of May 12, 2004, incorporated by reference to Exhibit 10.26 of the Current Report on Form 8-K (File No. 000-50363), filed on February 24, 2006.
10.27†	Purchase agreement between Stonewater UIS Funding LLC and Gladstone Commercial Limited Partnership, dated as of November 23, 2005, as the same has been modified by that certain Amendment to Purchase Agreement dated December 22, 2005, that certain Amendment to Purchase Agreement dated December 30, 2005, that certain Amendment to Purchase Agreement dated January 6, 2006, that certain Amendment to Purchase Agreement dated January 13, 2006, that certain Amendment to Purchase Agreement dated January 17, 2006 and that certain Amendment to Purchase Agreement dated January 20, 2006, incorporated by reference to Exhibit 10.27 of the Current Report on Form 8-K (File No. 000-50363), filed on February 24, 2006.
10.28†	Third Amendment to Credit Agreement and Loan Documents by and among Gladstone Commercial Corporation, Gladstone Commercial Limited Partnership, Branch Banking and Trust Company, and certain other parties, dated as of March 17, 2006.
10.29	Loan agreement between IXIS Real Estate Capital Inc. and 2525 N Woodlawn Vstrm Wichita KS, LLC, CI05 Clintonville WI LLC and MSI05-3 LLC, dated as of April 27, 2006.
10.30	Promissory note between IXIS Real Estate Capital Inc. and 2525 N Woodlawn Vstrm Wichita KS, LLC, CI05 Clintonville WI LLC and MSI05-3 LLC, dated as of April 27, 2006.
11	Computation of Per Share Earnings from Operations (included in the notes to the audited financial statements contained in this report)

Exhibit	Description of Document
31.1	Certification of Chief Executive Officer pursuant to Section 302 of The Sarbanes-Oxley Act of 2002.
31 .2	Certification of Chief Financial Officer pursuant to Section 302 of The Sarbanes-Oxley Act of 2002.
32 .1	Certification of Chief Executive Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.
32 .2	Certification of Chief Financial Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.

† Previously filed and incorporated by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Gladstone Commercial Corporation

Date: May 2, 2006

By: /s/ Harry Brill
Harry Brill
Chief Financial Officer

Exhibit Index

Exhibit	Description of Document
3.1†	Amended and Restated Articles of Incorporation, incorporated by reference to Exhibit 3.1 to the Registration Statement on Form S - -11 (File No. 333-106024), filed June 11, 2003.
3.2†	Bylaws, incorporated by reference to Exhibit 3.2 to the Registration Statement on Form S-11 (File No. 333-106024), filed June 11, 2003.
3.3†	Articles Supplementary Establishing and Fixing the Rights and Preferences of the 7.75% Series A Cumulative Redeemable Preferred Stock, incorporated by reference to Exhibit 3.3 of Form 8-A (File No. 000-50363), filed January 19, 2006.
4.1†	Form of Certificate for 7.75% Series A Cumulative Redeemable Preferred Stock of Gladstone Commercial Corporation, incorporated by reference to Exhibit 4.1 of Form 8-A (File No. 000-50363), filed on January 19, 2006.
10.19†	First Amended and Restated Agreement of Limited Partnership of Gladstone Commercial Limited Partnership, incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K (File No. 000-50363), filed on February 1, 2006.
10.20†	Loan agreement between Stonewater Dox Funding LLC and Wells Fargo Bank, National Association, dated as of November 21, 2003, incorporated by reference to Exhibit 10.20 of the Current Report on Form 8-K (File No. 000-50363), filed on February 24, 2006.
10.21†	Assumption agreement between Stonewater Dox Funding LLC, ACI06 Champaign IL LLC, Gladstone Commercial Corporation and LaSalle Bank National Association, dated as of February 21, 2006, incorporated by reference to Exhibit 10.21 of the Current Report on Form 8-K (File No. 000-50363), filed on February 24, 2006.
10.22†	Promissory note between Stonewater Dox Funding LLC and Wells Fargo Bank, National Association, dated as of November 21, 2003, incorporated by reference to Exhibit 10.22 of the Current Report on Form 8-K (File No. 000-50363), filed on February 24, 2006.
10.23†	Purchase agreement between Stonewater UIS Funding LLC and Gladstone Commercial Limited Partnership, dated as of November 23, 2005, as the same has been modified by that certain Amendment to Purchase Agreement dated December 22, 2005, that certain Amendment to Purchase Agreement dated December 30, 2005, that certain Amendment to Purchase Agreement dated January 6, 2006, that certain Amendment to Purchase Agreement dated January 13, 2006, that certain Amendment to Purchase Agreement dated January 17, 2006 and that certain Amendment to Purchase Agreement dated January 20, 2006., incorporated by reference to Exhibit 10.23 of the Current Report on Form 8-K (File No. 000-50363), filed on February 24, 2006.
10.24†	Loan agreement between Stonewater Dox Funding LLC and Greenwich Capital Financial Products, Inc, dated as of May 12, 2004, incorporated by reference to Exhibit 10.24 of the Current Report on Form 8-K (File No. 000-50363), filed on February 24, 2006.
10.25†	Loan assumption agreement between Stonewater UIS Funding LLC, and UC06 Roseville MN LLC, Gladstone Commercial Corporation and LaSalle Bank National Association, dated as of February 21, 2006, incorporated by reference to Exhibit 10.25 of the Current Report on Form 8-K (File No. 000-50363), filed on February 24, 2006.
10.26†	Promissory note between Stonewater UIS Funding LLC and Greenwich Capital Financial Products, Inc, dated as of May 12, 2004, incorporated by reference to Exhibit 10.26 of the Current Report on Form 8-K (File No. 000-50363), filed on February 24, 2006.

Exhibit	Description of Document
10.27†	Purchase agreement between Stonewater UIS Funding LLC and Gladstone Commercial Limited Partnership, dated as of November 23, 2005, as the same has been modified by that certain Amendment to Purchase Agreement dated December 22, 2005, that certain Amendment to Purchase Agreement dated December 30, 2005, that certain Amendment to Purchase Agreement dated January 6, 2006, that certain Amendment to Purchase Agreement dated January 13, 2006, that certain Amendment to Purchase Agreement dated January 17, 2006 and that certain Amendment to Purchase Agreement dated January 20, 2006, incorporated by reference to Exhibit 10.27 of the Current Report on Form 8-K (File No. 000-50363), filed on February 24, 2006.
10.28†	Third Amendment to Credit Agreement and Loan Documents by and among Gladstone Commercial Corporation, Gladstone Commercial Limited Partnership, Branch Banking and Trust Company, and certain other parties, dated as of March 17, 2006.
10.29	Loan agreement between IXIS Real Estate Capital Inc. and 2525 N Woodlawn Vstrm Wichita KS, LLC, CI05 Clintonville WI LLC and MSI05-3 LLC, dated as of April 27, 2006.
10.30	Promissory note between IXIS Real Estate Capital Inc. and 2525 N Woodlawn Vstrm Wichita KS, LLC, CI05 Clintonville WI LLC and MSI05-3 LLC, dated as of April 27, 2006.
11	Computation of Per Share Earnings (included in the notes to the audited financial statements contained in this report)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of The Sarbanes-Oxley Act of 2002.
31 .2	Certification of Chief Financial Officer pursuant to Section 302 of The Sarbanes-Oxley Act of 2002.
32 .1	Certification of Chief Executive Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.
32 .2	Certification of Chief Financial Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.

† Previously filed and incorporated by reference.

LOAN AGREEMENT

Dated as of April 27, 2006

Between

**2525 N WOODLAWN VSTRM WICHITA KS, LLC,
CI05 CLINTONVILLE WI LLC and
MSI05-3 LLC**

collectively as Borrower

And

IXIS REAL ESTATE CAPITAL INC.

as Lender

Property Locations:

255 Spring Street, Clintonville, Wisconsin
2525 N Woodlawn Avenue, Wichita, Kansas
914 Wohlert Street, Angola, Indiana
801 East 11th Street, Rock Falls, Illinois
800 Growth Parkway, Angola Indiana.

TABLE OF CONTENTS

	Page
1. DEFINITIONS; PRINCIPLES OF CONSTRUCTION	1
1.1 Terms and Definitions	1
1.2 Index of Other Definitions	10
1.3 Principles of Construction	10
2. GENERAL LOAN TERMS	10
2.1 The Loan	10
2.2 Interest; Monthly Payments	10
2.3 Loan Repayment and Defeasance	11
2.4 Release of Property	14
2.5 Payments and Computations	15
3. CASH MANAGEMENT AND RESERVES	16
3.1 Cash Management Arrangements	16
3.2 Required Repairs	16
3.3 Taxes and Insurance	17
3.4 [Intentionally Deleted]	18
3.5 Rollover Reserves	18
3.6 Operating Expense Subaccount	19
3.7 Casualty/Condemnation Subaccount	19
3.8 Security Deposits	20
3.9 Grant of Security Interest; Application of Funds	20
3.10 Property Cash Flow Allocation	20
4. REPRESENTATIONS AND WARRANTIES	21
4.1 Organization; Special Purpose	21
4.2 Proceedings; Enforceability	21
4.3 No Conflicts	22
4.4 Litigation	22
4.5 Agreements	22
4.6 Title	22
4.7 No Bankruptcy Filing	23
4.8 Full and Accurate Disclosure	23
4.9 No Plan Assets	23
4.10 Compliance	24
4.11 Contracts	24
4.12 Federal Reserve Regulations; Investment Company Act	24
4.13 Utilities and Public Access	24
4.14 Physical Condition	25
4.15 Leases	25
4.16 Fraudulent Transfer	25
4.17 Ownership of Borrower	26

TABLE OF CONTENTS
(Continued)

	Page
4.18 Management Agreement	26
4.19 Hazardous Substances	26
4.20 Principal Place of Business	27
4.21 Other Debt	27
4.22 Embargoed Person	27
4.23 Anti-Money Laundering	27
4.24 Ground Lease and Other Bond Documents	27
5. COVENANTS	28
5.1 Existence	28
5.2 Taxes	28
5.3 Repairs; Maintenance and Compliance; Alterations	28
5.4 Performance of Other Agreements	29
5.5 Cooperate in Legal Proceedings	29
5.6 Further Assurances	29
5.7 Environmental Matters	30
5.8 Title to the Property; Liens	32
5.9 Leases	32
5.10 Estoppel Statement	34
5.11 Property Management	34
5.12 Special Purpose Bankruptcy Remote Entity	35
5.13 Intentionally Deleted	35
5.14 Change In Business or Operation of Property	35
5.15 Certain Prohibited Actions	35
5.16 Prohibited Transfers	36
5.17 Expenses	38
5.18 Indemnity	38
5.19 Embargoed Person	39
5.20 Anti-Money Laundering	40
5.21 ERISA	41
5.22 Ground Lease	41
6. NOTICES AND REPORTING	42
6.1 Borrower Notices and Deliveries	43
6.2 Financial Reporting	43
7. INSURANCE; CASUALTY; AND CONDEMNATION	45
7.1 Insurance	45
7.2 Casualty	48
7.3 Condemnation	48
7.4 Application of Proceeds or Award	49

TABLE OF CONTENTS
(Continued)

	Page
8. DEFAULTS	50
8.1 Events of Default	50
8.2 Remedies	52
9. SECONDARY MARKET PROVISIONS	53
9.1 Transfer of Loan	53
9.2 Use of Information	54
9.3 Borrower Indemnity	54
9.4 Restructuring of Loan	55
10. MISCELLANEOUS	55
10.1 Exculpation	55
10.2 Brokers and Financial Advisors	57
10.3 Retention of Servicer	57
10.4 Survival	57
10.5 Lender's Discretion	57
10.6 Governing Law	58
10.7 Modification, Waiver in Writing	58
10.8 Trial by Jury	59
10.9 Headings/Exhibits	59
10.10 Severability	59
10.11 Preferences	59
10.12 Waiver of Notice	59
10.13 Remedies of Borrower	59
10.14 Prior Agreements	60
10.15 Offsets, Counterclaims and Defenses	60
10.16 Publicity	60
10.17 No Usury	60
10.18 Conflict; Construction of Documents	61
10.19 No Third Party Beneficiaries	61
10.20 Yield Maintenance Premium	61
10.21 Assignment	61
10.22 Counterparts	62

LOAN AGREEMENT

LOAN AGREEMENT dated as of April 27, 2006 (as the same may be modified, supplemented, amended or otherwise changed, this "*Agreement*") between 2525 N WOODLAWN VSTRM WICHITA KS, LLC, a Delaware limited liability company, CI05 CLINTONVILLE WI LLC, a Delaware limited liability company, and MS105-3 LLC, a Delaware limited liability company (jointly and severally, and together with their permitted successors and assigns, collectively, "*Borrower*"), and IXIS REAL ESTATE CAPITAL INC., a New York corporation (together with its successors and assigns, "*Lender*").

1. DEFINITIONS; PRINCIPLES OF CONSTRUCTION

1.1 **Terms and Definitions.** The following terms have the meanings set forth below:

1.1.1 **Key Terms and Definitions.**

Amortization Schedule: 300 months.

Borrower Representative: Gladstone Commercial Limited Partnership, a Delaware limited partnership.

Converting Borrower shall mean CI05 Clintonville WI LLC, the Delaware limited liability company that owns the Converting Property.

Deposit Bank: LaSalle Bank, N.A., or such other bank or depository selected by Lender in its discretion.

Guarantor: Gladstone Commercial Corporation, a Maryland corporation.

Interest Rate: a rate of interest equal to 6.580% per annum.

Manager: with respect to the T-Mobile Property only, Vantage Point Properties, Inc., a Kansas corporation, or any successor, assignee or replacement manager appointed by Borrower in accordance with Section 5.11; and with respect to the other Properties, any manager or managers of such Properties, and any successor, assignee or replacement of such manager or managers, as may be appointed in accordance with Section 5.11.

Monthly Debt Service Payment Amount: \$101,351.97.00.

Principal: Original principal amount of \$14,900,000.00.

Property: individually and collectively, the parcels real property and Improvements thereon owned by Borrower and encumbered by the Mortgage; together with all rights pertaining to such real property and Improvements, and all other collateral for the Loan as more particularly described in the Granting Clauses of the Mortgage and referred to therein as the Mortgaged Property. The Property is located at 255 Spring Street, Clintonville, Wisconsin (the "*Converting Property*"); 2525 N Woodlawn Avenue, Wichita, Kansas (the "*T-Mobile*");

Property”); and 914 Wohlert Street, Angola, Indiana (“**Wohlert Property**”), 801 East 11th Street, Rock Falls, Illinois (“**Rock Falls Property**”) and 800 Growth Parkway, Angola Indiana (“**Growth Property**”). The Wohlert Property, Rock Falls Property and Growth Property are sometimes collectively referred to herein as, the “**Spinners Property**” or “**Spinners Properties**”).

Spinners Borrower shall mean MSI05-3 LLC, the Delaware limited liability company that owns the Spinners Properties.

Start-up Date: the earlier of (a) the third anniversary date hereof and (b) two (2) years from the “start-up day” (within the meaning of Section 860G(a)(9) of the Code) of the REMIC Trust.

Stated Maturity Date: May 5, 2016.

T-Mobile Borrower shall mean 2525 N Woodlawn VSTRM Wichita KS, LLC, the Delaware limited liability company that owns the T-Mobile Property.

1.1.2 Additional Terms and Definitions.

Affiliate: as to any Person, any other Person that, directly or indirectly, is in Control of, is Controlled by or is under common Control with such Person or is a director or officer of such Person or of an Affiliate of such Person, other than holders of publicly traded shares or other securities of Guarantor who are not officers or directors of Guarantor.

Allocated Loan Amount: with respect to any Property, the amount set forth on Schedule 5 attached hereto and made a part hereof.

Approved Capital Expenses: Capital Expenses incurred by Borrower, provided that such Capital Expenses shall either be (i) included in the approved Capital Budget for the current calendar month or (ii) approved by Lender.

Approved Leasing Expenses: actual out-of-pocket expenses incurred by Borrower and payable to third parties that are not Affiliates of Borrower or Guarantor (or to Affiliates of Borrower or Guarantor in arms length transactions entered into in the ordinary course of business and upon fair market terms and conditions) in leasing space at the Property pursuant to the Property Leases and any other Leases entered into in accordance with the Loan Documents, including brokerage commissions and tenant improvements, which expenses (i) are (A) specifically approved by Lender in connection with approving the applicable Lease, (B) incurred in the ordinary course of business and on market terms and conditions in connection with Leases which do not require Lender’s approval under the Loan Documents, or (C) otherwise approved by Lender, which approval shall not be unreasonably withheld or delayed, and (ii) are substantiated by executed Lease documents and brokerage agreements.

Approved Operating Expenses: During a Cash Management Period, operating expenses incurred by Borrower which (i) are included in the approved Operating Budget for the current calendar month, (ii) are for real estate taxes, insurance premiums, electric, gas, oil, water, sewer or other utility service to the Property or (iii) have been approved by Lender.

Bond Documents: collectively, the Indenture, the Ground Lease, the Guaranty Agreement dated as of October 1, 2000 as modified pursuant to that Assumption of Guaranty dated as of May 18, 2005 for the benefit of the holders, the Direct Pay Agreement, and all other documents and instruments executed and delivered in connection with the Industrial Revenue Bonds.

Business Day: any day other than a Saturday or a Sunday or any day on which commercial banks in New York, New York are authorized or required to close.

Capital Expenses: expenses that are capital in nature or required under GAAP to be capitalized.

Cash Management Period: shall commence upon Lender giving notice to the Borrower and the Clearing Bank of the occurrence of any of the following: (i) an Event of Default, or (ii) the failure by Borrower, after the end of a calendar quarter, to maintain a Debt Service Coverage Ratio of at least 1.05:1; and shall end upon Lender giving notice promptly to the Borrower and the Clearing Bank that the Cash Management Period has ended, which notice Lender shall only be required to give if (1) the Loan and all other obligations under the Loan Documents have been repaid in full or (2) there has been a Full Defeasance of the Loan or (3) for twelve (12) months since the commencement of the existing Cash Management Period (A) no Default or Event of Default has occurred, (B) no event that could trigger a separate Cash Management Period has occurred and (C) the Debt Service Coverage Ratio is at least equal to 1.05:1.

Code: the Internal Revenue Code of 1986, as amended and as it may be further amended from time to time, any successor statutes thereto, and applicable U.S. Department of Treasury regulations issued pursuant thereto in temporary or final form.

Control: with respect to any Person, either (i) ownership, directly or indirectly, of forty-nine percent (49%) or more of all equity interests in such Person or (ii) the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, through the ownership of voting securities, by contract or otherwise.

Debt: the unpaid Principal, all interest accrued and unpaid thereon, any Yield Maintenance Premium and all other sums due to Lender in respect of the Loan under any Loan Document.

Debt Service: with respect to any particular period, the scheduled Principal and interest payments due under the Note in such period.

Debt Service Coverage Ratio: as of any date, the ratio calculated by Lender of (i) the Net Operating Income for the twelve (12) month period ending with the most recently completed calendar month to (ii) the Debt Service with respect to such period.

Default: the occurrence of any event under any Loan Document which, with the giving of notice or passage of time, or both, would be an Event of Default.

Default Rate: a rate per annum equal to the lesser of (i) the maximum rate permitted by applicable law, or (ii) five percent (5%) above the Interest Rate, compounded monthly.

Defeasance Percentage: the percentage derived by dividing, (i) in the case of an initial Partial Defeasance, the original principal amount of the Defeased Note by the original principal amount of the Note or (ii) in the case of a subsequent Defeasance, the amount of the subsequent Defeased Note by the original principal amount of its corresponding Undefeased Note.

ERISA: the Employment Retirement Income Security Act of 1974, as amended from time to time, and the rules and regulations promulgated thereunder.

ERISA Affiliate: all members of a controlled group of corporations and all trades and business (whether or not incorporated) under common control and all other entities which, together with Borrower, are treated as a single employer under any or all of Section 414(b), (c), (m) or (o) of the Code.

Escrows: amounts paid by Borrower into Subaccounts established following the occurrence and during the continuance of an Event of Default, for the purpose of paying Taxes, the premiums for Policies, ground rents, franchise and license fees and any other regularly occurring costs for which a Subaccount is established hereunder.

Excess Cash Flow: for any period, Net Operating Income for such period, less actual payments of Debt Service for such period.

GAAP: generally accepted accounting principles in the United States of America as of the date of the applicable financial report.

Governmental Authority: any court, board, agency, commission, office or authority of any nature whatsoever for any governmental unit (federal, state, county, district, municipal, city or otherwise) now or hereafter in existence.

Ground Lease: that certain Lease Agreement dated as of October 1, 2000 by and between the City of Wichita, Kansas, as landlord, and Net Fund I, Ltd. as successor in interest to VS Property, L.L.C., as tenant; and assigned by Assignment of Lease dated November 9, 2001 from VS Property, L.L.C. to Net Fund I, Ltd., and further assigned by Assignment of Lease dated May 18, 2005 from Net Fund I, Ltd. to 2525 N Woodlawn VStrm Wichita KS, LLC; as amended by that certain First Amendment to Lease Agreement dated as of May 18, 2005; together with any extensions, renewals, modifications or amendments thereof and all additional remainders, reversions and other rights and estates appurtenant thereto.

Ground Lease Option: the option of the T-Mobile Borrower to purchase the T-Mobile Property as set forth in Section 17.1 of the Ground Lease.

Indenture: that certain Indenture dated as of October 1, 2000 by and between the City of Wichita, Kansas, a municipal corporation of the State of Kansas, as issuer of the Industrial Revenue Bonds, and Commerce Bank, N.A., Wichita Kansas, in its capacity as trustee, bond registrar and paying agent (the "**Bond Trustee**") with respect to the Industrial Revenue Bonds.

Industrial Revenue Bonds: collectively, the (i) City of Wichita, Kansas, Taxable Industrial Revenue Bonds, Series IV-A 2000 in the original aggregate principal amount of \$7,500,000 (the "Series A, 2000 Bonds"); and the (ii) City of Wichita, Kansas, Subordinated Taxable Industrial Revenue Bonds, Series IV-B, 2000 in the initial principal amount of \$2,644,764.18 (the "Series B, 2000 Bonds"), in the aggregate not to exceed \$10,144,764.18, issued by the City of Wichita, Kansas pursuant to an ordinance dated as of October 17, 2000.

Interest Period: (i) the period from the date hereof through the next day of a calendar month that is the fifth day of such calendar month, and (ii) each period thereafter from the sixth day of each calendar month through the fifth day of the next calendar month; except that the Interest Period, if any, that would otherwise commence before and end after the Maturity Date shall end on the Maturity Date. Notwithstanding the foregoing, in the event Lender shall have elected to change the date on which scheduled payments under the Loan are due, as described in the definition of "Payment Date," from and after the effective date of such election, each Interest Period shall commence on the day of each month in which occurs such changed Payment Date and end on the day immediately preceding the following Payment Date, as so changed.

Leases: all leases and other agreements or arrangements heretofore or hereafter entered into affecting the use, enjoyment or occupancy of, or the conduct of any activity upon or in, the Property or the Improvements, including any guarantees, extensions, renewals, modifications or amendments thereof and all additional remainders, reversions and other rights and estates appurtenant thereunder.

Legal Requirements: statutes, laws, rules, orders, regulations, ordinances, judgments, decrees and injunctions of Governmental Authorities affecting Borrower, any Loan Document or all or part of the Property or the construction, ownership, use, alteration or operation thereof, whether now or hereafter enacted and in force, and all permits, licenses and authorizations and regulations relating thereto, and all covenants, agreements, restrictions and encumbrances contained in any instrument, either of record or known to Borrower, at any time in force affecting all or part of the Property.

Lien: any mortgage, deed of trust, lien (statutory or otherwise), pledge, hypothecation, easement, restrictive covenant, preference, assignment, security interest or any other encumbrance, charge or transfer of, or any agreement to enter into or create any of the foregoing, on or affecting all or part of the Property or any interest therein, or in Borrower or Borrower Representative, including any conditional sale or other title retention agreement, any financing lease having substantially the same economic effect as any of the foregoing, the filing of any financing statement, and mechanic's, materialmen's and other similar liens and encumbrances.

Loan to Value Ratio: as to any Property, the ratio of the Allocated Loan Amount for the Property to the fair market value of the Property as reasonably determined by Lender based on an updated or current M.A.I. appraisal of the Property in its then current condition, obtained at Borrower's expense and satisfactory to Lender.

Loan Documents: this Agreement and all other documents, agreements and instruments now or hereafter evidencing, securing or delivered to Lender in connection with the Loan, including the following, each of which is dated as of the date hereof: (i) Promissory Note made by Borrower to Lender in the principal amount equal to the Loan (the "**Note**"), (ii) those certain Mortgages, Assignment of Leases and Rents and Security Agreement made by Borrower (or the Deed of Trust, Assignment of Leases and Rents and Security Agreement made by Borrower to a trustee, as the case may be) in favor of Lender which covers the Property (collectively, the "**Mortgage**"), (iii) those certain Assignment of Leases and Rents from Borrower to Lender, (iv) the Assignment of Agreements, Licenses, Permits and Contracts from Borrower to Lender, (v) the Clearing Account Agreement (the "**Clearing Account Agreement**") among Borrower, Lender, Manager and Branch Banking and Trust Company of Virginia, (vi) the Deposit Account Agreement (the "**Deposit Account Agreement**") among Borrower, Lender, Manager and the Deposit Bank, (vii) the Guaranty of Recourse Obligations made by Guarantor, and (viii) the Pledge and Security Agreement (the "**Pledge**") made by the T-Mobile Borrower in favor of Lender which pledges to Lender all of the T-Mobile Borrower's right, title and interest in and to the Industrial Revenue Bonds, which are held by the T-Mobile Borrower and all right, title and interest of the T-Mobile Borrower as beneficiary under the Indenture and other Bond Documents (the "**Pledged Collateral**"); as each of the foregoing may be (and each of the foregoing defined terms shall refer to such documents as they may be) amended, restated, replaced, supplemented or otherwise modified from time to time.

Management Agreement: with respect to the T-Mobile Property only, the T-Mobile Management Agreement and with respect to the other Properties, any management agreement entered into between Borrower and a property manager, pursuant to which such manager is to manage any Property, as the same may be entered into, amended, restated, replaced, supplemented or otherwise modified from time to time in accordance with Section 5.11.

Material Alteration: any alteration affecting structural elements of the Property the cost of which exceeds \$250,000; provided, however, that in no event shall (i) any Required Repairs, (ii) any tenant improvement work performed pursuant to any Lease existing on the date hereof or entered into hereafter in accordance with the provisions of this Agreement, or (iii) alterations performed as part of a Restoration, constitute a Material Alteration.

Material Lease: all Leases which individually or in the aggregate with respect to the same tenant and its Affiliates (i) constitute five percent (5%) or more of the Property's gross leasable area, (ii) have a gross annual rent of five percent (5%) or more of the total annual Rents, or (iii) demise at least one full floor of the Improvements.

Maturity Date: the date on which the final payment of principal of the Note (or the Defeased Note, if applicable) becomes due and payable as therein provided, whether at the Stated Maturity Date, by declaration of acceleration, or otherwise.

Minor Lease: any Lease that is not a Material Lease.

Net Operating Income: for any period, the actual net operating income of the Property after deducting therefrom deposits to (but not withdrawals from) any reserves required under this Agreement.

Officer's Certificate: a certificate delivered to Lender by Borrower which is signed by an officer of the general partner of the Borrower Representative.

Open Prepayment Date: the Payment Date which is closest to the 90th day prior to the Stated Maturity Date for the Loan.

Payment Date: the sixth (6th) day of each calendar month or, if such day is not a Business Day, the first (1st) Business Day thereafter; provided, however, that Lender may elect once during the Term, in its sole discretion, to change the date on which scheduled payments are due under the Loan upon written notice thereof to Borrower setting forth such changed date (provided that such changed date will be not be earlier than the sixth day of each month because rents under the Property Leases are not received by Borrower until the fifth day of each month) in which event, upon the effective date of such notice, the Payment Date shall be the date set forth therein.

Permitted Encumbrances: (i) the Liens created by the Loan Documents and the Bond Documents, (ii) all Liens and other matters disclosed in the title insurance policy insuring the Lien of the Mortgage, (iii) Liens, if any, for Taxes or other charges not yet due and payable and not delinquent, (iii) any workers', mechanics' or other similar Liens on the Property provided that any such Lien is bonded or discharged within sixty (60) days after Borrower first receives notice of such Lien, (iv) the Property Leases and (v) such other title and survey exceptions as Lender approves in writing in Lender's discretion.

Permitted Indebtedness: the Debt and unsecured trade payables incurred in the ordinary course of business relating to the ownership and operation of the Property which do not exceed, at any time, a maximum amount of two percent (2%) of the original amount of the Principal and are paid within sixty (60) days of the date incurred; and the obligations of Borrower pursuant to the Indenture and the other Bond Documents.

Permitted Transfers: (i) the Property Leases and any Lease entered into in accordance with the Loan Documents, (ii) a Special Transfer in accordance with the requirements set forth in Section 5.16, (iii) a Permitted Encumbrance, (iv) provided that no Default or Event of Default shall then exist, a Transfer of an interest in Borrower other than the interests in Borrower held by Borrower Representative, or a Transfer of an interest in Borrower Representative to any Person, provided that (A) such Transfer shall not cause the transferee (together with its Affiliates) to acquire Control of Borrower or Borrower Representative or to increase its direct or indirect interest in Borrower or in Borrower Representative to an amount which equals or exceeds forty-nine percent (49%), except as provided in Section 5.16(c), (B) [intentionally deleted], (C) Borrower shall give Lender notice of such Transfer together with copies of all instruments effecting such Transfer not less than ten (10) days prior to the date of such Transfer, and (D) the legal and financial structure of Borrower and its members and the single purpose nature and bankruptcy remoteness of Borrower and its members after such Transfer, shall satisfy Lender's then current applicable underwriting criteria and requirements, (v) a Transfer which would otherwise violate the provisions of clause (iv) hereof in respect to a change in Control only but for Lender's approval following the satisfaction of the Transfer approval criteria set forth in Section 5.16 clauses (i), (ii), (iii), (ix), (x), (xi) and (xii) (a "**Controlling Interest Transfer**").

Person: any individual, corporation, partnership, limited liability company, joint venture, estate, trust, unincorporated association, any other person or entity, and any federal, state, county or municipal government or any bureau, department or agency thereof and any fiduciary acting in such capacity on behalf of any of the foregoing.

Plan: (i) an employee benefit or other plan established or maintained by Borrower or any ERISA Affiliate or to which Borrower or any ERISA Affiliate makes or is obligated to make contributions and (ii) which is covered by Title IV of ERISA or Section 302 of ERISA or Section 412 of the Code.

Property Leases: that certain Lease Agreement between Metal Spinners, Inc. and the Spinners Borrower, dated September 1, 2005; (ii) that certain Lease Agreement between Converting, Inc. and the Converting Borrower, dated October 31, 2005; and (iii) the T-Mobile Lease; together with any extensions, renewals, modifications or amendments thereof.

Release Amount: with respect to any Property, the greater of (a) 125% of the Allocated Loan Amount for such Property, and (b) an amount which after giving effect to the release of such Property (i.e., after deducting Net Operating Income and Debt Service attributable (on a pro-rata basis) to the Property proposed to be released, and treating the Debt as if it were being reduced by such amount rather than partially defeased), results in a Loan to Value Ratio of 60% and less, and a Debt Service Coverage Ratio of 1.35:1.00 or greater.

Rating Agency: each of Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("**S&P**"), Moody's Investors Service, Inc. ("**Moody's**"), and Fitch, Inc. or any other nationally-recognized statistical rating organization to the extent any of the foregoing have been engaged by Lender or its designee in connection with or in anticipation of any Secondary Market Transaction.

Rating Comfort Letter: a letter issued by each of the applicable Rating Agencies which confirms that the taking of the action referenced to therein will not result in any qualification, withdrawal or downgrading of any existing ratings of Securities created in a Secondary Market Transaction in effect immediately prior to a defeasance.

REMIC Trust: a "real estate mortgage investment conduit" within the meaning of Section 860D of the Code that holds the Note.

Rents: all rents, rent equivalents, moneys payable as damages (including payments by reason of the rejection of a Lease in a Bankruptcy Proceeding) or in lieu of rent or rent equivalents, royalties (including all oil and gas or other mineral royalties and bonuses), income, fees, receivables, receipts, revenues, deposits (including security, utility and other deposits), accounts, cash, issues, profits, charges for services rendered, and other payment and consideration of whatever form or nature received by or paid to or for the account of or benefit of Borrower, Manager or any of their agents or employees from any and all sources arising from or attributable to the Property and the Improvements, including all receivables, customer obligations, installment payment obligations and other obligations now existing or hereafter

arising or created out of the sale, lease, sublease, license, concession or other grant of the right of the use and occupancy of the Property or rendering of services by Borrower, Manager or any of their agents or employees and proceeds, if any, from business interruption or other loss of income insurance.

Servicer: a servicer selected by Lender to service the Loan.

State: with respect to each Property, the state in which the Property is located.

T-Mobile Lease: that certain Lease Agreement dated as of March 13, 2000 between Borrower, as successor in interest to Net Fund I, LLC, successor in interest to VS Property, LLC, as landlord, and T-Mobile USA, Inc., formerly known as Voicestream Wireless Corporation, as tenant; as amended by Amendment to Lease Agreement dated October 18, 2000, Second Amendment dated August 21, 2000, Third Amendment dated October 2, 2000, Assignment of Lease dated November 9, 2001, Fourth Amendment dated June 28, 2002 and Fifth Amendment dated March 17, 2003; together with any guarantees, extensions, renewals, modifications or amendments thereof and all additional remainders, reversions and other rights and estates appurtenant thereto.

T-Mobile Management Agreement: that certain Property Management Agreement dated November 9, 2001 between the T-Mobile Borrower and the Manager of the T-Mobile Property.

Taxes: all real estate and personal property taxes, assessments, water rates or sewer rents, maintenance charges, impositions, vault charges and license fees, now or hereafter levied or assessed or imposed against all or part of the Property.

Term: the entire term of this Agreement, which shall expire upon repayment in full of the Debt and full performance of each and every obligation to be performed by Borrower pursuant to the Loan Documents.

Toxic Mold: any toxic mold or fungus at the Property which is of a type (i) that might pose a significant risk to human health or the environment or (ii) that would negatively impact the value of the Property.

Transfer: any sale, conveyance, transfer, lease or assignment, or the entry into any agreement to sell, convey, transfer, lease or assign, whether by law or otherwise, of, on, in or affecting (i) all or part of the Property (including any legal or beneficial direct or indirect interest therein), (ii) any direct or indirect interest in Borrower (including any profit interest), or (iii) any direct or indirect interest in Borrower Representative. Notwithstanding the foregoing or anything inconsistent or to the contrary contained in this Agreement or in any other Loan Document, in no event shall the trading or issuance of shares or other securities of Guarantor in public markets constitute a Transfer except as set forth in Section 5.16(c).

UCC: the Uniform Commercial Code as in effect in the State or the state in which any of the Cash Management Accounts are located, as the case may be.

U.S. Obligations: direct non-callable obligations backed by the full faith and credit of the United States of America.

Welfare Plan: an employee welfare benefit plan, as defined in Section 3(1) of ERISA.

Yield Maintenance Premium: the amount, if any (but in no event less than zero), payable in accordance with Section 10.20, which amount, when added to the unpaid Principal of the Note payable on the Stated Maturity Date, would be sufficient to purchase U.S. Obligations providing payments that are sufficient in amount to make the required Scheduled Defeasance Payments, it being understood and agreed that, in connection with a Defeasance, Borrower shall not be required to pay the amount hereinbefore described (to wit, the Yield Maintenance Premium) in addition to payment of the Defeasance Deposit.

1.2 Index of Other Definitions. An index of other terms which are defined in this Agreement or in other Loan Documents is set forth on Schedule 1.

1.3 Principles of Construction. Unless otherwise specified, (i) all references to sections and schedules are to those in this Agreement, (ii) the words “hereof,” “herein” and “hereunder” and words of similar import refer to this Agreement as a whole and not to any particular provision, (iii) all definitions are equally applicable to the singular and plural forms of the terms defined, (iv) the word “including” means “including but not limited to,” and (v) accounting terms not specifically defined herein shall be construed in accordance with GAAP.

2. GENERAL LOAN TERMS

2.1 The Loan. Lender is making a loan (the “*Loan*”) to Borrower on the date hereof, in the original principal amount (the “*Principal*”) of \$14,900,000.00, which shall mature on the Stated Maturity Date. Borrower acknowledges receipt of the Loan, the proceeds of which are to be fully advanced on the date hereof and shall be used to (i) return to Borrower a portion of the costs incurred to acquire the Property, (ii) fund certain of the Subaccounts, and (iii) pay transaction costs. Any excess proceeds may be used for any lawful purpose. No amount repaid in respect of the Loan may be reborrowed.

2.2 Interest: Monthly Payments.

2.2.1 Generally. From and after the date hereof, interest on the unpaid Principal shall accrue at the Interest Rate and be payable as hereinafter provided. On the date hereof, Borrower shall pay interest on the unpaid Principal from the date hereof through and including May 5, 2006. On June 6, 2006 (which shall be the first Payment Date hereunder) and each Payment Date thereafter through and including the Payment Date immediately preceding the Stated Maturity Date, Borrower shall pay an amount equal to the Monthly Debt Service Payment Amount; which payment is based on the Interest Rate and the Amortization Schedule. The Monthly Debt Service Payment Amount due on any Payment Date shall first be applied to the payment of interest accrued from the scheduled Payment Date preceding the Payment Date on which such Monthly Debt Service Payment Amount is paid through the day of the month immediately preceding the Payment Date on which such Monthly Debt Service Payment Amount is paid, notwithstanding that the actual Payment Date may not have been the scheduled Payment Date because the scheduled Payment Date is not a Business Day. The remainder of such Monthly Debt Service Payment Amount shall be applied to the reduction of the unpaid Principal.

2.2.2 Default Rate. After the occurrence and during the continuance of an Event of Default, the entire unpaid Debt shall bear interest at the Default Rate, and shall be payable upon demand from time to time, to the extent permitted by applicable law.

2.2.3 Taxes. Any and all payments by Borrower hereunder and under the other Loan Documents shall be made free and clear of and without deduction for any and all present or future taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, excluding taxes imposed on Lender's income, and franchise taxes imposed on Lender by law or regulation of any Governmental Authority (all such non-excluded taxes, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to in this Section 2.2.3 as "**Applicable Taxes**"). If Borrower shall be required by law to deduct any Applicable Taxes from or in respect of any sum payable hereunder to Lender, the following shall apply (to the fullest extent permitted by applicable law): (i) the sum payable shall be increased as may be necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 2.2.3), Lender receives an amount equal to the sum it would have received had no such deductions been made, (ii) Borrower shall make such deductions and (iii) Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law. Payments pursuant to this Section 2.2.3 shall be made within ten (10) Business Days after the date Lender makes written demand therefor.

2.3 Loan Repayment and Defeasance.

2.3.1 Repayment. Borrower shall repay the entire outstanding principal balance of the Note in full on the Maturity Date, together with interest thereon to (but excluding) the date of repayment and any other amounts due and owing under the Loan Documents. Borrower shall have no right to prepay or defease all or any portion of the Principal, except in accordance with Sections 2.3.2, 2.3.3, 2.3.4, and 5.16(c) below. Except during the continuance of an Event of Default, all proceeds of any repayment, including permitted prepayments, of the Loan shall be applied by Lender as follows in the following order of priority: *First*, accrued and unpaid interest at the Interest Rate; *Second*, to Principal; and *Third*, to any other amounts then due and owing under the Loan Documents, including the Yield Maintenance Premium (if such repayment or prepayment occurs prior to the Stated Maturity Date). Notwithstanding the foregoing, the Yield Maintenance Premium shall not be due in connection with a prepayment of the Loan on or after the Open Prepayment Date. During the continuance of an Event of Default, all proceeds of repayment, including any payment or recovery on the Property (whether through foreclosure, deed-in-lieu of foreclosure, or otherwise) shall, unless otherwise provided in the Loan Documents, be applied in such order and in such manner as Lender shall elect in Lender's discretion.

2.3.2 Mandatory Prepayments. The Loan is subject to mandatory prepayment in certain instances of Insured Casualty or Condemnation (each a "**Casualty/Condemnation Prepayment**"), in the manner and to the extent set forth in Section 7.4.2. Each Casualty/Condemnation Prepayment, after deducting Lender's reasonable out-of-pocket third

party costs and expenses (including reasonable attorneys' fees and expenses) in connection with the settlement or collection of the Proceeds or Award, shall be made on a Payment Date and shall be applied in the same manner as permitted repayments under Section 2.3.1. Provided that no Event of Default is continuing, any such mandatory prepayment under this Section 2.3.2 shall be without payment of the Yield Maintenance Premium.

2.3.3 Voluntary Defeasance of the Note.

(a) Subject to the terms and conditions set forth in this Section 2.3.3, Borrower may defease the entire amount of the Principal and obtain the release of the entirety of the Property (a "**Full Defeasance**") or defease a portion of the Principal and obtain a release of the Converting Property and/or the Spinners Properties (a "**Partial Defeasance**") (any such Full Defeasance or Partial Defeasance, a "**Defeasance**"); provided, that no Defeasance may occur (i) prior to the Start-up Date, (ii) if an Event of Default shall have occurred (unless such Event of Default will be cured by the Defeasance) and (iii) on any date other than a Payment Date. Each Defeasance shall be subject, in each case, to the satisfaction of all of the following conditions precedent:

(1) Borrower will give Lender not less than thirty (30) days prior written notice specifying a Payment Date (the "**Defeasance Date**") on which a Defeasance Deposit (hereinafter defined) is to be made.

(2) Payment to Lender of all accrued and unpaid interest on the unpaid Principal of the Note to and including the Defeasance Date and the scheduled amortization payment due on such Defeasance Date.

(3) Payment to Lender of all other sums, not including scheduled interest or Principal payments, then due and payable under the Note and the other Loan Documents.

(4) Payment to Lender of an amount equal to the sum of (x) an amount sufficient to purchase U.S. Obligations which provide payments that will meet the Scheduled Defeasance Payments, (y) reasonable third party out-of-pocket costs and expenses incurred or to be incurred in the purchase of the U.S. Obligations and (z) any revenue, documentary stamp or intangible taxes or any other tax or charge due in connection with the Defeasance (the "**Defeasance Deposit**").

(5) Payment to Lender of all reasonable third party out-of-pocket costs and expenses incurred by Lender in connection with such Defeasance, including reasonable attorneys' fees.

(6) In the case of a Partial Defeasance, the execution and delivery by Borrower of all necessary documents to amend and restate the Note and issue two substitute notes, one having a principal balance equal to the defeased portion of the original Note (the "**Defeased Note**") and the other having a principal balance equal to the undefeased portion of the original Note (the "**Undefeased Note**"). The Defeased Note and Undefeased Note shall have terms identical to the terms of the Note, except for the principal balance and a pro rata allocation of the Monthly Debt Service Payment Amount. (After a Partial Defeasance, all references hereunder and in the other Loan Documents to the term "Note" shall mean and be deemed to refer to the Undefeased Note, unless expressly provided to the contrary.) A Defeased Note cannot be the subject of any further Defeasance.

(7) Delivery to Lender of: (A) a security agreement, in form and substance satisfactory to Lender, creating and granting to Lender a first priority lien on the Defeasance Deposit and the U.S. Obligations (hereinafter defined) purchased on behalf of Borrower with the Defeasance Deposit in accordance with this provision of this paragraph (the “**Security Agreement**”); (B) an Officer’s Certificate of Borrower certifying that the requirements set forth in Section 2.3.3(a) have been satisfied; (C) an opinion of counsel for Borrower in form and substance satisfactory to Lender stating, among other things, that Lender has a perfected first priority security interest in the Defeasance Deposit and the U.S. Obligations purchased by Lender on behalf of Borrower, that the Security Agreement is the legal, valid and binding obligation of Borrower enforceable against Borrower in accordance with its terms (except as such enforceability may be limited by applicable bankruptcy, insolvency and similar laws affecting rights of creditors generally, and general principals of equity) and that the Defeasance will not adversely affect the status of any REMIC Trust formed in connection with a Secondary Market Transaction; (D) a certificate of an accounting firm acceptable to Lender which certifies that the U.S. Obligations are sufficient to make the Scheduled Defeasance Payments; (E) a Rating Comfort Letter from each applicable Rating Agency with respect to such Defeasance; and (F) such other certificates, documents or instruments as Lender may reasonably request.

In connection with the conditions set forth in this Section 2.3.3(a), Borrower hereby appoints Lender as its agent and attorney-in-fact for the purpose of using the Defeasance Deposit to purchase U.S. Obligations which provide payments (A) on or prior to, but as close as possible to, all successive Payment Dates after the date of calculation through the Stated Maturity Date and (B) in amounts sufficient to pay, (x) in the case of a Full Defeasance, the Monthly Debt Service Payment Amount required under the Note (or Undeferred Note, as the case may be) together with the unpaid Principal of the Note (or Undeferred Note, as the case may be) payable on the Stated Maturity Date and (y) in the case of a Partial Defeasance, the Monthly Debt Service Payment Amount multiplied by the Defeasance Percentage together with the unpaid Principal of the Defeased Note payable on the Stated Maturity Date (such payments, the “**Scheduled Defeasance Payments**”). Borrower, pursuant to the Security Agreement or other appropriate document, shall authorize and direct that the payments received from the U.S. Obligations may be made directly to Lender and applied to satisfy the obligations of Borrower under the Note or the Defeased Note, as applicable. Any amounts received in respect of the U.S. Obligations in excess of the amounts necessary to make monthly payments hereunder shall be retained by Lender until payment in full of the Debt and then promptly paid and set over to Borrower. Semi-annual payments in respect of the U.S. Obligations shall be applied to the payments under the Note or the Defeased Note, as applicable, as the same become due thereunder.

(b) In connection with a Partial Defeasance or a Full Defeasance, Borrower shall establish or designate a successor entity, which successor entity shall be acceptable to Lender (the “**Successor Borrower**”) and Borrower shall transfer and assign all obligations, rights and duties under and to the Note or the Defeased Note, as applicable, together with the pledged U.S. Obligations to the Successor Borrower. The obligation of Lender to establish or designate a Successor Borrower shall be retained by IXIS Real Estate Capital Inc. (but may be assigned to an

Affiliate) notwithstanding the sale, assignment or transfer of this Agreement unless such obligation is specifically assumed by the transferee. The Successor Borrower shall assume all obligations under the Loan Documents and the Security Agreement in the case of a Full Defeasance, and as a co-obligor with Borrower in the case of a Partial Defeasance. Borrower shall be relieved of its obligations under the Loan Documents and the Security Agreement only in connection with a Full Defeasance. Borrower shall pay a \$1,000 fee to any such Successor Borrower as consideration for assuming such obligations. Notwithstanding anything herein to the contrary, no other assumption fee shall be payable upon a transfer of the Note or the Defeased Note, as applicable, in accordance with this Section 2.3.3, but Borrower shall pay all reasonable third party out-of-pocket costs and expenses incurred by Lender, including Lender's reasonable attorneys' fees and expenses and ongoing fees and expenses incurred in connection with this Section 2.3.3.

2.3.4 Permitted Prepayment. On the Open Prepayment Date or at any time thereafter prior to the Stated Maturity Date, Borrower shall have the right to pay the entire Debt upon ten (10) Business Days notice to Lender, without payment of the Yield Maintenance Premium and without effecting a Defeasance. If any such payment of the Debt pursuant to the preceding sentence is made on any date other than the Open Prepayment Date or any Payment Date thereafter prior to the Stated Maturity Date, such payment shall be accompanied by a payment in an amount equal to interest on the unpaid Principal through the end of the Interest Period during which such payment is made.

2.4 Release of Property. Except as set forth in this Section 2.4, no repayment, prepayment or Defeasance shall cause, give rise to a right to require, or otherwise result in, the release of the Lien of the Mortgage.

2.4.1 Release on Defeasance. If Borrower has elected a Full Defeasance, and the requirements of Section 2.3.3 have been satisfied, the Property shall be released from the Lien of the Mortgage, and the U.S. Obligations pledged pursuant to the Security Agreement shall be the sole source of collateral securing the Debt. In connection with such release, Borrower shall submit to Lender, not less than ten (10) Business Days prior to the Defeasance Date, a form of release for execution by Lender appropriate in the State and reasonably satisfactory to Lender, and all other documentation Lender reasonably requires to be delivered by Borrower, together with an Officer's Certificate certifying that such documentation (i) is in material compliance with all Legal Requirements and (ii) will effect such release in accordance with the terms of this Agreement.

2.4.2 Release on Payment in Full. Lender shall, upon the written request and at the expense of Borrower, upon payment in full of the Debt in accordance herewith, release or, if requested by Borrower, assign to Borrower's designee (without any representation or warranty by and without any recourse against Lender whatsoever) the Lien of the Loan Documents if not theretofore released.

2.4.3 Sale and Release of Properties.

(a) Borrower may obtain the release of all or any of the Converting Property and the Spinners Properties from the Lien of the applicable Mortgage (and related Loan Documents) upon a bona fide sale of any such Property provided each of the following conditions are satisfied:

(i) the sale of such Property is pursuant to an arms' length agreement with a third party (A) which is not an Affiliate of any Borrower or Guarantor (other than holders of publicly traded shares or other securities of Guarantor) and (B) in which no direct or indirect member, partner or shareholder of any Borrower or Guarantor (other than holders of publicly traded shares or other securities of Guarantor) has any beneficial interest;

(ii) Borrower shall pay to Lender (A) all accrued and unpaid interest on the Principal being defeased pursuant to clause (B) of this subsection (ii) (including, if such payment is not made on a Payment Date, interest through the end of the current Interest Period), and (B) an amount equal to the Release Amount, which shall be applied to defease the outstanding Principal.

(iii) both immediately before such sale and immediately thereafter, no Event of Default shall be continuing;

(iv) after giving effect to such release and the defeasance as if the Principal were being prepaid therefrom, the Debt Service Coverage Ratio shall be not less than the greater of (A) Debt Service Coverage Ratio as of the Closing Date and (B) the Debt Service Coverage Ratio immediately prior to such release;

(v) the representations and warranties made in this Agreement and the other Loan Documents shall be true and correct in all material respects on and as of such sale (and after giving effect to such sale);

(vi) Borrower shall have given Lender not less than forty-five (45) days prior written notice of such sale accompanied by a copy of the applicable contract of sale and, not less than ten (10) days prior to closing thereof (or such shorter period as Lender may agree to in advance in writing), drafts of any applicable release documents (which shall be subject to Lender's approval, which shall not be unreasonably withheld);

(vii) Lender shall have approved the final closing settlement statement for such sale, a draft of which settlement statement shall be delivered to Lender at least two (2) Business Days prior to the closing of such sale (or such shorter period as Lender may agree to in advance in writing);

(viii) Borrower shall have paid to Lender all reasonable third party out-of-pocket costs and expenses (including reasonable attorneys' fees and disbursements) incurred by Lender in connection with the release of such Property from the Lien of the Loan Documents;

(ix) Borrower and Guarantor shall have executed and delivered such documents as Lender may reasonably request to confirm the continued validity of the Loan Documents and the Liens thereof on the Property not so released pursuant to this Section 2.4.3;

(x) The tenant of the T-Mobile Property is not at the time of the sale and release of any Property pursuant to this Section 2.4.3 the subject of a proceeding under any state or federal bankruptcy or insolvency law or the liquidation of all or a major portion of its property; and

(xi) There exists at the time of the sale and release of any Property pursuant to this Section 2.4.3 no default or event of default under the T-Mobile Lease.

2.5 Payments and Computations.

2.5.1 Making of Payments. Each payment by Borrower shall be made in funds settled through the New York Clearing House Interbank Payments System or other funds immediately available to Lender by 11:00 a.m., New York City time, on the date such payment is due, to Lender by deposit to such account as Lender may designate by written notice to Borrower. Whenever any such payment shall be stated to be due on a day that is not a Business Day, such payment shall be made on the first Business Day thereafter. All such payments shall be made irrespective of, and without any deduction, set-off or counterclaim whatsoever and are payable without relief from valuation and appraisal laws and with all reasonable third party out-of-pocket costs and charges incurred in the collection or enforcement thereof, including reasonable attorneys' fees and court costs.

2.5.2 Computations. Interest payable under the Loan Documents shall be computed on the basis of the actual number of days elapsed over a 360-day year.

2.5.3 Late Payment Charge. If any Principal, interest or other sum due under any Loan Document is not paid by Borrower on the date on which it is due, subject to any applicable grace or cure period, if any, Borrower shall pay to Lender upon demand an amount equal to the lesser of five percent (5%) of such unpaid sum or the maximum amount permitted by applicable law (the "**Late Payment Charge**"), in order to defray the expense incurred by Lender in handling and processing such delinquent payment and to compensate Lender for the loss of the use of such delinquent payment. Such amount shall be secured by the Loan Documents.

3. CASH MANAGEMENT AND RESERVES

3.1 Cash Management Arrangements. Borrower shall cause all Rents to be transmitted directly by non-residential tenants or Managers of the Property into a trust account (the "**Clearing Account**") maintained by Borrower at a local bank selected by Borrower (the "**Clearing Bank**") as more fully described in the Clearing Account Agreement. Without in any way limiting the foregoing, all Rents received by Borrower or Manager shall be deposited into the Clearing Account within one Business Day of receipt. During a Cash Management Period, funds deposited into the Clearing Account shall be swept by the Clearing Bank on a daily basis into an Eligible Account at the Deposit Bank controlled by Lender (the "**Deposit Account**") and applied and disbursed in accordance with this Agreement. During a period other than a Cash Management Period, funds deposited into the Clearing Account shall be swept by the Clearing Bank into an operating account set up by Borrower as and when determined by Borrower. Funds in the Deposit Account shall be invested at Lender's discretion only in Permitted Investments.

Lender will also establish subaccounts of the Deposit Account which shall at all times be Eligible Accounts (and may be ledger or book entry accounts and not actual accounts) (such subaccounts are referred to herein as “**Subaccounts**”). Notwithstanding the foregoing, at all times other than during the continuance of a Cash Management Period, Lender may, in its discretion, elect to maintain the deposits and reserves required under this Agreement in an Eligible Account at a bank or other depository selected by Lender other than the Deposit Bank in which case, all references to the Deposit Account and any Subaccounts hereunder shall be deemed to include such Eligible Account and the subaccounts of any such Eligible Account and all funds in such Eligible Account shall be invested at Lender’s discretion only in Permitted Investments. The Deposit Account and any Subaccount will be under the sole control and dominion of Lender, and Borrower shall have no right of withdrawal therefrom. Borrower shall pay for all expenses of opening and maintaining all of the above accounts.

3.2 Required Repairs.

3.2.1 Completion of Required Repairs. Borrower shall perform and complete each item of the repairs and environmental remedial work at the Property described on Schedule 2 (the “**Required Repairs**”) within twelve (12) months of the date hereof or such shorter period of time for such item set forth on Schedule 2.

3.2.2 Required Repairs Reserves. On the date hereof, Borrower shall deposit with Lender the aggregate amount set forth on Schedule 2 as being required to complete the Required Repairs and Lender shall cause such amount to be transferred to a Subaccount (the “**Required Repairs Subaccount**”). Provided no Default or Event of Default has occurred and is continuing, Lender shall disburse funds held in the Required Repairs Subaccount to Borrower, within fifteen (15) days after the delivery by Borrower to Lender of a request therefor (but not more often than once per month), in increments of at least \$5,000, accompanied by the following items (which items shall be in form and substance reasonably satisfactory to Lender): (i) an Officer’s Certificate (A) certifying that the Required Repairs or any portion thereof which are the subject of the requested disbursement have been completed in a good and workmanlike manner and in accordance with all applicable Legal Requirements, (B) identifying each Person that supplied materials or labor in connection with such Required Repairs or any portion thereof in any material respect and (C) stating that each such Person has been or, upon receipt of the requested disbursement, will be paid in full with respect to the portion of the Required Repairs which is the subject of the requested disbursement; (ii) copies of appropriate Lien waivers or other evidence of payment satisfactory to Lender; (iii) at Lender’s option, a title search for the Property indicating that it is free from all Liens not previously approved by Lender; (iv) a copy of each License required to be obtained with respect to the portion of the Required Repairs which is the subject of the requested disbursement; and (v) such other evidence as Lender shall reasonably request that the Required Repairs which are the subject of the requested disbursement have been completed and paid for.

3.3 Taxes and Insurance. Borrower shall pay to Lender on each Payment Date (i) one-twelfth of the Taxes that Lender estimates will be payable during the next twelve (12) months in order to accumulate with Lender sufficient funds to pay all such Taxes at least thirty (30) days prior to their respective due dates and (ii) one-twelfth of the Insurance Premiums that Lender estimates will be payable for the renewal of the coverage afforded by the Policies upon

the expiration thereof in order to accumulate with Lender sufficient funds to pay all such Insurance Premiums at least thirty (30) days prior to the expiration of the Policies. Such amounts will be transferred by Lender to a Subaccount (the "**Tax and Insurance Subaccount**"). Provided that no Default or Event of Default has occurred and is continuing, Lender will (a) apply funds in the Tax and Insurance Subaccount to payments of Taxes and Insurance Premiums required to be made by Borrower pursuant to Sections 5.2 and 7.1, provided that Borrower has promptly supplied Lender with notices of all Taxes and Insurance Premiums due, or (b) reimburse Borrower for such amounts upon presentation of evidence of payment and an Officer's Certificate in form and substance satisfactory to Lender; subject, however, to Borrower's right to contest Taxes in accordance with Section 5.2. In making any payment relating to Taxes and Insurance Premiums, Lender may do so according to any bill, statement or estimate procured from the appropriate public office (with respect to Taxes) or insurer or agent (with respect to Insurance Premiums), without inquiry into the accuracy of such bill, statement or estimate or into the validity of any tax, assessment, sale, forfeiture, tax lien or title or claim thereof. If Lender determines in its reasonable judgment that the funds in the Tax and Insurance Subaccount will be insufficient to pay (or in excess of) the Taxes or Insurance Premiums next coming due, Lender may increase (or decrease) the monthly contribution required to be made by Borrower to the Tax and Insurance Subaccount.

Notwithstanding the foregoing or anything to the contrary contained in this Agreement, so long as no Event of Default under this Agreement or any other Loan Document has occurred, Borrower shall not be required to make monthly payments of Taxes or Insurance Premiums to Lender as provided in this Section 3.3, provided Borrower shall pay, or shall cause the tenant of any Property to pay, all Taxes in accordance with Section 5.2 below and all Insurance Premiums in accordance with Section 7.1 below, and shall deliver to Lender written evidence reasonably satisfactory to Lender of the full payment of such Taxes and Insurance Premiums within the time periods and otherwise as provided in Sections 5.2 and 7.1. The failure of Borrower to deliver to Lender such written evidence of payment shall at the option of Lender be an Event of Default hereunder.

3.4 [Intentionally Deleted.]

3.5 Rollover Reserve/Letter of Credit.

3.5.1 Rollover Reserve. If as of October 15, 2010, the T-Mobile Lease has not been renewed or a new lease entered into with the existing tenant, or a new lease entered into with a new tenant for the entire T-Mobile Property, which renewal or new leases are subject to the approval of Lender as provided in Section 5.9 of this Agreement, commencing on the next occurring Payment Date and continuing on each Payment Date thereafter, all Excess Cash Flow from all of the Properties shall be paid to Lender, and transferred by Lender into a Subaccount (the "**T-Mobile Rollover Reserve Subaccount**") up to a maximum amount of \$1,500,000 (the "**T-Mobile Rollover Reserve Cap**"). Once the T-Mobile Rollover Reserve Cap has been met, and the entire T-Mobile Property has been re-let pursuant to an approved Lease or Leases, the funds in the T-Mobile Rollover Reserve Subaccount will be available for Approved Leasing Expenses for the T-Mobile Property with respect to the T-Mobile Property. Borrower shall also pay to Lender for transfer into the T-Mobile Rollover Reserve Subaccount all payments received from the tenant at the T-Mobile Property in connection with the early termination or cancellation of

the T-Mobile Leases, including fees, penalties and commissions. Provided that no Default or Event of Default has occurred and is continuing, Lender shall disburse funds held in the Rollover Reserve Subaccount to Borrower within fifteen (15) days after the delivery by Borrower to Lender of a request therefor (but not more often than once per month), in increments of at least \$5,000, provided (i) such disbursement is for an Approved Leasing Expense for the T-Mobile Property; (ii) Lender shall have (if it desires) verified (by an inspection conducted at Borrower's expense) performance of any construction work associated with such Approved Leasing Expense for the T-Mobile Property; and (iii) the request for disbursement is accompanied by (A) an Officer's Certificate certifying (v) that such funds will be used only to pay (or reimburse Borrower for) Approved Leasing Expenses for the T-Mobile Property and a description thereof, (w) that all outstanding trade payables (other than those to be paid from the requested disbursement or those constituting Permitted Indebtedness) are being paid as agreed, (x) that the same has not been the subject of a previous disbursement, (y) that all previous disbursements have been used only to pay (or reimburse Borrower for) the previously identified Approved Leasing Expenses for the T-Mobile Property and (z) that any construction work associated with such Approved Leasing Expenses for the T-Mobile Property has been completed in a good and workmanlike manner and in material compliance with all applicable Legal Requirements, (B) reasonably detailed supporting documentation as to the amount, necessity and purpose therefore, (C) copies of appropriate Lien waivers or other evidence of payment satisfactory to Lender in connection with any construction work associated with such Approved Leasing Expenses for the T-Mobile Property, and (D) at Lender's option, a title search for the Property indicating that it is free from all Liens not previously approved by Lender. Borrower shall be entitled to request payment (rather than reimbursement) of Approved Leasing Expenses for the T-Mobile Property, however, any such disbursement of more than \$10,000 to pay (rather than reimburse) Approved Leasing Expenses for the T-Mobile Property may, at Lender's option, be made by joint check payable to Borrower and the payee of such Approved Leasing Expenses for the T-Mobile Property.

3.5.2 Letter of Credit. In lieu of the requirement that all Excess Cash Flow be paid to Lender as provided in Section 3.5.1, Borrower may deposit with Lender on October 15, 2010, as additional security for the repayment of the Loan, an unconditional, irrevocable letter of credit with a face available amount of \$1,500,000.00 issued for the benefit of Lender by a Rated Financial Institution, in form and substance satisfactory to Lender, in Lender's sole discretion, and having an expiration date not earlier than one year following its issuance date (as such letter of credit, may be renewed, extended, or replaced, the "**Letter of Credit**"). The Letter of Credit shall provide that it shall renew automatically for consecutive terms of not less than one year each, unless the issuer thereof provides Lender with written notice not less than 90 days prior expiry date that the Letter of Credit will not be renewed. If such notice is provided to Lender, then Borrower shall, prior to the 30th day before the expiry date of the Letter of Credit, deliver to Lender a replacement Letter of Credit satisfying the terms of this Section. Lender is authorized to draw under the Letter of Credit: (i) upon or after an Event of Default, (ii) if fewer than 30 days remain prior to the expiry thereof and the same has not been renewed or replaced with cash or a new Letter of Credit, in each case conforming to the requirements of this Section 3.5, or (iii) at Borrower's request. In connection with a written request by Borrower to draw on the Letter of Credit, Lender shall draw against the Letter of Credit within fifteen (15) days after the delivery by Borrower to Lender of a request therefor (but not more often than once per month and in increments of at least \$5,000, provided the Letter of Credit permits partial draws thereunder) and deposit the same into the Rollover Reserve Subaccount to be disbursed to pay Approved Leasing Expenses for the T-Mobile Property in accordance with the terms and conditions of Section 3.5.1.

3.6 Operating Expense Subaccount. During a Cash Management Period, Rents shall be transferred into a Subaccount (the "**Operating Expense Subaccount**") as provided in Section 3.10. Provided no Default or Event of Default has occurred and is continuing, Lender shall disburse funds held in the Operating Expense Subaccount to Borrower, within fifteen (15) days after delivery by Borrower to Lender of a request therefor (but not more often than once per month), in increments of at least \$1,000, provided (i) such disbursement is for an Approved Operating Expense; and (ii) such disbursement is accompanied by (A) an Officer's Certificate certifying (w) that such funds will be used to pay Approved Operating Expenses and a description thereof, (x) that all outstanding trade payables (other than those to be paid from the requested disbursement or those constituting Permitted Indebtedness) have been paid in full, (y) that the same has not been the subject of a previous disbursement, and (z) that all previous disbursements have been or will be used to pay the previously identified Approved Operating Expenses, and (B) reasonably detailed documentation satisfactory to Lender as to the amount, necessity and purpose therefor.

3.7 Casualty/Condemnation Subaccount. Borrower shall pay, or cause to be paid, to Lender all Proceeds or Awards due to any Casualty or Condemnation to be transferred to a Subaccount (the "**Casualty/Condemnation Subaccount**") in accordance with the provisions of Section 7. All amounts in the Casualty/Condemnation Subaccount shall disbursed in accordance with the provisions of Section 7.

3.8 Security Deposits. Borrower shall keep all security deposits under Leases at a separately designated account under Borrower's control at the Clearing Bank so that the security deposits shall not be commingled with any other funds of Borrower (such account, the "**Security Deposit Account**"). During a Cash Management Period, Borrower shall, upon Lender's request, if permitted by applicable Legal Requirements, turn over to Lender the security deposits (and any interest theretofore earned thereon) under Leases, to be held by Lender in a Subaccount (the "**Security Deposit Subaccount**") subject to the terms of the Leases. Security deposits held in the Security Deposit Subaccount will be released by Lender upon notice from Borrower together with such evidence as Lender may reasonably request that such security deposit is required to be returned to a tenant pursuant to the terms of a Lease or may be applied as Rent pursuant to the rights of Borrower under the applicable Lease. Any letter of credit or other instrument that Borrower receives in lieu of a cash security deposit under any Lease entered into after the date hereof shall (i) be maintained in full force and effect in the full amount unless replaced by a cash deposit as hereinabove described, (ii) if permitted pursuant to any Legal Requirements, name Lender as payee or mortgagee thereunder (or at Lender's option, be fully assignable to Lender), (iii) the original thereof shall be delivered to Lender during any Cash Management Period promptly upon request by Lender.

3.9 Grant of Security Interest: Application of Funds. As security for payment of the Debt and the performance by Borrower of all other terms, conditions and provisions of the Loan Documents, Borrower hereby pledges and assigns to Lender, and grants to Lender a security interest in, all of Borrower's right, title and interest in and to all Rents and in and to all

payments to or monies held in the Clearing Account, the Deposit Account and all Subaccounts created pursuant to this Agreement (collectively, the "**Cash Management Accounts**"). Borrower hereby grants to Lender a continuing security interest in, and agrees to hold in trust for the benefit of Lender, all Rents in its possession prior to the (i) payment of such Rents to Lender or (ii) deposit of such Rents into the Deposit Account. Borrower shall not, without obtaining the prior written consent of Lender, further pledge, assign or grant any security interest in any Cash Management Account, or permit any Lien to attach thereto, or any levy to be made thereon, or any UCC-1 Financing Statements, except those naming Lender as the secured party, to be filed with respect thereto. This Agreement is, among other things, intended by the parties to be a security agreement for purposes of the UCC. Upon the occurrence and during the continuance of an Event of Default, Lender may apply any sums in any Cash Management Account in any order and in any manner as Lender shall elect in Lender's discretion without seeking the appointment of a receiver and without adversely affecting the rights of Lender to foreclose the Lien of the Mortgage or exercise its other rights under the Loan Documents. Cash Management Accounts shall not constitute trust funds and may be commingled with other monies held by Lender. Borrower shall be entitled to receive on a semi-annual basis interest on any balance in the Deposit Account and any Subaccounts other than Subaccounts established for the collection of Escrows (including any Eligible Account maintained at a bank or other depository other than the Deposit Bank selected by Lender in accordance with Section 3.1) at a rate equal to the U.S. and Regional Composite National Bank Average Retail Savings Money Market CD Yield, from time to time. Upon repayment in full of the Debt, all remaining funds in the Subaccounts, if any, shall be promptly disbursed to Borrower.

3.10 Property Cash Flow Allocation.

(a) During a Cash Management Period, any Rents deposited into the Deposit Account during the immediately preceding Interest Period shall be applied on each Payment Date as follows in the following order of priority: (i) First, to make payments into the Tax and Insurance Subaccount as required under Section 3.3; (ii) Second, to pay the monthly portion of the fees charged by the Deposit Bank in accordance with the Deposit Account Agreement; (iii) Third, to Lender to pay the Monthly Debt Service Payment Amount due on such Payment Date (plus, if applicable, interest at the Default Rate and all other amounts, other than those described under other clauses of this Section 3.10(a), then due to Lender under the Loan Documents), which payments shall be made into a Subaccount (the "**Monthly Debt Service Subaccount**") to be established for such purpose under the Deposit Account Agreement; (iv) Fourth, to make payments into the Capital Reserve Subaccount as required under Section 3.4; (v) Fifth, to make payments for Approved Operating Expenses as required under Section 3.6; (vi) Sixth, to make payments into the Rollover Reserve Subaccount as required under Section 3.5; and (vii) Lastly, unless all Excess Cash Flow is payable to Lender as provided in Section 3.5, payments to Borrower of any excess amounts.

(b) The failure of Borrower to make all of the payments required under clauses (i) through (vii) of Section 3.10(a) in full on each Payment Date shall constitute an Event of Default under this Agreement.

(c) Notwithstanding anything to the contrary contained in this Section 3.10, after the occurrence of an Event of Default, Lender may apply all Rents deposited into the Deposit Account and other proceeds of repayment in such order and in such manner as Lender shall elect.

4. REPRESENTATIONS AND WARRANTIES

Borrower represents and warrants to Lender as of the date hereof that:

4.1 Organization; Special Purpose. Each of Borrower and Borrower Representative has been duly organized and is validly existing and in good standing under the laws of the state of its formation, with requisite power and authority, and all rights, licenses, permits and authorizations, governmental or otherwise, necessary to own its properties and to transact the business in which it is now engaged. Each of Borrower and Borrower Representative is duly qualified to do business and is in good standing in each jurisdiction where it is required to be so qualified in connection with its properties, business and operations. Borrower is a Special Purpose Bankruptcy Remote Entity.

4.2 Proceedings; Enforceability. Borrower has taken all necessary action to authorize its execution, delivery and performance of the Loan Documents. The Loan Documents have been duly executed and delivered by Borrower and constitute legal, valid and binding obligations of Borrower enforceable against Borrower in accordance with their respective terms, subject to applicable bankruptcy, insolvency and similar laws affecting rights of creditors generally, and general principles of equity. To the knowledge of Borrower, the Loan Documents are not subject to any right of rescission, set-off, counterclaim or defense, including the defense of usury, and Borrower has not asserted any such right setoff, counterclaim, or defense. To the knowledge of Borrower, no exercise of any of the terms of the Loan Documents, or any right thereunder, will render any Loan Document unenforceable.

4.3 No Conflicts. The execution, delivery and performance of the Loan Documents by Borrower and the transactions contemplated hereby will not conflict with or result in a breach in any material respect of any of the terms or provisions of, or constitute a default under, or result in the creation or imposition of any Lien (other than pursuant to the Loan Documents) upon any of the property of Borrower pursuant to the terms of, any agreement or instrument to which Borrower is a party or by which its property is subject, nor will such action result in any violation of the provisions of any statute or any order, rule or regulation of any Governmental Authority having jurisdiction over Borrower or any of its properties. Borrower's rights under the Licenses and the Management Agreement will not be adversely affected by the execution and delivery of the Loan Documents, Borrower's performance thereunder, the recordation of the Mortgage, or the exercise of any remedies by Lender. Any consent, approval, authorization, order, registration or qualification of or with any Governmental Authority required for the execution, delivery and performance by Borrower of the Loan Documents has been obtained and is in full force and effect.

4.4 Litigation. There are no actions, suits or other proceedings at law or in equity by or before any Governmental Authority now pending or to Borrower's knowledge threatened against or affecting Borrower, Borrower Representative, the Property or the Pledge Collateral, which, if adversely determined, might materially adversely affect the condition (financial or otherwise) or business of Borrower, Borrower Representative, or the condition or ownership of the Property or the Pledged Collateral.

4.5 Agreements. Borrower is not a party to any agreement or instrument or to its knowledge subject to any restriction which is likely to have a material adverse effect on Borrower, the Property or the Pledged Collateral, or Borrower's business, properties, operations or condition, financial or otherwise. Borrower is not in default in any material respect in the performance, observance or fulfillment of any of the obligations, covenants or conditions contained in any Permitted Encumbrance or any other material agreement or instrument to which it is a party or by which it or the Property is bound.

4.6 Title. Borrower has good, marketable and indefeasible title to the leasehold estate in the real property created pursuant to the Ground Lease and good title to the balance of the Property, free and clear of all Liens except the Permitted Encumbrances. Borrower is the holder of the Industrial Revenues Bonds, free and clear of all Liens, and as the holder thereof is the sole beneficiary under the Indenture. All transfer taxes, deed stamps, intangible taxes or other amounts in the nature of transfer taxes required to be paid by any Person under applicable Legal Requirements in connection with the transfer of the Property to Borrower have been paid. The Mortgage when properly recorded in the appropriate records, together with any UCC Financing Statements required to be filed in connection therewith, will create (i) a valid, perfected first priority lien on Borrower's interest in the Property and (ii) valid and perfected first priority security interests in and to, and perfected collateral assignments of, all personalty (including the Leases), all in accordance with the terms thereof, in each case subject only to any applicable Permitted Encumbrances. The execution and delivery of the Pledge Agreement creates a valid lien in the Pledged Collateral and the proceeds thereof. All mortgage, recording, stamp, intangible or other similar taxes required to be paid by any Person under applicable Legal Requirements in connection with the execution, delivery, recordation, filing, registration, perfection or enforcement of any of the Loan Documents have been paid. The Permitted Encumbrances do not materially adversely affect the operation or use of the Property, or Borrower's ability to repay the Loan. No Condemnation or other proceeding has been commenced or, to Borrower's knowledge, is contemplated with respect to all or part of the Property or for the relocation of roadways providing access to the Property. Except for the Ground Lease Option, there are no outstanding options to purchase or rights of first refusal affecting all or any portion of the Property. To Borrower's knowledge, based solely on the survey, title work and appraisal obtained by borrower and delivered to Lender, all of the Improvements included in determining the appraised value of the Property lie wholly within the boundaries and building restriction lines of the Property, and no improvement on an adjoining property encroaches upon the Property, and no easement or other encumbrance upon the Property encroaches upon any of the Improvements, except those insured against by the title insurance policy insuring the Lien of the Mortgage. Each parcel comprising the Property is a separate tax lot and is not a portion of any other tax lot that is not a part of the Property. There are no pending or to the knowledge of Borrower proposed, special or other assessments for public improvements or otherwise affecting the Property, or any contemplated improvements to the Property that may result in such special or other assessments.

4.7 No Bankruptcy Filing Borrower is not contemplating either the filing of a petition by it under any state or federal bankruptcy or insolvency law or the liquidation of all or a major portion of its property (a “*Bankruptcy Proceeding*”), and Borrower has no knowledge of any Person contemplating the filing of any such petition against it. In addition, neither Borrower nor Borrower Representative nor any principal nor Affiliate (other than holders of publicly traded shares or securities of Guarantor) of either has been a party to, or the subject of a Bankruptcy Proceeding for the past ten years.

4.8 Full and Accurate Disclosure No statement of fact made by Borrower in any Loan Documents contains any untrue statement of a material fact or to the knowledge of Borrower omits to state any material fact necessary to make statements contained therein not misleading. There is no material fact presently known to Borrower that has not been disclosed to Lender which adversely affects, or, as far as Borrower can reasonably foresee, might have a material adverse effect on, the Property, the Pledged Collateral or the business, operations or condition (financial or otherwise) of Borrower. All financial data, including the audited statements of cash flow and income and operating expense, that have been delivered to Lender in respect of Borrower and the Property (i) are true, complete and correct in all material respects, (ii) accurately represent the financial condition of Borrower and the Property as of the date of such reports, and (iii) to the extent prepared by an independent certified public accounting firm, have been prepared in accordance with GAAP consistently applied throughout the periods covered, except as disclosed therein. Except as disclosed by such audited statements, Borrower has no contingent liabilities, liabilities for taxes, unusual forward or long-term commitments, unrealized or anticipated losses from any unfavorable commitments or any liabilities or obligations not expressly permitted by this Agreement. Since the date of such financial statements, there has been no materially adverse change in the financial condition, operations or business of Borrower or the Property from that set forth in said financial statements.

4.9 No Plan Assets Borrower is not an “employee benefit plan,” as defined in Section 3(3) of ERISA, subject to Title I of ERISA, and none of the assets of Borrower constitutes or will constitute “plan assets” of one or more such plans within the meaning of 29 C.F.R. Section 2510.3-101.

4.10 Compliance Except as set forth in Schedule 4.10 attached hereto and made a part hereof, Borrower and the Property and the use thereof comply in all material respects with all applicable Legal Requirements (including with respect to parking and applicable zoning and land use laws, regulations and ordinances). Borrower is not in default or violation of any order, writ, injunction, decree or demand of any Governmental Authority, the violation of which might materially adversely affect the condition (financial or otherwise) or business of Borrower. Borrower has received no notice that the Property is used for any purpose other than the purposes expressly permitted pursuant to the Property Leases. In the event that all or any part of the Improvements are destroyed or damaged, said Improvements can, except as set forth in Section 4.10, be legally reconstructed to their condition prior to such damage or destruction, and thereafter exist for the same use without violating any zoning or other ordinances applicable thereto and without the necessity of obtaining any variances or special permits. No legal proceedings are pending or, to Borrower’s knowledge, threatened with respect to the zoning of the Property. Neither the zoning nor any other right to construct, use or operate the Property is in any way dependent upon or related to any property other than the Property. Except as set forth in Section 4.10, all certifications, permits, licenses and approvals, including certificates of completion and occupancy permits required for the legal use, occupancy and operation of the Property (collectively, the “*Licenses*”), have been obtained and are in full force and effect. The use being made of the Property is in conformity with the certificate of occupancy issued for the Property and all other restrictions, covenants and conditions affecting the Property.

4.11 Contracts. Except as set forth in Schedule 4.11 attached hereto and made a part hereof, there are no service, maintenance or repair contracts affecting the Property that are not terminable on one month's notice or less without cause and without penalty or premium. All service, maintenance or repair contracts to which Borrower is a party affecting the Property have been entered into at arms-length in the ordinary course of Borrower's business and provide for the payment of fees in amounts and upon terms comparable to existing market rates.

4.12 Federal Reserve Regulations; Investment Company Act. No part of the proceeds of the Loan will be used for the purpose of purchasing or acquiring any "margin stock" within the meaning of Regulation U of the Board of Governors of the Federal Reserve System or for any other purpose that would be inconsistent with such Regulation U or any other regulation of such Board of Governors, or for any purpose prohibited by Legal Requirements or any Loan Document. Borrower is not (i) an "investment company" or a company "controlled" by an "investment company," within the meaning of the Investment Company Act of 1940, as amended; (ii) a "holding company" or a "subsidiary company" of a "holding company" or an "affiliate" of either a "holding company" or a "subsidiary company" within the meaning of the Public Utility Holding Company Act of 1935, as amended; or (iii) subject to any other federal or state law or regulation which purports to restrict or regulate its ability to borrow money.

4.13 Utilities and Public Access. The Property has rights of access to public ways and is served by water, sewer, sanitary sewer and storm drain facilities adequate to service it for its intended uses. All public utilities necessary to the full use and enjoyment of the Property are located in the public right-of-way abutting the Property, and all such utilities are connected so as to serve the Property without passing over other property absent a valid easement. All roads necessary for the use of the Property for its current purpose have been completed and dedicated to public use and accepted by all Governmental Authorities.

4.14 Physical Condition. Except as set forth in Schedule 2 of this Agreement and the respective Property Condition Surveys for all five properties, each dated April 4, 2006, prepared by Velocity Consulting, Inc., to Borrower's knowledge, the Property, including all Improvements, parking facilities, systems, Equipment and landscaping, are in good condition, order and repair in all material respects; there exists no structural or other material defect or damages to the Property, whether latent or otherwise. Borrower has not received notice from any insurance company or bonding company of any defect or inadequacy in the Property, or any part thereof, which would adversely affect in any material respect its insurability or cause the imposition of extraordinary premiums or charges thereon or any termination of any policy of insurance or bond. No portion of the Property is located in an area as identified by the Federal Emergency Management Agency as an area having special flood hazards.

4.15 Leases. Borrower has delivered to Lender a true, correct and complete rent roll for the Property (the "**Rent Roll**"), which includes all Leases affecting the Property. No Leases other than the Property Leases and the Ground Lease affect the Property. Except as set forth on the Rent Roll: (i) each Property Lease is in full force and effect; (ii) the tenants under the

Property Leases have accepted possession of and are in occupancy of all of their respective demised premises, have commenced the payment of rent under the Property Leases, and there are no offsets, claims or defenses to the enforcement thereof; (iii) all rents due and payable under the Property Leases have been paid current and no portion thereof has been paid for any period more than thirty (30) days in advance; (iv) the rent payable for the month of April, 2006 under each Property Lease is the amount of fixed rent set forth in the Rent Roll, and to the knowledge of Borrower, there is no claim or basis for a claim by the tenant thereunder for an adjustment to the rent; (v) no claim against Borrower has been asserted under any Property Lease which remains outstanding, there are, to the knowledge of Borrower, no defaults on the part of the landlord under any Property Lease, and no event has occurred which, with the giving of notice or passage of time, or both, would constitute such a default; (vi) to Borrower's knowledge, there is no present material default by any tenant under any Property Lease; (vii) all security deposits under the Property Leases are as set forth on the Rent Roll and are held consistent with Section 3.8; (viii) Borrower is the sole owner of the entire lessor's interest in each Property Lease; (ix) each Lease is the valid, binding and enforceable obligation of Borrower subject to applicable bankruptcy, insolvency and similar laws affecting rights of creditors generally, and general principles of equity; (x) to the knowledge of Borrower, no Person has any possessory interest in, or right to occupy, the Property except under the terms of the Property Lease; and (xi) each Property Lease is subordinate to the Loan Documents, either pursuant to its terms or pursuant to a subordination and attornment agreement. None of the Property Leases contains any option to purchase or right of first refusal to purchase the Property or any part thereof. Except as set forth in the next sentence, neither the Property Leases nor the Rents have been assigned or pledged except to Lender, and no other Person has any interest therein except the tenants thereunder. The T-Mobile Lease is encumbered by the Bond documents, and the Trustee has an interest in the T-Mobile Lease pursuant to the Bond Documents.

4.16 Fraudulent Transfer. Borrower has not entered into the Loan or any Loan Document with the actual intent to hinder, delay, or defraud any creditor, and Borrower has received reasonably equivalent value in exchange for its obligations under the Loan Documents. Giving effect to the transactions contemplated by the Loan Documents, the fair saleable value of Borrower's assets exceeds and will, immediately following the execution and delivery of the Loan Documents, exceed Borrower's total liabilities, including subordinated, unliquidated, disputed or contingent liabilities, including the maximum amount of its contingent liabilities or its debts as such debts become absolute and matured. Borrower's assets do not and, immediately following the execution and delivery of the Loan Documents will not, constitute unreasonably small capital to carry out its business as conducted or as proposed to be conducted. Borrower does not intend to, and does not believe that it will, incur debts and liabilities (including contingent liabilities and other commitments) beyond its ability to pay such debts as they mature (taking into account the timing and amounts to be payable on or in respect of obligations of Borrower).

4.17 Ownership of Borrower. The organizational chart attached hereto as Schedule 3 is complete and accurate and illustrates all Persons who have a direct or indirect ownership interest in Borrower.

4.18 Management Agreement. The T-Mobile Management Agreement is in full force and effect. To the knowledge of Borrower, there is no default, breach or violation existing thereunder, and no event has occurred (other than payments due but not yet delinquent) that, with the passage of time or the giving of notice, or both, would constitute a default, breach or violation thereunder, by either party thereto. The terms and provisions of the T-Mobile Management Agreement, are subordinate to the Loan Documents. With respect to Property other than the T-Mobile Property, as of the date of this Agreement, Borrower has not engaged a property manager to operate such Property, nor is there any management agreement in effect with respect to or affecting the Property, and neither Borrower nor any other Person receives or is entitled to the payment of a fee or other similar compensation for the management of such Property.

4.19 Hazardous Substances. Except as set forth in the Environmental Reports listed on Schedule 4.19 attached hereto and made a part hereof: (i) the Property is not to the knowledge of Borrower in violation of any Legal Requirement pertaining to or imposing liability or standards of conduct concerning environmental regulation, contamination or clean-up, including the Comprehensive Environmental Response, Compensation and Liability Act, the Resource Conservation and Recovery Act, the Emergency Planning and Community Right-to-Know Act of 1986, the Hazardous Substances Transportation Act, the Solid Waste Disposal Act, the Clean Water Act, the Clean Air Act, the Toxic Substance Control Act, the Safe Drinking Water Act, the Occupational Safety and Health Act, Legal Requirements relating to Toxic Mold, and any state super-lien and environmental clean-up statutes, any local law requiring related permits and licenses, any common law relating to Toxic Mold or other Hazardous Substances, and all amendments to and regulations in respect of the foregoing laws (collectively, "**Environmental Laws**"); (ii) the Property is not subject to any private or governmental Lien or judicial or administrative notice or action or inquiry, investigation or claim relating to hazardous, toxic and/or dangerous substances, including, Toxic Mold, or any other substances or materials which are included under or regulated by Environmental Laws (collectively, "**Hazardous Substances**"); (iii) to Borrower's knowledge, no Hazardous Substances are or have been (including the period prior to Borrower's acquisition of the Property), discharged, generated, treated, disposed of or stored on, incorporated in, or removed or transported to or from the Property other than in compliance with all Environmental Laws; (iv) to Borrower's knowledge, without any obligation to enter upon and inspect any nearby real property, no Hazardous Substances are present in, on or under any nearby real property which could migrate to or otherwise affect the Property; (v) no underground storage tanks exist on the Property and the Property to Borrower's knowledge, has never been used as a landfill; and (vi) there have been no environmental investigations, studies, audits, reviews or other analyses conducted by or on behalf of Borrower which have not been provided to Lender.

4.20 Principal Place of Business. The principal place of business of Borrower is its primary address for notices as set forth in Section 6.1, and Borrower has no other place of business.

4.21 Other Debt. There is no indebtedness with respect to the Property or any excess cash flow or any residual interest therein, whether secured or unsecured, other than Permitted Encumbrances and Permitted Indebtedness.

4.22 Embargoed Person. None of the funds or assets of Guarantor or of Borrower constitute property of, or are beneficially owned directly or, to Borrower's knowledge, indirectly (other than holders of publicly traded shares or securities of Guarantor who are not officers or directors of Guarantor), by any Embargoed Person (as hereinafter defined) and (b) no Embargoed Person has any direct interest, and to Borrower's knowledge, as of the date hereof, indirect interest, of any nature whatsoever in Borrower or any Guarantor (other than holders publicly traded shares or securities of Guarantor who are not officers or directors of Guarantor), as applicable, with the result that the investment in Borrower or any Guarantor, as applicable (whether directly or indirectly), is prohibited by law or the Loan is in violation of law. Notwithstanding the foregoing, to Borrower's actual knowledge (without any inquiry), no Embargoed Person currently holds any publicly traded shares or securities of Guarantor.

4.23 Anti-Money Laundering. At all times throughout the term of the Loan, including after giving effect to any Transfers permitted pursuant to the Loan Documents, to the knowledge of Borrower, none of the funds of Borrower, Borrower Representative or any Guarantor, as applicable, that are used to consummate this transaction or to repay the Loan shall be derived from or are the proceeds of any unlawful activity, with the result that the investment in Borrower, Borrower Representative or any Guarantor, as applicable (whether directly or indirectly), is prohibited by law or the Loan is in violation of law or may cause any of the Mortgaged Property to be subject to forfeiture or seizure. Borrower has ascertained the identity of all persons and entities who have provided funds to capitalize Borrower and has conducted verification procedures which are sufficient to establish the identity and source of such funds.

4.24 Ground Lease and Other Bond Documents. The Ground Lease and each of the other Bond Documents is in full force and effect, and there are no events of default by Borrower thereunder have been declared or exist, and to Borrower's knowledge no event has occurred, which but for the passage of time, or giving of notice, or both, would constitute an event of default. All rents and other sums due and payable under the Ground Lease and the other Bond Documents, including without limitation under the Direct Pay Agreement, have been paid in full.

All of the representations and warranties in this Article 4 and elsewhere in the Loan Documents (i) shall survive for so long as any portion of the Debt remains owing to Lender and (ii) shall be deemed to have been relied upon by Lender notwithstanding any investigation heretofore or hereafter made by Lender or on its behalf, provided, however, that the representations, warranties and covenants set forth in Section 4.19 shall survive so long as the Debt or any portion thereof is outstanding and unpaid.

5. COVENANTS

Until the end of the Term, Borrower hereby covenants and agrees with Lender that:

5.1 Existence. Each of Borrower and Borrower Representative shall (i) do or cause to be done all things necessary to preserve, renew and keep in full force and effect its existence, rights, and franchises, (ii) continue to engage in the business presently conducted by it, (iii) obtain and maintain all Licenses, and (iv) qualify to do business and remain in good standing under the laws of each jurisdiction, in each case as and to the extent required for the ownership, maintenance, management and operation of the Property.

5.2 Taxes. Subject to the contest provisions of this Section 5.1, Borrower shall pay or cause the tenants under the Property Leases to pay all Taxes as the same become due and payable, and deliver to Lender receipts for payment or other evidence satisfactory to Lender that the Taxes have been so paid no later than thirty (30) days before they would be delinquent if not paid (provided, however, that Borrower need not pay such Taxes nor furnish such receipts for payment of Taxes paid by Lender pursuant to Section 3.3). Borrower shall not suffer and shall promptly cause to be paid and discharged any Lien against the Property, and shall promptly pay or cause the tenants under the Property Leases to pay for all utility services provided to the Property. After prior notice to Lender, Borrower, at its own expense, may contest by appropriate legal proceeding, promptly initiated and conducted in good faith and with due diligence, the amount or validity or application of any Taxes, provided that (i) no Default or Event of Default has occurred and is continuing, (ii) such proceeding shall suspend the collection of the Taxes, (iii) such proceeding shall be permitted under and be conducted in accordance with the provisions of any other instrument to which Borrower is subject and shall not constitute a default thereunder, (iv) no part of or interest in the Property will be in danger of being sold, forfeited, terminated, canceled or lost, (v) Borrower shall have furnished such security as may be required in the proceeding, or as may be requested by Lender, to insure the payment of any such Taxes, together with all interest and penalties thereon, which shall not be less than one hundred twenty-five percent (125%) of the Taxes being contested, and (vi) Borrower shall promptly upon final determination thereof pay or cause the tenants under any Property Leases to pay the amount of such Taxes, together with all costs, interest and penalties. Lender may pay over any such security or part thereof held by Lender to the claimant entitled thereto at any time when, in the judgment of Lender, the entitlement of such claimant is established.

Notwithstanding the foregoing or anything to the contrary contained in this Agreement, so long as no Event of Default under this Agreement or any other Loan Document has occurred, Borrower shall not be required to make monthly payments of Taxes to Lender as provided in this Section 5.2 and Section 3.3 above, provided Borrower shall pay, or shall cause the tenant of any Property to pay, all Taxes no later than the date when such amounts are due and shall deliver to Lender written evidence reasonably satisfactory to Lender of the full payment of such Taxes, promptly upon such payment but in no event later than fifteen (15) Business Days after the date when such payments are due. The failure of Borrower to deliver to Lender such written evidence of payment as provided in this Section 5.2 shall at the option of Lender be an Event of Default hereunder.

5.3 Repairs; Maintenance and Compliance; Alterations.

5.3.1 Repairs; Maintenance and Compliance. Borrower shall at all times maintain, preserve and protect all franchises and trade names, and Borrower shall cause (including without limitation through enforcement of the provisions of the Property Leases in a commercially reasonable manner) the Property to be maintained in a good and safe condition and repair and shall not except as otherwise permitted by the express terms of the Property Leases, remove, demolish or alter the Improvements or Equipment (except for alterations performed in accordance with Section 5.3.2 or the Property Leases, and normal replacement of Equipment with Equipment of equivalent value and functionality). Borrower shall promptly comply (including without limitation through use of commercially reasonable efforts to cause the tenants under the Property Leases to comply) with all Legal Requirements and promptly and timely cure

properly any violation of a Legal Requirement. Borrower shall notify Lender in writing within one Business Day after Borrower first receives notice of any such non-compliance. Subject to Section 7.2 with respect to a Casualty, Borrower shall or shall cause tenant under the Property Leases promptly to repair, replace or rebuild any part of the Property that becomes damaged, worn or dilapidated and shall complete and pay for any Improvements at any time in the process of construction or repair.

5.3.2 Alterations. Borrower may, or may permit a tenant in accordance with its Property Lease to, without Lender's consent, perform alterations to the Improvements and Equipment which (i) do not constitute a Material Alteration, (ii) do not adversely affect Borrower's financial condition or the value or Net Operating Income of the Property and (iii) are in the ordinary course of Borrower's or such tenant's business. Neither Borrower nor any tenant shall perform any Material Alteration without Lender's prior written consent, which consent shall not be unreasonably withheld or delayed; provided, however, that Lender may, in its sole and absolute discretion, withhold consent to any alteration the cost of which is reasonably estimated to exceed \$1,000,000 or which is likely to result in a decrease of Net Operating Income by two and one-half percent (2.5%) or more for a period of thirty (30) days or longer. Lender may, as a condition to giving its consent to a Material Alteration, require that Borrower deliver to Lender security for payment of the cost of such Material Alteration in an amount equal to one hundred twenty-five percent (125%) of the cost of the Material Alteration as estimated by Lender. Upon substantial completion of the Material Alteration, Borrower shall provide evidence satisfactory to Lender that (i) the Material Alteration was constructed in a good and workmanlike manner and in material compliance with applicable Legal Requirements and substantially in accordance with plans and specifications approved by Lender (which approval shall not be unreasonably withheld or delayed), (ii) all contractors, subcontractors, materialmen and professionals who provided work, materials or services in connection with the Material Alteration have been paid in full and have delivered unconditional releases of lien (or similar instruments as required by local law) and (iii) all material Licenses necessary for the use, operation and occupancy of the Material Alteration (other than those which depend on the performance of tenant improvement work) have been issued. Borrower shall reimburse Lender upon demand for all reasonable third party out-of-pocket costs and expenses (including the reasonable fees of any architect, engineer or other professional engaged by Lender) incurred by Lender in reviewing plans and specifications or in making any determinations necessary to implement the provisions of this Section 5.3.2.

5.4 Performance of Other Agreements. Borrower shall observe and perform each and every term to be observed or performed by it pursuant to the terms of any agreement or instrument affecting or pertaining to the Property, including the Loan Documents, the Ground Lease, the Indenture and all other Bond Documents.

5.5 Cooperate in Legal Proceedings. Borrower shall cooperate fully with Lender with respect to, and permit Lender, at its option, to participate in, any proceedings before any Governmental Authority which may in any way affect the rights of Lender under any Loan Document.

5.6 Further Assurances. Borrower shall, at Borrower's sole cost and expense, (i) execute and deliver to Lender such documents, instruments, certificates, assignments and other writings, and do such other acts necessary or desirable, to evidence, preserve and/or protect the collateral at any time securing or intended to secure the Debt and/or for the better and more effective carrying out of the intents and purposes of the Loan Documents, as Lender may reasonably require from time to time; and (ii) upon Lender's request therefor given from time to time after the occurrence of any Default or Event of Default pay for (a) reports of UCC, federal tax lien, state tax lien, judgment and pending litigation searches with respect to Borrower and Borrower Representative and (b) searches of title to the Property, each such search to be conducted by search firms reasonably designated by Lender in each of the locations reasonably designated by Lender.

5.7 Environmental Matters.

5.7.1 Hazardous Substances. So long as Borrower owns or is in possession of the Property, Borrower shall (i) keep the Property free from Hazardous Substances and in compliance with all Environmental Laws, (ii) promptly notify Lender if Borrower shall become aware that (A) any Hazardous Substance is on or near the Property, (B) the Property is in direct or indirect violation of any Environmental Laws or (C) any condition on or near the Property might pose a threat to the health, safety or welfare of humans and (iii) remove such Hazardous Substances and/or cure such violations and/or remove such threats, as applicable, as required by law, promptly after Borrower becomes aware of same, at Borrower's sole expense. Any removal, remediation and/or cure of any violation relating to Toxic Mold shall include, without limitation, all acts required to clean and disinfect any portions of the Property affected by Toxic Mold and to eliminate the source(s) of Toxic Mold in or on the Property, including providing any necessary moisture control systems at the Property. Nothing herein shall prevent Borrower from recovering such expenses from any other party that may be liable for such removal or cure. Notwithstanding the provisions of this Section 5.7.1, Borrower has informed Lender that the tenants under the Property Leases utilize in connection with their respective business operations at the Property commercial products generally available to the public or routinely used in such businesses which contain varying degrees of Hazardous Substances that are permitted by applicable Environmental laws. Lender agrees that such use shall not constitute a breach of the covenants and agreements set forth herein, provided such Hazardous Substances are used for their intended purposes in accordance with the Property Leases and in compliance with all Environmental Laws.

5.7.2 Environmental Monitoring.

(a) Borrower shall give prompt written notice to Lender of (i) any proceeding or inquiry by any party (including any Governmental Authority) of which Borrower has knowledge with respect to the presence of any Hazardous Substance on, under, from or about the Property, (ii) all claims made or to Borrower's knowledge threatened by any third party (including any Governmental Authority) against Borrower or the Property or any party occupying the Property relating to any loss or injury resulting from any Hazardous Substance, and (iii) Borrower's discovery of any occurrence or condition on any real property adjoining or in the vicinity of the Property that is reasonably likely to cause the Property to be subject to any investigation or cleanup pursuant to any Environmental Law. Borrower shall permit Lender to join and participate in, as a party if it so elects (and is permitted by law), any legal or administrative proceedings or other actions initiated with respect to the Property in connection with any Environmental Law or Hazardous Substance, and Borrower shall pay all reasonable attorneys' fees and disbursements incurred by Lender in connection therewith.

(b) Upon Lender's request, at any time and from time to time, but so long as no Default or Event of Default exists only if Lender, in its good faith judgment determines that reasonable cause exists for the performance of an environmental inspection or audit of the Property, Borrower shall provide an inspection or audit of the Property prepared by a licensed hydrogeologist, licensed environmental engineer or qualified environmental consulting firm approved by Lender assessing the presence or absence of Hazardous Substances on, in or near the Property. The cost and expense of such audit or inspection shall be paid by Borrower, and copies of the reports relating to such inspection and audits shall be furnished to both Borrower and Lender. Such inspections and audit may include, soil bearings and ground water monitoring. If Borrower fails to provide any such inspection or audit within thirty (30) days after such request, Lender may order same, and Borrower hereby grants to Lender and its employees and agents access to the Property and a license to undertake such inspection or audit.

(c) If any environmental site assessment report prepared in connection with such inspection or audit recommends that an operations and maintenance plan be implemented for any Hazardous Substance, whether such Hazardous Substance existed prior to the ownership of the Property by Borrower, or presently exists or is reasonably suspected of existing, Borrower shall cause such operations and maintenance plan to be prepared and implemented at its expense upon request of Lender. If any investigation, site monitoring, containment, cleanup, removal, restoration or other work of any kind is required under an applicable Environmental Law ("**Remedial Work**"), Borrower shall commence all such Remedial Work within thirty (30) days after written demand by Lender and thereafter diligently prosecute to completion all such Remedial Work within such period of time as may be required under applicable law. All Remedial Work shall be performed by licensed contractors approved in advance by Lender and under the supervision of a consulting engineer approved by Lender. All costs of such Remedial Work shall be paid by Borrower, including Lender's reasonable attorneys' fees and disbursements incurred in connection with the monitoring or review of such Remedial Work. If Borrower does not timely commence and diligently prosecute to completion the Remedial Work, Lender may (but shall not be obligated to) cause such Remedial Work to be performed at Borrower's expense. Notwithstanding the foregoing, Borrower shall not be required to commence such Remedial Work within the above specified time period: (x) if prevented from doing so by any Governmental Authority, (y) if commencing such Remedial Work within such time period would result in Borrower or such Remedial Work violating any Environmental Law, or (z) if Borrower, at its expense and after prior written notice to Lender, is contesting by appropriate legal, administrative or other proceedings, conducted in good faith and with due diligence, the need to perform Remedial Work. Borrower shall have the right to contest the need to perform such Remedial Work, provided that, (1) Borrower is permitted by the applicable Environmental Laws to delay performance of the Remedial Work pending such proceedings, (2) neither the Property nor any part thereof or interest therein will be sold, forfeited or lost if Borrower fails to promptly perform the Remedial Work being contested, and if Borrower fails to prevail in contest, Borrower would thereafter have the opportunity to perform such Remedial Work, (3) Lender would not, by virtue of such permitted contest, be exposed to any risk of any civil liability for which Borrower has not furnished additional security as provided in clause (4) below, or to any risk of criminal liability, and neither the Property nor any interest therein would

be subject to the imposition of any Lien for which Borrower has not furnished additional security as provided in clause (4) below, as a result of the failure to perform such Remedial Work and (4) Borrower shall have furnished to Lender additional security in respect of the Remedial Work being contested and the loss or damage that may result from Borrower's failure to prevail in such contest in such amount as may be reasonably requested by Lender but in no event less than one hundred twenty-five percent (125%) of the cost of such Remedial Work as estimated by Lender and any loss or damage that may result from Borrower's failure to prevail in such contest.

(d) Borrower shall not install or permit to be installed on the Property any underground storage tank.

5.8 Title to the Property; Liens. Borrower will warrant and defend the title to the Property and the Pledged Collateral, and the validity and priority of all Liens granted or otherwise given to Lender under the Loan Documents, subject only to Permitted Encumbrances, against the claims of all Persons. Without Lender's prior written consent, Borrower shall not create, incur, assume, permit or suffer to exist any Lien on all or any portion of the Property or the Pledged Collateral or any direct or indirect legal or beneficial ownership interest in Borrower, except Liens in favor of Lender and Permitted Encumbrances, unless such Lien is bonded or discharged within thirty (30) days after Borrower first receives notice of such Lien.

5.9 Leases.

5.9.1 Generally. Upon request, Borrower shall furnish Lender with executed copies of all Leases then in effect. All renewals of Leases and all proposed leases shall provide for rental rates and terms comparable to then existing local market rates and shall be arm's length transactions with bona fide, independent third-party tenants.

5.9.2 Material Leases. Borrower shall not enter into a proposed Material Lease or a proposed renewal, extension or modification of an existing Material Lease without the prior written consent of Lender, which consent shall not, so long as no Event of Default is continuing, be unreasonably withheld or delayed. Prior to seeking Lender's consent to any Material Lease, Borrower shall deliver to Lender a copy of such proposed Material Lease (a "**Proposed Material Lease**"). Lender shall approve or disapprove each Proposed Material Lease or proposed renewal, extension or modification of an existing Material Lease for which Lender's approval is required under this Agreement within ten (10) Business Days of the submission by Borrower to Lender of a written request for such approval, accompanied by a final copy of the Proposed Material Lease or proposed renewal, extension or modification of an existing Material Lease. If requested by Borrower, Lender will grant conditional approvals of a Proposed Material Lease or a proposed renewal, extension or modification of an existing Material Lease at any stage of the leasing process, from initial "term sheet" through negotiated lease drafts, provided that Lender shall retain the right to disapprove any such Proposed Material Lease or proposed renewal, extension or modification of an existing Material Lease if subsequent to any preliminary approval material changes are made to the terms previously approved by Lender, or additional material terms are added that had not previously been considered and approved by Lender in connection with such Proposed Material Lease or proposed renewal, extension or modification of an existing Material Lease. Provided that no Event of Default is continuing, if Borrower provides Lender with a written request for approval (which written request shall specifically

refer to this Section 5.9.2 and shall explicitly state that failure by Lender to approve or disapprove within ten (10) Business Days will constitute a deemed approval) and Lender fails to reject the request in writing delivered to Borrower within ten (10) Business Days after receipt by Lender of the request, the Proposed Material Lease or proposed renewal, extension or modification of an existing Material Lease shall be deemed approved by Lender, and Borrower shall be entitled to enter into such Proposed Material Lease or proposed renewal, extension or modification of an existing Material Lease.

5.9.3 Minor Leases. Notwithstanding the provisions of Section 5.9.2 above, provided that no Event of Default is continuing, renewals, amendments and modifications of existing Leases and proposed leases shall not be subject to the prior approval of Lender provided (i) the proposed lease would be a Minor Lease or the existing Lease, as amended or modified, or the renewal Lease is a Minor Lease, (ii) the Lease shall be written substantially in accordance with the standard form of Lease which shall have been approved by Lender, subject to any commercially reasonable changes made in the course of negotiation with the applicable tenant, (iii) the Lease as amended or modified or the renewal Lease or series of leases or proposed lease or series of leases: (a) shall provide for net effective rental rates comparable to then existing local market rates, (b) shall have an initial term (together with all renewal options) of not less than three (3) years or greater than ten (10) years, (c) shall provide for automatic self-operative subordination to the Mortgage and, at Lender's option, (x) attornment to Lender and (y) if the Property is located in a jurisdiction in which the applicable law provides for the termination of leases that are subordinate to the Lien of the Mortgage, the unilateral right by Lender to subordinate the Lien of the Mortgage to the Lease, and (d) shall not contain any option to purchase, any right of first refusal to purchase, any right to terminate (except in the event of the destruction or condemnation of substantially all of the Property), any requirement for a non-disturbance or recognition agreement, or any other provision which might adversely affect the rights of Lender under the Loan Documents in any material respect. Borrower shall deliver to Lender copies of all Leases which are entered into pursuant to the preceding sentence together with Borrower's certification that it has satisfied all of the conditions of the preceding sentence within ten days after the execution of the Lease. With respect to any Lease or proposed renewal, extension or modification of an existing Lease that requires Lender's consent under this Section 5.9.3, provided that no Event of Default is continuing, if Borrower provides Lender with a written request for approval (which written request shall specifically refer to this Section 5.9.3 and shall explicitly state that failure by Lender to approve or disapprove within ten (10) Business Days will constitute a deemed approval) and Lender fails to reject the request in writing delivered to Borrower within ten (10) Business Days after receipt by Lender of the request, the proposed Lease or proposed renewal, extension or modification of an existing Lease shall be deemed approved by Lender, and Borrower shall be entitled to enter into such proposed Lease or proposed renewal, extension or modification of an existing Lease.

5.9.4 Additional Covenants with respect to Leases. Borrower (i) shall observe and perform the material obligations imposed upon the lessor under the Property Leases and shall not do or permit anything to impair the value of the Property Leases as security for the Debt; (ii) shall promptly send copies to Lender of all notices of default that Borrower shall send or receive under any Property Lease; (iii) shall enforce, in accordance with commercially reasonable practices for properties similar to the Property, the terms, covenants and conditions in the Leases to be observed or performed by the lessees, short of termination thereof; (iv) shall not

collect any of the Rents more than one month in advance (other than security deposits); (v) shall not execute any other assignment of lessor's interest in the Property Leases or the Rents (except as contemplated by the Loan Documents or the Bond Documents); (vi) shall not modify any Lease in a manner inconsistent with the Loan Documents; (vii) shall not convey or transfer or suffer or permit a conveyance or transfer of the Property so as to effect a merger of the estates and rights of, or a termination or diminution of the obligations of, lessees under Leases; (viii) shall not consent to any assignment of or subletting under any Property Lease unless required in accordance with its terms without the prior consent of Lender, which, with respect to a subletting, may not, so long as no Event of Default is continuing, be unreasonably withheld or delayed; and (ix) shall not cancel or terminate any Property Lease or accept a surrender thereof without the prior consent of Lender, which consent shall not, so long as no Event of Default is continuing, be unreasonably withheld or delayed.

5.10 Estoppel Statement. After request by Lender, Borrower shall within ten days furnish Lender with a statement addressed to Lender, its successors and assigns, duly acknowledged and certified, setting forth (i) the unpaid Principal, (ii) the Interest Rate, (iii) the date installments of interest and/or Principal were last paid, (iv) any offsets or defenses to the payment of the Debt, (v) that no Default or Event of Default exists under the Loan Documents and (vi) that the Loan Documents are valid, legal and binding obligations of the Borrower and have not been modified by the Borrower or if modified, giving particulars of such modification.

5.11 Property Management.

5.11.1 Management Agreement. With respect to all Property other than the T-Mobile Property, Borrower shall manage such Property in its own name and for its own account, and shall not enter into any agreement relating to the management or operation of such Property with any affiliate of Borrower or any third party, without the express prior written consent of Lender. If at any time Lender consents to the appointment of a manager for the Property, as a condition of Lender's consent, the management fees payable to such manager and the terms and provisions of such Management Agreement shall be subordinate to the Loan Documents and to Lender's rights in the Property, and Borrower and such manager shall execute a Subordination of Management Agreement in the form then being used by Lender. With respect to the existing T-Mobile Management Agreement and to any future Management Agreement for any Property as may be approved by Lender as provided in this Section 5.11.1, Borrower shall (i) cause the Property to be managed pursuant to the Management Agreement; (ii) promptly perform and observe in all material respects all of the covenants required to be performed and observed by it under the Management Agreement and do all things necessary to preserve and to keep unimpaired in all material respects its rights thereunder; (iii) within five (5) Business Days of obtaining knowledge thereof, notify Lender of any default that extends beyond any applicable notice and/or cure period under the Management Agreement of which it is aware; (iv) within five (5) Business Days after receipt deliver to Lender a copy of each financial statement, business plan, capital expenditure plan, and property improvement plan and any other notice, report and estimate received by Borrower under the Management Agreement; and (v) promptly enforce in a commercially reasonable manner the performance and observance of all of the covenants required to be performed and observed by Manager under the Management Agreement. Further, with respect to the existing T-Mobile Management Agreement and to any future Management Agreement for any Property as may be approved by Lender as provided in this Section 5.11.1,

without Lender's prior written consent, Borrower shall not (a) surrender, terminate, cancel, extend or renew the Management Agreement (except for automatic extensions or renewals of T-Mobile Management Agreement as provided therein) or otherwise replace the Manager or enter into any other management agreement (except pursuant to Section 5.11.2); (b) reduce or consent to the reduction of the term of the Management Agreement; (c) increase or consent to the increase of the amount of any charges under the Management Agreement; (d) otherwise modify, change, supplement, alter or amend in any material respect, or waive or release any of its rights and remedies under, the Management Agreement; or (e) suffer or permit the occurrence and continuance of a default beyond any applicable cure period under the Management Agreement (or any successor management agreement) if such default permits the Manager to terminate the Management Agreement (or such successor management agreement).

5.11.2 Termination of Manager. If (i) an Event of Default shall be continuing, or (ii) with respect to the T-Mobile Management Agreement presently in effect or any future Management Agreement that may be entered into pursuant to Section 5.11.1 with respect to any Property, if Manager is in default under the Management Agreement beyond the expiration of any applicable notice and/or cure period, Borrower shall, at the request of Lender, terminate the Management Agreement and replace Manager with a replacement manager, or if no Management Agreement is then in effect, at Borrower's and Owner's expense install a new manager for the Property, which replacement manager, or new manager as the case may be, shall be acceptable to Lender in Lender's discretion and the applicable Rating Agencies on terms and conditions satisfactory to Lender and the applicable Rating Agencies Borrower's failure to appoint an acceptable manager within thirty (30) days after Lender's request of Borrower to terminate the Management Agreement shall constitute an immediate Event of Default. Provided that any request for approval by lender of an acceptable manager shall be deemed approved by Lender if Lender fails to respond within five (5) Business Days after receipt of written request therefor; provided further that each rejection by Lender of a proposed acceptable manager shall extend the thirty day period by five (5) days. Borrower may from time to time appoint a successor manager to manage the Property, which successor manager and Management Agreement shall be approved in writing by Lender in Lender's discretion and the applicable Rating Agencies.

5.12 Special Purpose Bankruptcy Remote Entity. Borrower shall at all times be a Special Purpose Bankruptcy Remote Entity. A *'Special Purpose Bankruptcy Remote Entity'* shall have the meaning set forth on Schedule 4 hereto.

5.13 Intentionally Deleted.

5.14 Change In Business or Operation of Property. Borrower shall not purchase or own any real property other than the Property and shall not enter into any line of business other than the ownership and operation of the Property, or make any material change in the scope or nature of its business objectives, purposes or operations, or undertake or participate in activities other than the continuance of its present business or otherwise cease to operate the Property as an Industrial/Office property or terminate such business for any reason whatsoever (other than temporary cessation in connection with renovations to the Property).

5.15 Certain Prohibited Actions. Borrower shall not directly or indirectly do any of the following: (i) change its principal place of business or chief executive office without first giving Lender thirty (30) days' prior notice; (ii) cancel or otherwise forgive or release any claim or debt owed to Borrower by any Person, except for adequate consideration and in the ordinary course of Borrower's business in its reasonable judgment; (iii) Transfer any License required for the operation of the Property; or (iv) maintain, sponsor, contribute to or become obligated to contribute to, or suffer or permit any ERISA Affiliate of Borrower to, maintain, sponsor, contribute to or become obligated to contribute to, any Plan or any Welfare Plan, or permit the assets of Borrower to become "plan assets," whether by operation of law or under regulations promulgated under ERISA, unless written notice of such action is provided to Lender within a reasonable period of time after Borrower becomes aware of such action.

5.16 Prohibited Transfers.

(a) Borrower shall not directly or indirectly make, suffer or permit the occurrence of any Transfer other than a Permitted Transfer.

(b) Notwithstanding the foregoing, Lender shall not unreasonably withhold its consent to a sale of the Property in its entirety (a "**Special Transfer**") to a Special Purpose Bankruptcy Remote Entity with organizational documents containing provisions satisfying the Lender's then-current requirements of a Special Purpose Bankruptcy Remote Entity and otherwise acceptable to Lender (a "**Buyer**"), provided that

(i) No Default or Event of Default is then continuing;

(ii) Borrower gives Lender written notice of the terms of such prospective Special Transfer not less than forty-five (45) days before the date on which such sale is scheduled to close, accompanied by all information concerning the proposed Buyer as Lender would require in evaluating an initial extension of credit to a borrower and such reasonable non-refundable application fee as shall be required by Lender. Lender shall have the right to approve or disapprove the proposed Buyer in its reasonable discretion (it being acknowledged that Lender may, as a condition to approving any proposed Buyer, require a Rating Comfort Letter from each of the Rating Agencies);

(iii) Borrower pays Lender, concurrently with the closing of such Special Transfer, a non refundable assumption fee in an amount equal to all reasonable out-of-pocket costs and expenses, including, without limitation, reasonable attorneys' fees and disbursements, incurred by Lender in connection with the Special Transfer plus an amount equal to one percent (1.0%) of the then outstanding Principal. No one percent (1%) payment is payable in the event of a Controlling Interest Transfer;

(iv) Buyer assumes all of the obligations of Borrower under this Agreement, the Note and the other Loan Documents and, prior to or concurrently with the closing of such Special Transfer, Buyer executes, without any cost or expense to Lender, such documents and agreements as Lender shall reasonably require to evidence and effectuate said assumption and delivers such legal opinions as Lender may reasonably require;

(v) Borrower and Buyer execute and cause to be filed in such public records as Lender reasonably deems appropriate, without any cost or expense to Lender, new financing statements or financing statement amendments and any additional documents reasonably requested by Lender;

(vi) Borrower causes to be delivered to Lender, without any cost or expense to Lender, such endorsements to Lender's title insurance policy, property and liability insurance endorsements or certificates and other similar materials as Lender may reasonably deem necessary at the time of the Special Transfer, all in form and substance satisfactory to Lender, including, without limitation, an endorsement or endorsements to Lender's title insurance policy insuring the lien of the Mortgage, extending the effective date of such policy to the date of execution and delivery (or, if later, of recording) of the assumption agreement referenced above in clause (iv) of this Section, with no additional exceptions added to such policy except (i) Liens created by the assignment and assumption of the Loan Documents, the Bond Documents and the Property Leases, (ii) Liens, if any, for Taxes or other charges not yet due and payable as of the date of any assignment and assumption, (iii) any other matter which does not affect in any material respect the Lien of the Mortgage insured pursuant to Lender's title insurance policy or the operation and use of the Property as determined by Lender in its sole discretion, and insuring that fee simple title to the Property is vested in Buyer;

(vii) Borrower executes and delivers to Lender, without any cost or expense to Lender, a release of Lender, its officers, directors, employees and agents, from all claims and liability relating to the transactions evidenced by the Loan Documents through and including the date of the closing of the Special Transfer, which agreement shall be in form and substance reasonably satisfactory to Lender and shall be binding upon Buyer;

(viii) Such Special Transfer is not construed so as to relieve Borrower of any personal liability under the Note or any of the other Loan Documents for any acts or events occurring or obligations arising prior to or simultaneously with the closing of such Special Transfer and Borrower executes, without any cost or expense to Lender, such documents and agreements as Lender shall reasonably require to evidence and effectuate the ratification of said personal liability. Borrower shall be released from and relieved of any personal liability under the Note or any of the other Loan Documents for any acts or events occurring or obligations arising after the closing of such Special Transfer which are not caused by or arising out of any acts or events occurring or obligations arising prior to or simultaneously with the closing of such Special Transfer;

(ix) Such Special Transfer is not construed so as to relieve any Guarantor of its obligations under any Loan Document, and a direct or indirect member, partner or shareholder of Buyer or other Person affiliated with Buyer approved by Lender in its sole discretion (a "**Successor Guarantor**") assumes the obligations of such Guarantor and executes such documents as may be required by Lender to evidence such assumption. Guarantor shall be released from and relieved of any of its obligations under any indemnity or guaranty executed in connection with the Loan for any acts or events occurring or obligations arising after the closing of such Special Transfer which are not caused by or arising out of any acts or events occurring or obligations arising prior to or simultaneously with the closing of such Special Transfer;

(x) Buyer has furnished to Lender all appropriate documents and instruments evidencing Buyer's capacity and good standing, and the authority of the signers to execute the assumption of the Loan and the Loan Documents, which documents and instruments shall include certified copies of all documents and instruments relating to the organization and formation of Buyer and of the entities, if any, which are direct or indirect members, partners or shareholders of Buyer, all of which shall be reasonably satisfactory to Lender;

(xi) Buyer shall assume the obligations of Borrower under any management agreements pertaining to the Property, or shall cause any new manager and management agreement to satisfy the requirements of Section 5.11 hereof, as applicable;

(xii) Buyer shall furnish an opinion of counsel satisfactory to Lender that the acquisition of the Property and the assumption of the Loan and the Loan Documents by Buyer and, to the extent applicable, Successor Guarantor, was validly authorized, and duly executed and delivered, and constitutes the legal, valid and binding obligations of Buyer and Successor Guarantor, enforceable against each of them in accordance with their respective terms, and with respect to such other matters as Lender may reasonably require; and

(xiii) Buyer shall provide Lender with a fully executed copy of (1) a deed covering the Property, (2) a bill of sale covering the personal property constituting a part of the Property and (3) an assignment and assumption agreement in respect of the Leases, in form and substance reasonably satisfactory to Lender.

(c) Further notwithstanding the provisions of this Section 5.16, the definition of Permitted Transfer in Section 1.1.2, or anything inconsistent or to the contrary contained in this Agreement or any other Loan Document, the transfer of any direct or indirect ownership interests in Guarantor (traded on the public markets or otherwise) that results in the transferee (together with its Affiliates) holding an indirect interest in Borrower or in Borrower Representative in an amount which exceeds 49% and occurs substantially contemporaneously with (i) the transfer of a majority of shares held by the then current officers and directors of Guarantor, and (ii) a change in a majority of the directors of Guarantor, shall be subject to the prior written consent of Lender in its sole discretion. Borrower shall give Lender written notice not less than sixty (60) days before the date on which such transfer is scheduled to close, accompanied by all information relating to the transfer and the transferee as Lender would reasonably require in evaluating an initial extension of credit to a borrower (it being acknowledged that Lender may, as a condition to its approval, require a Rating Comfort Letter from each of the Rating Agencies). If such transfer is disapproved by Lender prior to the Start-up Date, Borrower shall have the right to prepay the entire outstanding balance of the Loan in full together with a Yield Maintenance Premium. If such transfer is disapproved by Lender after the Start-up Date, Borrower shall have the right to prepay the entire outstanding balance of the Loan in full together with a Yield Maintenance Premium, or to cause a Full Defeasance of the Loan pursuant Section 2.3.3 above. Failure of Lender to consent in writing to Borrower's written notice within forty-five (45) days after receipt of such notice shall be deemed a disapproval by Lender.

5.17 Expenses. Borrower shall reimburse Lender upon receipt of notice for all reasonable third party out-of-pocket costs and expenses (including reasonable attorneys' fees and disbursements) incurred by Lender in connection with the Loan, including (i) the preparation, negotiation, execution and delivery of the Loan Documents and the consummation of the transactions contemplated thereby and all the costs of furnishing all opinions by counsel for Borrower; (ii) Borrower's and Lender's ongoing performance under and compliance with the Loan Documents, including confirming compliance with environmental and insurance requirements; (iii) the negotiation, preparation, execution, delivery and administration of any consents, amendments, waivers or other modifications of or under any Loan Document and any other documents or matters requested by Lender or Borrower; (iv) filing and recording of any Loan Documents; (v) title insurance, surveys, inspections and appraisals; (vi) the creation, perfection or protection of Lender's Liens on the Property and the Cash Management Accounts (including fees and expenses for title and lien searches, intangibles taxes, personal property taxes, Mortgage, recording taxes, due diligence expenses, travel expenses, accounting firm fees, costs of appraisals, environmental reports, surveys and engineering reports); (vii) enforcing or preserving any rights in response to third party claims or the prosecuting or defending of any action or proceeding or other litigation, in each case against, under or affecting Borrower, the Loan Documents, the Property, or any other security given for the Loan; (viii) fees charged by Rating Agencies in connection with the Loan or any modification thereof; (ix) enforcing any obligations of or collecting any payments due from Borrower under any Loan Document or with respect to the Property or in connection with any refinancing or restructuring of the Loan in the nature of a "work-out," or any insolvency or bankruptcy proceedings and (x) the fees and expenses of any special servicer retained in respect of the Loan. Any reasonable third party out-of-pocket costs and expenses due and payable to Lender hereunder which are not paid by Borrower within ten (10) Business Days after demand may be paid from any amounts in the Deposit Account, with notice thereof to Borrower. The obligations and liabilities of Borrower under this Section 5.17 shall survive the Term and the exercise by Lender of any of its rights or remedies under the Loan Documents, including the acquisition of the Property by foreclosure or a conveyance in lieu of foreclosure.

5.18 Indemnity. Borrower shall defend, indemnify and hold harmless Lender and each of its Affiliates and their respective successors and assigns, including the directors, officers, partners, members, shareholders, participants, employees, professionals and agents of any of the foregoing (including any Servicer) and each other Person, if any, who Controls Lender, its Affiliates or any of the foregoing (each, an "**Indemnified Party**"), from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, costs, expenses and disbursements of any kind or nature whatsoever (including the reasonable fees and disbursements of counsel for an Indemnified Party in connection with any investigative, administrative or judicial proceeding commenced or threatened, whether or not Lender shall be designated a party thereto, court costs and costs of appeal at all appellate levels, investigation and laboratory fees, consultant fees and litigation expenses), that may be imposed on, incurred by, or asserted against any Indemnified Party (collectively, the "**Indemnified Liabilities**") in any manner, relating to or arising out of or by reason of the Loan, including: (i) any breach by Borrower of its obligations under, or any misrepresentation contained in, any Loan Document; (ii) the use or intended use of the proceeds of the Loan; (iii) any information provided by or on behalf of Borrower, or contained in any documentation approved by Borrower; (iv) ownership of the Mortgage or any of the other Loan Documents, or the Property or any interest therein, or receipt of any Rents; (v) any accident, injury to or death of persons or loss of or damage to property occurring in, on or about the Property or on the adjoining sidewalks, curbs, adjacent property or adjacent parking areas, streets or ways; (vi) any use, nonuse or condition in, on or

about the Property or on adjoining sidewalks, curbs, adjacent property or adjacent parking areas, streets or ways; (vii) performance of any labor or services or the furnishing of any materials or other property in respect of the Property; (viii) the presence, disposal, escape, seepage, leakage, spillage, discharge, emission, release, or threatened release of any Hazardous Substance on, from or affecting the Property; (ix) any personal injury (including wrongful death) or property damage (real or personal) arising out of or related to such Hazardous Substance; (x) any lawsuit brought or threatened, settlement reached, or government order relating to such Hazardous Substance; (xi) any violation of the Environmental Laws which is based upon or in any way related to such Hazardous Substance, including the costs and expenses of any Remedial Work; (xii) any failure of the Property to comply in any material respect with any Legal Requirement; (xiii) any claim by brokers, finders or similar persons claiming to be entitled to a commission in connection with any Lease or other transaction involving the Property or any part thereof, or any liability asserted against Lender with respect thereto; and (xiv) the claims of any lessee of any portion of the Property or any Person acting through or under any lessee or otherwise arising under or as a consequence of any Lease; provided, however, that Borrower shall not have any obligation to any Indemnified Party hereunder if and to the limited extent that (A) it is finally judicially determined that such Indemnified Liabilities arose solely from the gross negligence, illegal acts, fraud or willful misconduct of such Indemnified Party, or (B) with respect to items (v) and (vi) only above, and only as it relates to adjacent property, adjacent parking areas, or streets or ways, if it is conclusively proven in a final non-appealable judgment to not be the fault of Borrower, its Affiliates, or its agents or invitees, or the tenant under the applicable Property Lease, or any agents or invitees of such tenant, then the costs and expenses (including attorneys' fees) incurred by Lender in connection with such proceeding shall be excluded from the Indemnified Liabilities. Any amounts payable to any Indemnified Party by reason of the application of this paragraph shall be payable within ten (10) Business Days after written demand and shall bear interest at the Default Rate from the date loss or damage is sustained by any Indemnified Party until paid. The obligations and liabilities of Borrower under this Section 5.18 shall survive the Term and the exercise by Lender of any of its rights or remedies under the Loan Documents, including the acquisition of the Property by foreclosure or a conveyance in lieu of foreclosure.

5.19 Embargoed Person. (a) At all times throughout the term of the Loan, including after giving effect to any Transfers permitted pursuant to the Loan Documents, (i) none of the funds or assets of Borrower, Borrower Representative or Guarantor, whether or not used to repay the Loan, shall constitute property of, or shall be beneficially owned directly or, to Borrower's knowledge, indirectly (other than holders of publicly traded shares or other securities of Guarantor who are not officers or directors of Guarantor), by any person, entity or government subject to sanctions or trade restrictions under United States law ("**Embargoed Person**" or "**Embargoed Persons**") that are identified on (A) the "List of Specially Designated Nationals and Blocked Persons" maintained by the Office of Foreign Assets Control ("**OFAC**"), U.S. Department of the Treasury's FINCEN list, and/or to Borrower's knowledge, as of the date thereof, by Borrower, on any other similar list maintained by OFAC or FINCEN pursuant to any authorizing statute including, but not limited to, the International Emergency Economic Powers Act, 50 U.S.C. §§ 1701 et seq., The Trading with the Enemy Act, 50 U.S.C. App. 1 et seq., and any Executive Order or regulation promulgated thereunder, with the result that the investment in Borrower, Borrower Representative or any Guarantor, as applicable (whether directly or indirectly), is prohibited by law, or the Loan made by Lender would be in violation of law, or (B) Executive Order 13224 (September 23, 2001) issued by the President of the United States

("Executive Order Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit, or Support Terrorism"), any related enabling legislation or any other similar Executive Orders, and (ii) no Embargoed Person shall have any direct interest or, to Borrower's knowledge, indirect interest, of any nature whatsoever in Borrower, Borrower Representative or any Guarantor, as applicable, with the result that the investment in Borrower, Borrower Representative or any Guarantor, as applicable (whether directly or indirectly), is prohibited by law or the Loan is in violation of law.

(b) At all times throughout the term of the Loan, none of any of the Borrower, Borrower Representative or Guarantor, nor any Person controlling, controlled by or under common control with any of Borrower, Borrower Representative or Guarantor, nor any Person having a beneficial interest in, or for whom any of the Borrower, Borrower Representative or Guarantor is acting as agent or nominee in connection with the investment, is (a) a country, territory, person or entity named on an OFAC or FINCEN list, or is a Person that resides in or has a place of business in a country or territory named on such lists; (b) a Person resident in, or organized or chartered under the laws of a jurisdiction identified as non-cooperative by the Financial Action Task Force ("**FATF**"); or (c) a Person whose funds originate from or will be routed through , an account maintained at a foreign shell bank or "offshore bank."

(c) None of the Borrower, Borrower Representative or Guarantor, nor any Person controlling, controlled by or under common control with Borrower, Borrower Representative or Guarantor is a "senior political figure" or an "immediate family" member or "close associate" (as all such terms are defined below) of a senior foreign political figure within the meaning of the USA PATRIOT Act (i.e., the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, H.R. 3162, Public Law 107-56, as may be amended). For the purposes of this subsection (c), (i) "senior foreign political figure" means a senior official in the executive, legislative, administrative, military or judicial branches of a foreign government (whether elected or not), a senior official of a major foreign political party or a senior executive of a foreign government-owned corporation, and such term also includes any corporation, business or other entity that has been formed by, or for the benefit of, a senior political figure, (ii) "immediate family" of a senior foreign political figure includes the figure's parents, siblings, spouse, children and in-laws, and (iii) "close associate" of a senior foreign political figure means a person who is widely and publicly known to maintain an unusually close relationship with the senior foreign political figure, and includes a person who is in a position to conduct substantial domestic and international financial transactions on behalf of the senior foreign political figure.

5.20 Anti-Money Laundering. At all times throughout the term of the Loan, including after giving effect to any Transfers permitted pursuant to the Loan Documents, none of the funds of Borrower, Borrower Representative or any Guarantor, as applicable, that are used to consummate this transaction or to repay the Loan shall be derived from or are the proceeds of any unlawful activity, with the result that the investment in Borrower, Borrower Representative or any Guarantor, as applicable (whether directly or indirectly), is prohibited by law or the Loan is in violation of law or may cause any of the Mortgaged Property to be subject to forfeiture or seizure. Borrower has ascertained the identity of all persons and entities who have provided funds to capitalize Borrower and has conducted verification procedures which are sufficient to establish the identity and source of such funds.

5.21 ERISA. At all times throughout the Term, upon the request of Lender or any of Lender's successors, assigns or participants in the Loan, the management of Borrower shall make itself available to consult with Lender or any of Lender's successors, assigns or participants on significant business issues relating to the operation of the Property quarterly either personally or by telephone at mutually agreeable times; provided, however, that such consultation need not result in any change in Borrower's course of action, subject to Section 8.1. The aforementioned consultation rights are intended to satisfy the requirement of management rights for purposes of the U.S. Department of Labor "plan assets" regulation, 29 C.F.R. Section 2510.3-101.

5.22 Ground Lease. Borrower shall or shall cause the T-Mobile Borrower to: (i) pay all rents and other sums required to be paid by the T-Mobile Borrower as tenant under and pursuant to the provisions of the Ground Lease, the Indenture, the Direct Pay Agreement, and any other Bond Documents, as and when such rent or other sums are payable, (ii) diligently perform and observe all of the terms, covenants and conditions of the Ground Lease on the part of the T-Mobile Borrower thereunder to be performed and observed, and (iii) promptly notify Lender of the giving of any notice pursuant to the Ground Lease, the Indenture, the Direct Pay Agreement, or any other Bond Document of any default by the T-Mobile Borrower or any other party with respect thereto. The T-Mobile Borrower shall not, without the prior written consent of Lender, surrender the leasehold estate created by the Ground Lease or terminate or cancel the Ground Lease or modify, change, supplement, alter or amend the Ground Lease, in any respect, either orally or in writing, and the T-Mobile Borrower hereby assigns to Lender, as further security for the payment of the Debt and for the performance and observance of the terms, covenants and conditions of this Agreement and the other Loan Documents, all of the rights, privileges and prerogatives of the T-Mobile Borrower, as tenant under the Ground Lease, to surrender the leasehold estate created by the Ground Lease or to terminate, cancel, modify, change, supplement, alter or amend the Ground Lease, and any such surrender of the leasehold estate created by the Ground Lease or termination, cancellation, modification, change, supplement, alteration or amendment of the Ground Lease without the prior written consent of Lender shall be void and of no force and effect. If the T-Mobile Borrower shall default in the performance or observance of any term, covenant or condition of the Ground Lease on the part of the T-Mobile Borrower, as tenant thereunder, to be performed or observed, then, without limiting the generality of the other provisions of this Agreement, and without waiving or releasing Borrower from any of its obligations hereunder, Lender shall have the right, but shall be under no obligation, to pay any sums and to perform any act or take any action as may be appropriate to cause all of the terms, covenants and conditions of the Ground Lease on the part of tenant thereunder, to the end that the rights of the T-Mobile Borrower in, to and under the Ground Lease shall be kept unimpaired and free from default, even though the existence of such event of default or the nature thereof be questioned or denied by the T-Mobile Borrower or any other Borrower or by any party on behalf of the T-Mobile Borrower or any other Borrower. If Lender shall make any payment or perform any act or take action in accordance with the preceding sentence, Lender will notify Borrower not less than five (5) days prior to the making of any such payment, the performance of any such act, or the taking of any such action. In any such event, subject to the rights of tenants, subtenants and other occupants under the Leases, Lender and any person designated by Lender shall have, and are hereby granted, the right to enter upon the Property at any time and from time to time for the purpose of taking any such action. Lender may pay and expend such sums of money as Lender reasonably deems necessary

for any such purpose and upon so doing shall be subrogated to any and all rights of the landlord under the Ground Lease. The T-Mobile Borrower hereby agrees to pay to Lender within five (5) Business Day of request therefor, all such sums so paid and expended by Lender, together with interest thereon from the date of such payment at the Default Rate (as defined in the Note). All sums so paid and expended by Lender and the interest thereon shall be secured by this Mortgage. If the landlord under the Ground Lease shall deliver to Lender a copy of any notice of default sent by said landlord to Mortgagor, as tenant under the Ground Lease, such notice shall constitute full protection to Lender for any action taken or omitted to be taken by Lender, in good faith, in reliance thereon. Unless T-Mobile Borrower shall exercise its option to purchase the T-Mobile Property pursuant to the Ground Lease, T-Mobile Borrower shall exercise each individual option, if any, to extend or renew the term of the Ground Lease upon demand by Lender made at any time within six (6) months of the last day upon which any such option may be exercised, and T-Mobile Borrower hereby expressly authorizes and appoints Lender its attorney-in-fact to exercise any such option in the name of and upon behalf of T-Mobile Borrower, which power of attorney shall be irrevocable and shall be deemed to be coupled with an interest. T-Mobile Borrower will not subordinate or consent to the subordination of the Ground Lease to any mortgage, security deed, lease or other interest on or in the landlord's interest in all or any part of the T-Mobile Property, unless, in each such case, the written consent of Lender shall have been first had and obtained.

6. NOTICES AND REPORTING

6.1 Notices. All notices, consents, approvals and requests required or permitted hereunder or under any other Loan Document (a "**Notice**") shall be given in writing and shall be effective for all purposes if either hand delivered with receipt acknowledged, or by a nationally recognized overnight delivery service (such as Federal Express), or by certified or registered United States mail, return receipt requested, postage prepaid, or by facsimile and confirmed by facsimile answer back, in each case addressed as follows (or to such other address or Person as a party shall designate from time to time by Notice to the other party): If to Lender: IXIS Real Estate Capital Inc., 9 West 57th Street, 36th Floor, New York, New York 10019; Attention: Real Estate Administration (Gary DiGiuseppe), Telecopier: (212) 891-6851 with copies to: Brownstein Hyatt & Farber, PC, 410 Seventeenth Street, 22nd Floor, Denver, Colorado 80202, Attention: Ana Lazo Tenzer, Esq., Telecopier: (303) 223-0982; if to Borrower: c/o Gladstone Commercial Corporation, 1521 Westbranch Drive, Suite 200, McLean, Virginia 22102, Attention: Gary Gerson, Telecopier: (703) 287-5901, with a copy to: Dickstein Shapiro Morin & Oshinsky LLP, Attention: James D. Kelly, Telecopier: (202) 887-0689. A Notice shall be deemed to have been given: (a) in the case of hand delivery, at the time of delivery; (b) in the case of registered or certified mail, when delivered or the first attempted delivery on a Business Day; (c) in the case of overnight delivery, upon the first attempted delivery on a Business Day; or (d) in the case of facsimile transmission, when sent and electronically confirmed.

6.2 Borrower Notices and Deliveries. Borrower shall (a) give prompt written notice to Lender of: (i) any litigation, governmental proceedings or claims or investigations pending or threatened against Borrower or Borrower Representative which might materially adversely affect Borrower's or Borrower Representative's condition (financial or otherwise) or business or the Property; (ii) any material adverse change in Borrower's or Borrower Representative's condition, financial or otherwise, or of the occurrence of any Default or Event of Default of which

Borrower has knowledge; and (b) furnish and provide to Lender: (i) any Securities and Exchange Commission or other public filings, if any, of Borrower, Borrower Representative, Manager, or any Affiliate of any of the foregoing within two (2) Business Days of such filing and (ii) all instruments, documents, boundary surveys, footing or foundation surveys, certificates, plans and specifications, appraisals, title and other insurance reports and agreements, reasonably requested, from time to time, by Lender. In addition, after request by Lender (but no more frequently than twice in any year), Borrower shall furnish to Lender within thirty (30) days, tenant estoppel certificates addressed to Lender, its successors and assigns from each tenant at the Property in form and substance reasonably satisfactory to Lender.

6.3 Financial Reporting.

6.3.1 Bookkeeping. Borrower shall keep on a calendar year basis, in accordance with GAAP or any other accounting method as determined by Borrower and acceptable to Lender in its reasonable discretion, consistently applied, proper and accurate books, records and accounts reflecting all of the financial affairs of Borrower and all items of income and expense and any services, Equipment or furnishings provided in connection with the operation of the Property, whether such income or expense is realized by Borrower, Manager or any Affiliate of Borrower. Lender shall have the right from time to time during normal business hours upon reasonable notice to examine such books, records and accounts at the office of Borrower or other Person maintaining them, and to make such copies or extracts thereof as Lender shall reasonably require. After an Event of Default has occurred and is continuing, Borrower shall pay any reasonable third party out-of-pocket costs incurred by Lender to examine such books, records and accounts, as Lender shall determine to be necessary or appropriate in the protection of Lender's interest.

6.3.2 Annual Reports. Borrower shall furnish to Lender annually within ninety (90) days after each calendar year, a complete copy of Guarantor's consolidated (which includes Borrower) annual financial statements certified by an independent certified public accountant (accompanied by an unqualified opinion from such accounting firm or independent certified public accountant) in form and content reasonably acceptable to Lender, prepared in accordance with GAAP or any other accounting method determined by Borrower and acceptable to Lender, consistently applied, and containing balance sheets and statements of profit and loss. Each such statement (x) shall be in form and substance reasonably satisfactory to Lender, (y) shall set forth the financial condition and the income and expenses for the property for the immediately preceding calendar year, including statements of annual net Operating Income, and (z) shall be accompanied by an Officer's Certificate certifying (1) that such statement is true, correct, complete and accurate in all material respects and presents fairly the financial condition of the Property and has been prepared in accordance with GAAP or any other accounting method as determined by Borrower and approved by Lender consistently applied and (2) whether there exists a Default or Event of Default, and if so, the nature thereof, the period of time it has existed and the action then being taken to remedy it.

6.3.3 Quarterly Reports. Borrower shall furnish to Lender within thirty (30) days after the end of each calendar quarter, as applicable, the following items: (i) year-to-date operating statements, noting Net Operating Income and other information necessary and sufficient under GAAP or any other accounting method of accounting as determined by

Borrower and reasonably approved by Lender, consistently applied to fairly represent the financial position and results of operation of the Property during such calendar quarter, all in form satisfactory to Lender; (ii) a balance sheet for such calendar quarter; (iii) quarterly, with respect to the T-Mobile Property, a comparison of the budgeted income and expenses and the actual income and expenses for each quarter and year-to-date for the Property; (iv) a statement of the actual Capital Expenses made by Borrower during each calendar quarter as of the last day of such calendar quarter; (v) a statement that Borrower has not incurred any indebtedness other than indebtedness permitted hereunder, (vi) [intentionally deleted]; and (vii) rent rolls identifying the leased premises, names of all tenants, units leased, monthly rental and all other charges payable under each Lease, date to which paid, term of Lease, date of occupancy, and date of expiration. Each such statement shall be accompanied by an Officer's Certificate certifying (1) that such items are true, correct, accurate, and complete in all material respects and fairly present the financial condition and results of the operations of Borrower and the Property in accordance with GAAP or any other accounting method as determined by Borrower and approved by Lender, consistently applied (subject to year-end adjustments) and (2) whether there exists an Event of Default, and if so, the nature thereof, the period of time it has existed and the action then being taken to remedy it. Notwithstanding the foregoing, Borrower shall notify Lender promptly in writing of any material adverse change in the financial position of the Borrower or the Property occurring during any calendar quarter.

6.3.4 Other Reports. Borrower shall furnish to Lender, within ten (10) Business Days after request, such further detailed information with respect to the operation of the Property and the financial affairs of Borrower, or Borrower Representative as may be reasonably requested by Lender or any applicable Rating Agency.

6.3.5 Annual Budget. Borrower shall prepare and submit (or shall cause Manager to prepare and submit) to Lender within thirty (30) days after a Cash Management Period and by December 15th of each year thereafter during the Term for approval by Lender, which approval shall not be unreasonably withheld or delayed, a proposed pro forma budget for the Property for the succeeding calendar year (the "**Annual Budget**"), and, promptly after preparation thereof, any revisions to such Annual Budget. Lender's failure to approve or disapprove any Annual Budget or revision within thirty (30) days after Lender's receipt thereof shall be deemed to constitute Lender's approval thereof. The Annual Budget shall consist of (i) an operating expense budget (the "**Operating Budget**") showing, on a month-by-month basis, in reasonable detail, each line item of the Borrower's anticipated operating income and operating expenses (on a cash and accrual basis), including amounts required to establish, maintain and/or increase any monthly payments required hereunder, and (ii) a Capital Expense budget (the "**Capital Budget**") showing, on a month-by-month basis, in reasonable detail, each line item of anticipated Capital Expenses. Lender acknowledges that as of the date hereof, an Annual Budget is prepared only with respect to the T-Mobile Property and not the Converting Property or the Spinners Properties, and that no such Annual Budgets or other budgets are anticipated with regard to the Converting Property or the Spinners Properties, unless and until a Cash Management Period occurs and is continuing under this Agreement, and then only to the extent required by Lender pursuant hereto.

6.3.6 Breach. If Borrower fails to provide to Lender or its designee any of the financial statements, certificates, reports or information (the *Required Records*) required by this Section 6.3.6 within thirty (30) days after the date upon which such Required Record is due, Borrower shall pay to Lender, at Lender's option and in its discretion, an amount equal to \$500 for each Required Record that is not delivered; provided Lender has given Borrower at least fifteen (15) days prior notice of such failure. In addition, thirty (30) days after Borrower's failure to deliver any Required Records, Lender shall have the option, upon fifteen (15) days notice to Borrower to gain access to Borrower's books and records and prepare or have prepared at Borrower's expense, any Required Records not delivered by Borrower.

7. INSURANCE; CASUALTY; AND CONDEMNATION

7.1 Insurance.

7.1.1 Coverage. Borrower, at its sole cost, for the mutual benefit of Borrower and Lender, shall obtain and maintain, or shall cause the tenants under the Property Leases to obtain and maintain, during the Term the following policies of insurance:

(a) Property insurance insuring against loss or damage customarily included under so called "all risk" or "special form" policies including fire, lightning, flood, earthquake, vandalism, and malicious mischief, boiler and machinery and coverage for damage or destruction caused by "War," if available, and the "certified" (as defined in the Terrorism Risk Insurance Act of 2002) acts of terrorists (or such policies shall have no exclusion from coverage with respect thereto) and such other insurable hazards as, under good insurance practices, from time to time are insured against for other property and buildings similar to the Property in nature, use, location, height, and type of construction. Such insurance policy shall also insure costs of demolition and increased cost of construction (which insurance for demolition and increased cost of construction may contain a sub-limit satisfactory to Lender). Each such insurance policy shall (i) be in an amount equal to the greater of (A) one hundred percent (100%) of the then replacement cost of the Improvements without deduction for physical depreciation, and (B) such amount as is necessary so that the insurer would not deem Borrower a co-insurer under such policies, (ii) have deductibles no greater than the lesser of \$100,000 or five percent (5%) of Net Operating Income per occurrence, (iii) be paid annually in advance and (iv) contain an agreed amount replacement cost endorsement with a waiver of depreciation, and shall cover, without limitation, all tenant improvements and betterments that Borrower is required to insure pursuant to any Lease on a replacement cost basis. If the insurance required under this subparagraph is not obtained by blanket insurance policies, the insurance policy shall be endorsed to also provide guaranteed building replacement cost to the Improvements and such tenant improvements in an amount to be subject to the consent of Lender, which consent shall not be unreasonably withheld, but in all events, not less than would be required to restore the Property following a Casualty. Lender shall be named Lender Loss Payee on a Standard Mortgagee Endorsement.

(b) Flood insurance if any part of the Property is located in an area identified by the Federal Emergency Management Agency as an area having special flood hazards, in an amount at least equal to the lesser of: (i) the greater of (A) the then full replacement cost of the Property without deduction for physical depreciation and (B) the unpaid Principal and (ii) the maximum limit of coverage available under the National Flood Insurance Plan with respect to the Property; provided, however, that Lender shall be entitled to require flood insurance in amounts greater than the foregoing, in its discretion.

(c) Public liability insurance, including (i) "Commercial General Liability Insurance," (ii) "Owned," "Hired" and "Non Owned Auto Liability"; and (iii) umbrella liability coverage for personal injury, bodily injury, death, accident and property damage, such insurance providing in combination not less than \$1,000,000 per occurrence, not less than \$2,000,000 in the annual aggregate and not less than \$5,000,000 umbrella, each on a per location basis. If aggregate limits are shared with other locations the coverage shall include either (A) a "**Per Location Aggregate Endorsement**" or (B) the amount of umbrella liability insurance to be provided shall be not less than \$5,000,000 in excess of the umbrella coverage set forth in the preceding sentence. The policies described in this subsection shall also include coverage for elevators, escalators, independent contractors, "Contractual Liability" (covering, to the maximum extent permitted by law, Borrower's obligation to indemnify Lender as required under this Agreement and the other Loan Documents), "Products" and "Completed Operations Liability" coverage.

(d) Rental loss and/or business interruption insurance (i) with Lender being named as "Lender Loss Payee," (ii) in an amount equal to one hundred percent (100%) of the projected Rents from the Property during the period of restoration; and (iii) containing an extended period of indemnity endorsement which provides that after the physical loss to the Property has been repaired, the continued loss of income will be insured until such income either returns to the same level it was at prior to the loss, or the expiration of twelve (12) months from the date that the Property is damaged, whichever first occurs, and notwithstanding that the policy may expire prior to the end of such period. The amount of such insurance shall be increased from time to time during the Term as and when the estimated or actual Rents increase.

(e) To the extent such equipment is located at the Property, comprehensive boiler and machinery insurance covering all mechanical and electrical equipment against physical damage, rent loss and improvements loss and covering, without limitation, all tenant improvements and betterments that Borrower is required to insure pursuant to the lease on a replacement cost basis and in the minimum amount of \$5,000,000.

(f) Worker's compensation insurance with respect to any employees of Borrower, as required by any Legal Requirement.

(g) During any period of repair or restoration, builder's "all-risk" insurance in an amount equal to not less than the full insurable value of the Property, against such risks (including fire and extended coverage and collapse of the Improvements to agreed limits) as Lender may request, in form and substance acceptable to Lender, and coverage to compensate for the cost of demolition and the increased cost of construction in an amount satisfactory to Lender.

(h) Such other insurance (including environmental liability insurance, earthquake insurance and windstorm insurance) as may from time to time be reasonably required by Lender in order to protect its interests.

7.1.2 Policies. All policies of insurance (the "**Policies**") required pursuant to Section 7.1.1 shall (i) be issued by companies approved by Lender and licensed to do business in the State, with a claims paying ability rating of "A" or better by S&P (and the equivalent by any other Rating Agency) and a rating of A:VII or better in the current Best's Insurance Report; (ii) name Lender and its successors and/or assigns as their interests may appear as the mortgagee (in the case of property and rent loss or business interruption insurance) or an additional insured (in the case of liability insurance); (iii) contain (in the case of property insurance) a Non-Contributory Standard Mortgagee Clause and a Lender's Loss Payable Endorsement, or their equivalents, naming Lender as the Person to which all payments made by such insurance company shall be paid; (iv) contain provisions permitting Borrower to waive its right of subrogation against Lender; (v) be assigned and the originals thereof delivered to Lender; (vi) contain such provisions as Lender deems reasonably necessary or desirable to protect its interest, including (A) endorsements providing that neither Borrower, Lender nor any other party shall be a co-insurer under the Policies, (B) that Lender shall receive at least thirty (30) days' prior written notice of any modification, reduction or cancellation of any of the Policies, (C) an agreement whereby the insurer waives any right to claim any premiums and commissions against Lender, provided that the policy need not waive the requirement that the premium be paid in order for a claim to be paid to the insured, and (D) providing that Lender is permitted to make payments to effect the continuation of such Policy upon notice of cancellation due to non-payment of premiums; (vii) in the event any insurance policy (except for general public and other liability and workers compensation insurance) shall contain breach of warranty provisions, such policy shall provide that with respect to the interest of Lender, such insurance policy shall not be invalidated by and shall insure Lender regardless of (A) any act, failure to act or negligence of or violation of warranties, declarations or conditions contained in such policy by any named insured, (B) the occupancy or use of the premises for purposes more hazardous than permitted by the terms thereof, or (C) any foreclosure or other action or proceeding taken by Lender pursuant to any provision of the Loan Documents; and (viii) be satisfactory in form and substance to Lender and approved by Lender as to amounts, form, risk coverage, deductibles, loss payees and insureds. Borrower shall pay or cause the tenants under the Property Leases to pay the premiums for such Policies (the "**Insurance Premiums**") as the same become due and payable and furnish to Lender evidence of the renewal of each of the Policies together with (unless such Insurance Premiums have been paid by Lender pursuant to Section 3.3) receipts for or other evidence of the payment of the Insurance Premiums reasonably satisfactory to Lender. If Borrower does not furnish such evidence and receipts at least fifteen (15) days prior to the expiration of any expiring Policy, then Lender may, but shall not be obligated to, procure such insurance and pay the Insurance Premiums therefor, and Borrower shall reimburse Lender for the cost of such Insurance Premiums within five (5) Business Days of demand, with interest accruing at the Default Rate. Borrower shall deliver to Lender a certified copy of each Policy within thirty (30) days after its effective date. Notwithstanding the foregoing, Lender agrees that it is acceptable for the property insurance carrier insurer of the 255 Spring Street, Clintonville, Wisconsin portion of the Property to be rated BBB by S&P, A+XV by the current Best's Insurance Reports and AA- by Fitch.

7.2 Casualty.

7.2.1 Notice; Restoration. If the Property is damaged or destroyed, in whole or in part, by fire or other casualty (a "**Casualty**"), Borrower shall give prompt notice thereof to Lender. Following the occurrence of a Casualty, Borrower, provided that with respect to an Insured Casualty the insurance proceeds are made available to Borrower as provided in Section 7.4 below, shall promptly proceed to restore, repair, replace or rebuild the Property, and/or cause the tenants under the Property Leases to so proceed as provided in the Property Leases, in accordance with Legal Requirements to be of at least equal value and of substantially the same character as prior to such damage or destruction.

7.2.2 Settlement of Proceeds. If a Casualty covered by any of the Policies (an "**Insured Casualty**") occurs where the loss does not exceed \$250,000, provided no Default or Event of Default has occurred and is continuing, Borrower may settle and adjust any claim without the prior consent of Lender; provided such adjustment is carried out in a competent and timely manner, and Borrower is hereby authorized to collect and receipt for the insurance proceeds (the "**Proceeds**"). In the event of an Insured Casualty where the loss equals or exceeds \$250,000 (a "**Significant Casualty**"), Lender may, in its sole discretion, settle and adjust any claim without the consent of Borrower and agree with the insurer(s) on the amount to be paid on the loss, and the Proceeds shall be due and payable solely to Lender and held by Lender in the Casualty/Condemnation Subaccount and disbursed in accordance herewith. If Borrower or any party other than Lender is a payee on any check representing Proceeds with respect to a Significant Casualty, Borrower shall immediately endorse, and cause all such third parties to endorse, such check payable to the order of Lender. Borrower hereby irrevocably appoints Lender as its attorney-in-fact, coupled with an interest, to endorse such check payable to the order of Lender. The reasonable out-of-pocket expenses incurred by Lender in the settlement, adjustment and collection of the Proceeds shall become part of the Debt and shall be reimbursed by Borrower to Lender within thirty (30) days of written request therefor.

7.3 Condemnation.

7.3.1 Notice; Restoration. Borrower shall promptly give Lender notice of the actual or threatened commencement of any condemnation or eminent domain proceeding affecting the Property of which Borrower receives notice (a "**Condemnation**") and shall deliver to Lender copies of any and all papers served in connection with such Condemnation. Following the occurrence of a Condemnation, Borrower, regardless of whether an Award is available (but provided that any Award paid to and held by Lender shall be made available to Borrower as provided herein), shall promptly proceed to restore, repair, replace or rebuild the Property, and/or shall cause the tenants under any Property Leases to so proceed, in accordance with Legal Requirements to the extent practicable to be of at least equal value and of substantially the same character (and to have the same utility) as prior to such Condemnation.

7.3.2 Collection of Award. Lender is hereby irrevocably appointed as Borrower's attorney-in-fact, coupled with an interest, with exclusive power to collect, receive and retain any award or payment in respect of a Condemnation (an "**Award**") and to make any compromise, adjustment or settlement in connection with such Condemnation. Notwithstanding any Condemnation (or any transfer made in lieu of or in anticipation of such Condemnation), Borrower shall continue to pay the Debt at the time and in the manner provided for in the Loan Documents, and the Debt shall not be reduced unless and until any Award shall have been actually received and applied by Lender to expenses of collecting the Award and to discharge of the Debt. Lender shall not be limited to the interest paid on the Award by the condemning authority but shall be entitled to receive out of the Award interest at the rate or rates provided in the Note (or Undeferred Note, as the case may be). If the Property is sold, through foreclosure or otherwise, prior to the receipt by Lender of such Award, Lender shall have the right, whether

or not a deficiency judgment on the Note shall be recoverable or shall have been sought, recovered or denied, to receive all or a portion of the Award sufficient to pay the Debt. Borrower shall cause any Award that is payable to Borrower to be paid directly to Lender. Lender shall hold such Award in the Casualty/Condemnation Subaccount and disburse such Award in accordance with the terms hereof.

7.4 Application of Proceeds or Award

7.4.1 Application to Restoration. If an Insured Casualty or Condemnation occurs where (i) [intentionally deleted], (ii) in the reasonable judgment of Lender, the Property can be restored within the earliest to occur of (x) twelve (12) months from the date of the Insured Casualty or Condemnation, (y) six (6) months before the Stated Maturity Date and (z) the expiration of the rental or business interruption insurance with respect thereto, to the Property's pre-existing condition and utility as existed immediately prior to such Insured Casualty or Condemnation and to an economic unit not less valuable and not less useful than the same was immediately prior to the Insured Casualty or Condemnation, and after such restoration will adequately secure the Debt and (iii) no Default or Event of Default shall have occurred and be then continuing, then the Proceeds or the Award, as the case may be (after reimbursement of any expenses incurred by Lender), shall be applied to reimburse Borrower for the cost of restoring, repairing, replacing or rebuilding the Property (the "**Restoration**"), in the manner set forth herein. Borrower shall commence and diligently prosecute such Restoration. Notwithstanding the foregoing, in no event shall Lender be obligated to apply the Proceeds or Award to reimburse Borrower for the cost of Restoration unless, in addition to satisfaction of the foregoing conditions, both (x) Borrower shall pay (and if required by Lender, Borrower shall deposit with Lender in advance) all costs of such Restoration in excess of the net amount of the Proceeds or the Award to be made available pursuant to the terms hereof; and (y) Lender shall have received evidence reasonably satisfactory to it that during the period of the Restoration, the Rents will be at least equal to the sum of the operating expenses and Debt Service, as reasonably determined by Lender.

7.4.2 Application to Debt. Except as provided in Section 7.4.1, any Proceeds and/or Award may, at the option of Lender in its discretion, be applied to the payment of (i) accrued but unpaid interest on the Note, (ii) the unpaid Principal and (iii) other charges due under the Note and/or any of the other Loan Documents, or applied to reimburse Borrower for the cost of any Restoration, in the manner set forth in Section 7.4.3. Any such prepayment of the Loan shall be without any Yield Maintenance Premium, unless an Event of Default has occurred and is continuing at the time the Proceeds are received from the insurance company or the Award is received from the condemning authority, as the case may be, in which event Borrower shall pay to Lender an additional amount equal to the Yield Maintenance Premium, if any, that may be required with respect to the amount of the Proceeds or Award applied to the unpaid Principal. After any such application to the unpaid Principal, the remaining unpaid Principal shall be reamortized over the remaining term hereof.

7.4.3 Procedure for Application to Restoration. If Borrower is entitled to reimbursement out of the Proceeds or an Award held by Lender, such Proceeds or Award shall be disbursed from time to time from the Casualty/Condemnation Subaccount upon Lender being furnished with (i) evidence satisfactory to Lender of the estimated cost of completion of the

Restoration, (ii) a fixed price or guaranteed maximum cost construction contract for Restoration satisfactory to Lender, (iii) prior to the commencement of Restoration, all immediately available funds in addition to the Proceeds or Award that in Lender's judgment are required to complete the proposed Restoration, (iv) such architect's certificates, waivers of lien, contractor's sworn statements, title insurance endorsements, bonds, plats of survey, permits, approvals, licenses and such other documents and items as Lender may reasonably require and approve in Lender's discretion, and (v) all plans and specifications and construction contracts for such Restoration, such plans and specifications and construction contracts to be approved by Lender prior to commencement of any work. Lender may, at Borrower's expense, retain a consultant to review and approve all requests for disbursements, which approval shall also be a condition precedent to any disbursement. No payment made prior to the final completion of the Restoration shall exceed ninety percent (90%) of the value of the work performed from time to time; funds other than the Proceeds or Award shall be disbursed prior to disbursement of such Proceeds or Award; and at all times, the undisbursed balance of such Proceeds or Award remaining in the hands of Lender, together with funds deposited for that purpose or irrevocably committed to the satisfaction of Lender by or on behalf of Borrower for that purpose, shall be at least sufficient in the reasonable judgment of Lender to pay for the cost of completion of the Restoration, free and clear of all Liens or claims for Lien. Provided no Default or Event of Default then exists, any surplus that remains out of the Proceeds held by Lender after payment of such costs of Restoration shall be paid to Borrower. Any surplus that remains out of the Award received by Lender after payment of such costs of Restoration shall, in the discretion of Lender, be retained by Lender and applied to payment of the Debt or returned to Borrower.

8. DEFAULTS

8.1 Events of Default. An "Event of Default" shall exist with respect to the Loan if any of the following shall occur:

- (a) any portion of the Debt is not paid when due or any other amount under Section 3.10(a)(i) through (vii) is not paid in full when due (unless during a Cash Management Period sufficient funds are available in the relevant Subaccount on the applicable due date);
- (b) any of the Taxes are not paid when due (unless Lender is paying such Taxes pursuant to Section 3.3), subject to Borrower's right to contest Taxes in accordance with Section 5.2;
- (c) the Policies are not kept in full force and effect, or are not delivered to Lender upon request;
- (d) a Transfer other than a Permitted Transfer occurs;
- (e) any representation or warranty made in any Loan Document, or in any report, certificate, financial statement or other instrument, agreement or document furnished by Borrower or Guarantor in connection with any Loan Document, shall be false or misleading in any material respect as of the date the representation or warranty was made;

(f) Borrower, Borrower Representative or Guarantor shall make an assignment for the benefit of creditors, or (ii) generally not be paying its debts as they become due, to the extent that rents from the Property are available to pay its debts; provided however, with respect to Guarantor, unless a replacement guarantor acceptable to Lender in its sole discretion exercised in good faith executes a guaranty agreement in the form of the Guaranty of Recourse Obligations dated of even date herewith within thirty (30) days;

(g) a receiver, liquidator or trustee shall be appointed for Borrower, Borrower Representative or Guarantor; or Borrower, Borrower Representative or Guarantor shall be adjudicated a bankrupt or insolvent; or any petition for bankruptcy, reorganization or arrangement pursuant to federal bankruptcy law, or any similar federal or state law, shall be filed by or against, consented to, or acquiesced in by, Borrower, Borrower Representative or Guarantor, as the case may be; or any proceeding for the dissolution or liquidation of Borrower, Borrower Representative or Guarantor shall be instituted; provided, however, if such appointment, adjudication, petition or proceeding was involuntary and not consented to by Borrower, Borrower Representative or Guarantor, as the case may be, only upon the same not being discharged, stayed or dismissed within sixty (60) days;

(h) any covenant contained in Sections 5.11.1 (a) — (f), 5.12, 5.14, 5.15 or 5.16 is breached;

(i) except as expressly permitted hereunder, the actual or threatened alteration, improvement, demolition or removal of all or any of portion of the Improvements without the prior written consent of Lender or the physical waste of any portion of the Property;

(j) an Event of Default as defined or described elsewhere in this Agreement or an event of default under any other Loan Document after applicable notice and grace periods, if any;

(k) a default occurs under any term, covenant or provision set forth herein or in any other Loan Document which specifically contains a notice requirement or grace period and such notice has been given and such grace period has expired;

(l) [intentionally deleted];

(m) a default shall be continuing under any of the other terms, covenants or conditions of this Agreement or any other Loan Document not otherwise specified in this Section 8.1, for ten (10) days after notice to Borrower (or Guarantor, if applicable) from Lender, in the case of any default which can be cured by the payment of a sum of money, or for thirty (30) days after notice from Lender in the case of any other default; provided, however, that if such non-monetary default is susceptible of cure but cannot reasonably be cured within such thirty (30)-day period, and Borrower (or Guarantor, if applicable) shall have commenced to cure such default within such thirty (30)-day period and thereafter diligently and expeditiously proceeds to cure the same, such thirty (30)-day period shall be extended for an additional period of time as is reasonably necessary for Borrower (or Guarantor, if applicable) in the exercise of due diligence to cure such default, such additional period not to exceed ninety (90) days;

(n) [intentionally deleted.]

(o) Any Event of Default, or event which with the passage of time or the giving of notice, or both would constitute an Event of Default, occurs under the Ground Lease, the Indenture, the Direct Pay Agreement or any other Bond Document.

8.2 Remedies.

8.2.1 Acceleration. Upon the occurrence of an Event of Default (other than an Event of Default described in paragraph (f) or (g) of Section 8.1) and at any time and from time to time thereafter, in addition to any other rights or remedies available to it pursuant to the Loan Documents or at law or in equity, Lender may take such action, without notice or demand, that Lender deems advisable to protect and enforce its rights against Borrower and in and to the Property; including declaring the Debt to be immediately due and payable (including unpaid interest), Default Rate interest, Late Payment Charges, Yield Maintenance Premium and any other amounts owing by Borrower), without notice or demand; and upon any Event of Default described in paragraph (f) or (g) of Section 8.1, the Debt (including unpaid interest, Default Rate interest, Late Payment Charges, Yield Maintenance Premium and any other amounts owing by Borrower) shall immediately and automatically become due and payable, without notice or demand, and Borrower hereby expressly waives any such notice or demand, anything contained in any Loan Document to the contrary notwithstanding.

8.2.2 Remedies Cumulative. Upon the occurrence of an Event of Default, all or any one or more of the rights, powers, privileges and other remedies available to Lender against Borrower under the Loan Documents or at law or in equity may be exercised by Lender at any time and from time to time, whether or not all or any of the Debt shall be declared, or be automatically, due and payable, and whether or not Lender shall have commenced any foreclosure proceeding or other action for the enforcement of its rights and remedies under any of the Loan Documents. Any such actions taken by Lender shall be cumulative and concurrent and may be pursued independently, singly, successively, together or otherwise, at such time and in such order as Lender may determine in its discretion, to the fullest extent permitted by law, without impairing or otherwise affecting the other rights and remedies of Lender permitted by law, equity or contract or as set forth in the Loan Documents. Without limiting the generality of the foregoing, Borrower agrees that if an Event of Default is continuing, (i) to the extent permitted by applicable law, Lender is not subject to any “one action” or “election of remedies” law or rule, and (ii) all Liens and other rights, remedies or privileges provided to Lender shall remain in full force and effect until Lender has exhausted all of its remedies against the Property, the Mortgage has been foreclosed, the Property has been sold and/or otherwise realized upon in satisfaction of the Debt or the Debt has been paid in full. To the extent permitted by applicable law, nothing contained in any Loan Document shall be construed as requiring Lender to resort to any portion of the Property for the satisfaction of any of the Debt in preference or priority to any other portion, and Lender may seek satisfaction out of the entire Property or any part thereof, in its discretion.

8.2.3 Severance. Lender shall have the right from time to time to sever the Note and the other Loan Documents into one or more separate notes, mortgages and other security documents (and, in connection therewith, to bifurcate or otherwise modify the nature of the collateral that secures such notes) in such denominations and priorities of payment and liens as Lender shall determine in its discretion for purposes of evidencing and enforcing its rights and

remedies. Borrower shall execute and deliver to Lender from time to time, promptly after the request of Lender, a severance agreement and such other documents as Lender shall request in order to effect the severance described in the preceding sentence, all in form and substance reasonably satisfactory to Lender. Borrower hereby absolutely and irrevocably appoints Lender as its true and lawful attorney, coupled with an interest, in its name and stead to make and execute all documents necessary or desirable to effect such severance, Borrower ratifying all that such attorney shall do by virtue thereof.

8.2.4 Delay. No delay or omission to exercise any remedy, right or power accruing upon an Event of Default, or the granting of any indulgence or compromise by Lender shall impair any such remedy, right or power hereunder or be construed as a waiver thereof, but any such remedy, right or power may be exercised from time to time and as often as may be deemed expedient. A waiver of one Default or Event of Default shall not be construed to be a waiver of any subsequent Default or Event of Default or to impair any remedy, right or power consequent thereon. Notwithstanding any other provision of this Agreement, Lender reserves the right to seek a deficiency judgment or preserve a deficiency claim in connection with the foreclosure of the Mortgage to the extent necessary to foreclose on all or any portion of the Property, the Rents, the Cash Management Accounts or any other collateral.

8.2.5 Lender's Right to Perform. If Borrower fails to perform any covenant or obligation contained herein and such failure shall continue for a period of five Business Days after Borrower's receipt of written notice thereof from Lender, without in any way limiting Lender's right to exercise any of its rights, powers or remedies as provided hereunder, or under any of the other Loan Documents, Lender may, but shall have no obligation to, perform, or cause performance of, such covenant or obligation, and all costs, expenses, liabilities, penalties and fines of Lender incurred or paid in connection therewith shall be payable by Borrower to Lender upon demand and if not paid shall be added to the Debt (and to the extent permitted under applicable laws, secured by the Mortgage and other Loan Documents) and shall bear interest thereafter at the Default Rate. Notwithstanding the foregoing, Lender shall have no obligation to send notice to Borrower of any such failure.

9. SECONDARY MARKET PROVISIONS

9.1 Transfer of Loan. Lender may, at any time, sell, transfer or assign the Loan, the Loan Documents and any or all servicing rights with respect thereto, or grant participations therein or issue mortgage pass through certificates or other securities evidencing a beneficial interest in a rated or unrated public offering or private placement (the "**Securities**") secured by or evidencing ownership interests in the Note and the Mortgage (each such sale, assignment, participation and/or securitization, a "**Secondary Market Transaction**"). Lender may forward to each purchaser, transferee, assignee, servicer, participant, investor in such Securities or any Rating Agency (all of the foregoing entities collectively referred to as the "**Investor**") and each prospective Investor, all documents and information which Lender now has or may hereafter acquire relating to the Loan and to Borrower, the Borrower Representative and Guarantor and the Property, whether furnished by Borrower, the Borrower Representative, Guarantor or otherwise, as Lender determines necessary or appropriate. Borrower, the Borrower Representative and Guarantor agree to cooperate with Lender in connection with any transfer made or any Securities created pursuant to this Section. Borrower shall also promptly furnish

and Borrower, the Borrower Representative, Guarantor consent to Lender furnishing to such Investors or such prospective Investors or Rating Agency any and all available information concerning the Property, the Leases, the financial condition of Borrower, the Borrower Representative and Guarantor (the "**Provided Information**") as may be requested by Lender, any Investor or any prospective Investor or Rating Agency (including, but not limited to, copies of information previously supplied to Lender) in connection with any sale, transfer or participation interest. In addition to any other obligations Borrower may have hereunder, Borrower shall execute such amendments to the Loan Documents and Borrower's organizational documents as may be requested by the holder of the Note or any Investor to effect the assignment of the Note and the other Loan Documents and/or issuance of Securities including (i) bifurcating the Note into two or more notes and/or splitting the Mortgage into two or more mortgages of the same or different priorities or otherwise as determined by and acceptable to Lender or (ii) dividing the Note into multiple components corresponding to tranches of certificates to be issued in a Secondary Market Transaction each having a notional balance and an interest rate determined by Lender; provided, however, that Borrower shall not be required to modify or amend any Loan Document if the overall effect of such modification or amendment would (y) change the initial weighted average interest rate, the maturity or the amortization of principal set forth in the Note, or (z) modify or amend any other material economic term of the Note or the other Loan Documents. Lender will pay all costs and expenses associated with a Secondary Market Transaction.

9.2 Use of Information. Borrower understands that all or any portion of the Provided Information may be included in disclosure documents in connection with a Secondary Market Transaction. Lender may require Borrower to review and approve a brief narrative asset summary of the Loan, Manager, the Property and Borrower (and its ownership), and Borrower shall cooperate with Lender in updating the Provided Information for inclusion or summary in the narrative asset summary or for other use reasonably required in connection with a Secondary Market Transaction by providing all current information pertaining to the Loan, Borrower, Manager and the Property necessary to keep the narrative asset summary accurate and complete in all material respects with respect to such matters.

9.3 Borrower Indemnity. Borrower shall indemnify Lender for any losses, claims, damages or liabilities ("**Liabilities**") arising out of or based upon the omission of any material fact in the Provided Information or the failure to correct any misstatement in the Provided Information in order to make the statements in the Provided Information, in light of the circumstances under which they were made not misleading and shall reimburse Lender for any legal or other expenses actually incurred by Lender in connection with defending or investigating the Liabilities.

9.4 [Intentionally Deleted.]

10. MISCELLANEOUS

10.1 Exculpation. Subject to the qualifications below, Lender shall not enforce the liability and obligation of Borrower to perform and observe the obligations contained in the Loan Documents by any action or proceeding wherein a money judgment shall be sought against Borrower, except that Lender may bring a foreclosure action, an action for specific performance

or any other appropriate action or proceeding to enable Lender to enforce and realize upon its interest and rights under the Loan Documents, or in the Property, the Rents or any other collateral given to Lender pursuant to the Loan Documents; provided, however, that, except as specifically provided herein, any judgment in any such action or proceeding shall be enforceable against Borrower only to the extent of Borrower's interest in the Property, in the Rents and in any other collateral given to Lender, and Lender shall not sue for, seek or demand any deficiency judgment against Borrower in any such action or proceeding under or by reason of or under or in connection with any Loan Document. The provisions of this Section shall not, however, (i) constitute a waiver, release or impairment of any obligation evidenced or secured by any Loan Document; (ii) impair the right of Lender to name Borrower as a party defendant in any action or suit for foreclosure and sale under the Mortgage; (iii) affect the validity or enforceability of any of the Loan Documents or any guaranty made in connection with the Loan or any of the rights and remedies of Lender thereunder; (iv) impair the right of Lender to obtain the appointment of a receiver; (v) impair the enforcement of the Assignment of Leases; (vi) constitute a prohibition against Lender to commence any other appropriate action or proceeding in order for Lender to fully realize the security granted by the Mortgage or to exercise its remedies against the Property; or (vii) constitute a waiver of the right of Lender to enforce the liability and obligation of Borrower, by money judgment or otherwise, to the extent of any loss, damage, cost, expense, liability, claim or other obligation incurred by Lender (including attorneys' fees and costs reasonably incurred) arising out of or in connection with the following (all such liability and obligation of Borrower for any or all of the foregoing being referred to herein as "Borrower's Recourse Liabilities"): (a) fraud or intentional misrepresentation by Borrower or any guarantor in connection with the Loan; (b) [intentionally deleted]; (c) the breach of any representation, warranty, covenant or indemnification in any Loan Document concerning Environmental Laws or Hazardous Substances, including Sections 4.19 and 5.7, and clauses (viii) through (xi) of Section 5.18; (d) physical waste occurring as a result of the gross negligence or willful misconduct of the Borrower or after an Event of Default, the removal or disposal of any portion of the Property; (e) the misapplication or conversion by Borrower of (x) any Proceeds paid by reason of any Insured Casualty, (y) any Award received in connection with a Condemnation, or (z) any Rents, refund of Taxes or amounts in any Subaccount (including any distributions or payments to members/partners/shareholders of Borrower during a period which Lender did not receive the full amounts required to be paid to Lender under the Loan Documents); (f) [intentionally deleted]; (g) any security deposits collected with respect to the Property which are not delivered to Lender upon a foreclosure of the Mortgage or action in lieu thereof, except to the extent any such security deposits were applied in accordance with the terms and conditions of any of the Leases prior to the occurrence of the Event of Default that gave rise to such foreclosure or action in lieu thereof; and (h) [intentionally deleted.]

Notwithstanding anything to the contrary in this Agreement or any of the Loan Documents, (A) Lender shall not be deemed to have waived any right which Lender may have under Section 506(a), 506(b), 1111(b) or any other provisions of the Bankruptcy Code to file a claim for the full amount of the Debt or to require that all collateral shall continue to secure all of the Debt in accordance with the Loan Documents, and (B) Lender's agreement not to pursue personal liability of Borrower as set forth above SHALL BECOME NULL AND VOID and shall be of no further force and effect, and the Debt shall be fully recourse to Borrower in the event that one or more of the following occurs (each, a "**Springing Recourse Event**"): (i) an Event of Default described in Section 8.1(d) shall have occurred or (ii) a breach of the covenant set forth in

Section 5.12, or (iii) the occurrence of any condition or event described in either (y) Section 8.1(f), or (z) Section 8.1(g) and, with respect to such condition or event described in Section 8.1(g), either Borrower, Borrower Representative, Guarantor or any Person owning an interest (directly or indirectly) in Borrower, Borrower Representative or Guarantor (other than the holder of any publicly traded shares or securities of Guarantor who are not officers or directors of Guarantor) causes such event or condition to occur (by way of example, but not limitation, such Person seeks the appointment of a receiver or files a bankruptcy petition), consents to, aids, solicits, supports, or otherwise cooperates or colludes to cause such condition or event to occur or fails to contest such condition or event.

10.2 Brokers and Financial Advisors. Borrower hereby represents that it has dealt with no financial advisors, brokers, underwriters, placement agents, agents or finders who will not be paid from the proceeds of the Loan at closing. Borrower shall indemnify and hold Lender harmless from and against any and all claims, liabilities, costs and expenses (including attorneys' fees, whether incurred in connection with enforcing this indemnity or defending claims of third parties) of any kind in any way relating to or arising from a claim by any Person that such Person acted on behalf of Borrower in connection with the transactions contemplated herein. The provisions of this Section 10.2 shall survive the expiration and termination of this Agreement and the repayment of the Debt. Borrower, Borrower Representative, and any sponsor of Borrower acknowledge and agree that Lender and any of Lender's agents or correspondents, reserve the right, in their sole and absolute discretion, to provide additional compensation to any broker, correspondent or originator of the Loan.

10.3 Retention of Servicer. Lender reserves the right to retain the Servicer and any special servicer to act as its agent(s) hereunder with such powers as are specifically delegated to the Servicer and any special servicer by Lender, whether pursuant to the terms of this Agreement, any pooling and servicing agreement or similar agreement entered into as a result of a Secondary Market Transaction, the Deposit Account Agreement or otherwise, together with such other powers as are reasonably incidental thereto. Borrower shall pay any reasonable fees and expenses of the Servicer and any special servicer in connection with a Defeasance, release of the Property, assumption or modification of the Loan, enforcement of the Loan Documents or workout or restructure or any other action taken by Servicer or any special servicer hereunder on behalf of Lender.

10.4 Survival. This Agreement and all covenants, agreements, representations and warranties made herein and in the certificates delivered pursuant hereto shall survive the making by Lender of the Loan and the execution and delivery to Lender of the Note, and shall continue in full force and effect so long as any of the Debt is unpaid or such longer period if expressly set forth in this Agreement. All Borrower's and Lender's covenants and agreements in this Agreement shall inure to the benefit of the respective legal representatives, successors and assigns of Lender or Borrower (as applicable).

10.5 Lender's Discretion. Whenever pursuant to this Agreement or any other Loan Document, Lender exercises any right given to it to approve or disapprove, or consent or withhold consent, or any arrangement or term is to be satisfactory to Lender or is to be in Lender's discretion, the decision of Lender to approve or disapprove, to consent or withhold consent, or to decide whether arrangements or terms are satisfactory or not satisfactory, or acceptable or unacceptable or in Lender's discretion shall (except as is otherwise specifically herein provided) be in the sole discretion of Lender and shall be final and conclusive.

10.6 Governing Law.

(a) THIS AGREEMENT WILL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, PROVIDED THAT, TO THE EXTENT ANY OF SUCH LAWS MAY NOW OR HEREAFTER BE PREEMPTED BY FEDERAL LAW, SUCH FEDERAL LAW SHALL SO GOVERN AND BE CONTROLLING.

(b) ANY LEGAL SUIT, ACTION OR PROCEEDING AGAINST LENDER OR BORROWER ARISING OUT OF OR RELATING TO THIS AGREEMENT SHALL BE INSTITUTED IN ANY FEDERAL OR STATE COURT OF COMPETENT JURISDICTION OVER THE COUNTY OF NEW YORK AND BORROWER AND LENDER EACH WAIVES ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY SUCH SUIT, ACTION OR PROCEEDING, AND BORROWER AND LENDER EACH HEREBY IRREVOCABLY SUBMITS TO THE JURISDICTION OF ANY SUCH COURT IN ANY SUIT, ACTION OR PROCEEDING. BORROWER AND LENDER EACH DOES HEREBY CONSENT AND AGREE TO SERVICE OF ANY SUMMONS, COMPLAINT OR OTHER LEGAL PROCESS IN ANY SUCH SUIT, ACTION OR PROCEEDING BY REGISTERED OR CERTIFIED U.S. MAIL, POSTAGE PREPAID, TO BORROWER AND LENDER AT THE ADDRESS FOR NOTICES DESCRIBED IN SECTION 6.1 HEREOF, AND EACH CONSENTS AND AGREES THAT SUCH SERVICE SHALL CONSTITUTE IN EVERY RESPECT VALID AND EFFECTIVE SERVICE (BUT NOTHING HEREIN SHALL AFFECT THE VALIDITY OR EFFECTIVENESS OF PROCESS SERVED IN ANY OTHER MANNER PERMITTED BY LAW).

10.7 Modification, Waiver in Writing. No modification, amendment, extension, discharge, termination or waiver of any provision of this Agreement or of any other Loan Document, nor consent to any departure by Borrower therefrom, shall in any event be effective unless the same shall be in a writing signed by the party against whom enforcement is sought, and then such waiver or consent shall be effective only in the specific instance, and for the purpose, for which given. Except as otherwise expressly provided herein, no notice to or demand on Borrower shall entitle Borrower to any other or future notice or demand in the same, similar or other circumstances. Neither any failure nor any delay on the part of Lender in insisting upon strict performance of any term, condition, covenant or agreement, or exercising any right, power, remedy or privilege hereunder, or under any other Loan Document, shall operate as or constitute a waiver thereof, nor shall a single or partial exercise thereof preclude any other future exercise, or the exercise of any other right, power, remedy or privilege. In particular, and not by way of limitation, by accepting payment after the due date of any amount payable under any Loan Document, Lender shall not be deemed to have waived any right either to require prompt payment when due of all other amounts due under the Loan Documents, or to declare an Event of Default for failure to effect prompt payment of any such other amount.

10.8 Trial by Jury. BORROWER AND LENDER HEREBY AGREE NOT TO ELECT A TRIAL BY JURY OF ANY ISSUE TRIABLE OF RIGHT BY JURY, AND WAIVE ANY RIGHT TO TRIAL BY JURY FULLY TO THE EXTENT THAT ANY SUCH RIGHT SHALL NOW OR HEREAFTER EXIST WITH REGARD TO THE LOAN DOCUMENTS, OR ANY CLAIM, COUNTERCLAIM OR OTHER ACTION ARISING IN CONNECTION THEREWITH. THIS WAIVER OF RIGHT TO TRIAL BY JURY IS GIVEN KNOWINGLY AND VOLUNTARILY BY BORROWER AND LENDER, AND IS INTENDED TO ENCOMPASS INDIVIDUALLY EACH INSTANCE AND EACH ISSUE AS TO WHICH THE RIGHT TO A TRIAL BY JURY WOULD OTHERWISE ACCRUE. EITHER PARTY IS HEREBY AUTHORIZED TO FILE A COPY OF THIS PARAGRAPH IN ANY PROCEEDING AS CONCLUSIVE EVIDENCE OF THIS WAIVER BY THE OTHER.

10.9 Headings/Exhibits. The Section headings in this Agreement are included herein for convenience of reference only and shall not constitute a part of this Agreement for any other purpose. The Exhibits attached hereto, are hereby incorporated by reference as a part of the Agreement with the same force and effect as if set forth in the body hereof.

10.10 Severability. Wherever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement.

10.11 Preferences. Upon the occurrence and continuance of an Event of Default, Lender shall have the continuing and exclusive right to apply or reverse and reapply (or having so applied, to reverse and reapply) any and all payments by Borrower to any portion of the Debt. To the extent Borrower makes a payment to Lender, or Lender receives proceeds of any collateral, which is in whole or in part subsequently invalidated, declared to be fraudulent or preferential, set aside or required to be repaid to a trustee, receiver or any other party under any bankruptcy law, state or federal law, common law or equitable cause, then, to the extent of such payment or proceeds received, the Debt or part thereof intended to be satisfied shall be revived and continue in full force and effect, as if such payment or proceeds had not been received by Lender. This provision shall survive the expiration or termination of this Agreement and the repayment of the Debt.

10.12 Waiver of Notice. Borrower shall not be entitled to any notices of any nature whatsoever from Lender except with respect to matters for which this Agreement or any other Loan Document specifically and expressly requires the giving of notice by Lender to Borrower and except with respect to matters for which Borrower is not, pursuant to applicable Legal Requirements, permitted to waive the giving of notice. Borrower hereby expressly waives the right to receive any notice from Lender with respect to any matter for which no Loan Document specifically and expressly requires the giving of notice by Lender to Borrower.

10.13 Remedies of Borrower. If a claim or adjudication is made that Lender or any of its agents, including Servicer, has acted unreasonably or unreasonably delayed acting in any case where by law or under any Loan Document, Lender or any such agent, as the case may be, has an obligation to act reasonably or promptly, Borrower agrees that neither Lender nor its agents, including Servicer, shall be liable for any monetary damages, and Borrower's sole remedy shall be to commence an action seeking injunctive relief or declaratory judgment. Any action or

proceeding to determine whether Lender has acted reasonably shall be determined by an action seeking declaratory judgment. Borrower specifically waives any claim against Lender and its agents, including Servicer, with respect to actions taken by Lender or its agents on Borrower's behalf, except for the gross negligence or willful misconduct of Servicer.

10.14 Prior Agreements. This Agreement and the other Loan Documents contain the entire agreement of the parties hereto and thereto in respect of the transactions contemplated hereby and thereby, and all prior agreements, understandings and negotiations among or between such parties, whether oral or written, are superseded by the terms of this Agreement and the other Loan Documents.

10.15 Offsets, Counterclaims and Defenses. Borrower hereby waives the right to assert a counterclaim, other than a compulsory counterclaim, in any action or proceeding brought against it by Lender or its agents, including Servicer, or otherwise offset any obligations to make payments required under the Loan Documents. Any assignee of Lender's interest in and to the Loan Documents shall take the same free and clear of all offsets, counterclaims or defenses which Borrower may otherwise have against any assignor of such documents, and no such offset, counterclaim or defense shall be interposed or asserted by Borrower in any action or proceeding brought by any such assignee upon such documents, and any such right to interpose or assert any such unrelated offset, counterclaim or defense in any such action or proceeding is hereby expressly waived by Borrower.

10.16 Publicity. All news releases, publicity or advertising by Borrower or its Affiliates through any media intended to reach the general public, which refers to the Loan Documents, the Loan, Lender, a Loan purchaser, the Servicer or the trustee in a Secondary Market Transaction, shall be subject to the prior written approval of Lender; provided, however that the Guarantor or its Affiliates shall be each entitled to make without the approval of Lender any public announcement of, or any public filing relating to the foregoing, if such announcement is required to comply with laws or any listing agreement with any national securities exchange or inter-dealer quotation system or in the opinion of legal counsel a disclosure directly resulting from Guarantor's status as a public company. Lender shall have the right to issue any of the foregoing without Borrower's approval

10.17 No Usury. Borrower and Lender intend at all times to comply with applicable state law or applicable United States federal law (to the extent that it permits Lender to contract for, charge, take, reserve or receive a greater amount of interest than under state law) and that this Section 10.17 shall control every other agreement in the Loan Documents. If the applicable law (state or federal) is ever judicially interpreted so as to render usurious any amount called for under the Note or any other Loan Document, or contracted for, charged, taken, reserved or received with respect to the Debt, or if Lender's exercise of the option to accelerate the maturity of the Loan or any prepayment by Borrower results in Borrower having paid any interest in excess of that permitted by applicable law, then it is Borrower's and Lender's express intent that all excess amounts theretofore collected by Lender shall be credited against the unpaid Principal and all other Debt (or, if the Debt has been or would thereby be paid in full, refunded to Borrower), and the provisions of the Loan Documents immediately be deemed reformed and the amounts thereafter collectible thereunder reduced, without the necessity of the execution of any new document, so as to comply with applicable law, but so as to permit the recovery of the

fullest amount otherwise called for thereunder. All sums paid or agreed to be paid to Lender for the use, forbearance or detention of the Loan shall, to the extent permitted by applicable law, be amortized, prorated, allocated, and spread throughout the full stated term of the Loan until payment in full so that the rate or amount of interest on account of the Debt does not exceed the maximum lawful rate from time to time in effect and applicable to the Debt for so long as the Debt is outstanding. Notwithstanding anything to the contrary contained in any Loan Document, it is not the intention of Lender to accelerate the maturity of any interest that has not accrued at the time of such acceleration or to collect unearned interest at the time of such acceleration.

10.18 Conflict; Construction of Documents. In the event of any conflict between the provisions of this Agreement and any of the other Loan Documents, the provisions of this Agreement shall control. The parties hereto acknowledge that each is represented by separate counsel in connection with the negotiation and drafting of the Loan Documents and that the Loan Documents shall not be subject to the principle of construing their meaning against the party that drafted them.

10.19 No Third Party Beneficiaries. The Loan Documents are solely for the benefit of Lender and Borrower and nothing contained in any Loan Document shall be deemed to confer upon anyone other than the Lender and Borrower any right to insist upon or to enforce the performance or observance of any of the obligations contained therein.

10.20 Yield Maintenance Premium. Borrower acknowledges that (a) Lender is making the Loan in consideration of the receipt by Lender of all interest and other benefits intended to be conferred by the Loan Documents that is not prepayable prior to the Stated Maturity Date and (b) if payments of Principal are made to Lender prior to the regularly scheduled due date for such payment, for any reason whatsoever, including as a result of Lender's acceleration of the Loan after an Event of Default, by operation of law or otherwise, Lender will not receive all such interest and other benefits and may, in addition, incur costs. For these reasons, and to induce Lender to make the Loan, Borrower expressly waives any right or privilege to prepay the Loan except as otherwise may be specifically permitted herein and agrees that, except as expressly provided in Sections 2.3.4 and 7.4.2, all prepayments, if any, will be accompanied by the Yield Maintenance Premium. Such Yield Maintenance Premium shall be required whether payment is made by Borrower, by a Person on behalf of Borrower, or by the purchaser at any foreclosure sale, and may be included in any bid by Lender at such sale. Borrower further acknowledges that (A) it is a knowledgeable real estate developer and/or investor; (B) it fully understands the effect of the provisions of this Section 10.20, as well as the other provisions of the Loan Documents; (C) the making of the Loan by Lender at the Interest Rate and other terms set forth in the Loan Documents are sufficient consideration for Borrower's obligation to pay a Yield Maintenance Premium (if required); and (D) Lender would not make the Loan on the terms set forth herein without the inclusion of such provisions. Borrower also acknowledges that the provisions of this Agreement limiting the right of prepayment and providing for the payment of the Yield Maintenance Premium and other charges specified herein were independently negotiated and bargained for, and constitute a specific material part of the consideration given by Borrower to Lender for the making of the Loan except as expressly permitted hereunder.

10.21 Assignment. The Loan, the Note, the Loan Documents and/or Lender's rights, title, obligations and interests therein may be assigned by Lender and any of its successors and assigns to any Person at any time in its discretion, in whole or in part, whether by operation of law (pursuant to a merger or other successor in interest) or otherwise. Upon such assignment, all references to Lender in this Loan Agreement and in any Loan Document shall be deemed to refer to such assignee or successor in interest and such assignee or successor in interest shall thereafter stand in the place of Lender. Borrower may not assign its rights, title, interests or obligations under this Loan Agreement or under any of the Loan Documents.

10.22 Counterparts. This Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be an original, but all of which shall together constitute one and the same instrument.

[NO FURTHER TEXT ON THIS PAGE]

IN WITNESS WHEREOF, the parties hereto have caused this Loan Agreement to be duly executed by their duly authorized representatives, all as of the day and year first above written.

2525 N WOODLAWN VSTRM WICHITA KS, LLC,
a Delaware limited liability company

By: _____
Name:
Its: Vice President

CI05 CLINTONVILLE WI LLC, a Delaware
limited liability company

By: _____
Name:
Its: Vice President

MSI05-3 LLC, a Delaware limited liability company

By: _____
Name:
Its: Vice President

IXIS REAL ESTATE CAPITAL INC.

By: _____
Name:
Title:

By: _____
Name:
Title:

Schedule 1
Index of Other Definitions

“Act” – Schedule 4
“Annual Budget” — 6.3.5
“Applicable Taxes” — 2.2.3
“Award” — 7.3.2
“Bankruptcy Action” – Schedule 4
“Bankruptcy Code” – Mortgage
“Bankruptcy Proceeding” — 4.7
“Borrower’s Recourse Liabilities” — 10.1
“Buyer” — 5.16
“Capital Budget” — 6.3.5
“Capital Reserve Subaccount” — 3.4
“Cash Management Accounts” — 3.9
“Casualty” — 7.2.1
“Casualty/Condemnation Prepayment” — 2.3.2
“Casualty/Condemnation Subaccount” — 3.7
“Clearing Account” — 3.1
“Clearing Bank” — 3.1
“Condemnation” — 7.3.1
“Defeasance” — 2.3.3
“Defeasance Date” — 2.3.3
“Defeasance Deposit” — 2.3.3
“Defeased Note” — 2.3.3
“Deposit Account” — 3.1
“Direct Pay Agreement” – Definition of Ground Lease
“Eligible Account” — Deposit Account Agreement
“Embargoed Person” – 5.19
“Environmental Laws” — 4.19
“Equipment” — Mortgage
“Full Defeasance” — 2.3.3
“Hazardous Substances” — 4.19
“Improvements” — Mortgage
“Indemnified Liabilities” — 5.18
“Indemnified Party” — 5.18
“Independent Director” – Schedule 4
“Independent Manager” – Schedule 4
“Insurance Premiums” — 7.1.2
“Insured Casualty” — 7.2.2
“Investor” — 9.1
“Late Payment Charge” — 2.5.3
“Liabilities” — 9.3
“Licenses” — 4.10
“Loan” — 2.1

“Monthly Debt Service Payment Amount” — 2.2.1
“Monthly Debt Service Subaccount” — 3.10(a)
“New Mezzanine Loan” — 9.4
“Notice” — 6.1
“Operating Budget” — 6.3.5
“Operating Expense Subaccount” — 3.6
“Partial Defeasance” — 2.3.3
“Permitted Investments” — Deposit Account Agreement
“Policies” — 7.1.2
“Principal” — 2.1
“Proceeds” — 7.2.2
“Provided Information” — 9.1
“Registration Statement” — 9.1.3
“Remedial Work” — 5.7.2
“Rent Roll” — 4.15
“Required Repairs Subaccount” — 3.2.2
“Required Records” — 6.3.6
“Required Repairs” — 3.2.1
“Required Repairs Subaccount” — 3.2.2
“Restoration” — 7.4.1
“Rollover Reserve Subaccount” — 3.5
“Scheduled Defeasance Payments” — 2.3.3
“Secondary Market Transaction” — 9.1
“Securities” — 9.1.1
“Security Agreement” — 2.3.3
“Security Deposit Account” — 3.8
“Security Deposit Subaccount” — 3.8
“Significant Casualty” — 7.2.2
“Single Member Bankruptcy Remote LLC” — Schedule 4
“Sole Member” — Schedule 4
“Special Member” — Schedule 4
“Special Purpose Bankruptcy Remote Entity” — Schedule 4
“Special Transfer” — 5.16
“Springing Recourse Event” — 10.1
“Subaccounts” — 3.1
“Successor Borrower” — 2.3.3
“Successor Guarantor” — 5.16
“Tax and Insurance Subaccount” — 3.3
“Undefeased Note” — 2.3.3

Schedule 2

Required Repairs

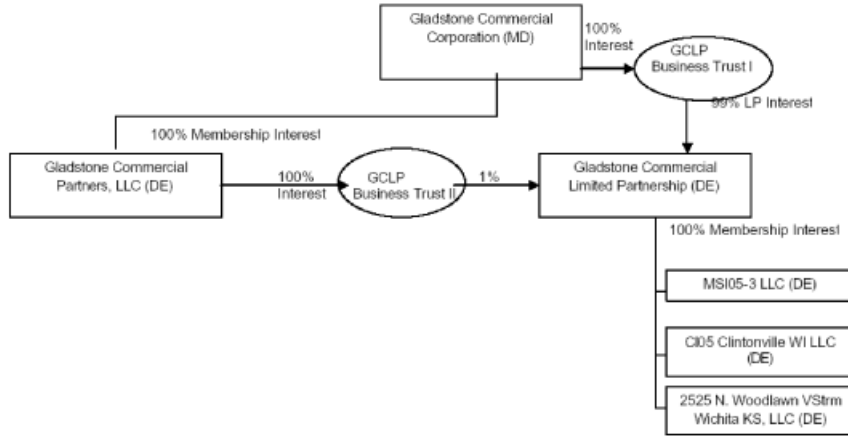
Converting Property: Borrower shall perform or shall cause the tenant under the Property Lease for the Converting Property to perform on or before June 1, 2006 the roof replacement required pursuant to that certain side letter dated as of October 31, 2005 between CI05 Clintonville WI LLC, RF Associates, LLC and Converting, Inc.

Spinners Property: Borrower shall perform or shall cause the tenant under the Property Lease for the Spinners Property to perform on or before August 31, 2010 the deferred capital improvements required pursuant to that certain side letter dated September 1, 2005 between MSI05-3 LLC and Metal Spinners, Inc.

Schedule 3
Organization of Borrower

Last Updated 01/24/06
Pending Entities: None

GLADSTONE COMMERCIAL
ORGANIZATION CHART



Schedule 4

Definition of Special Purpose Bankruptcy Remote Entity

A “*Special Purpose Bankruptcy Remote Entity*” means (x) a limited liability company that is a Single Member Bankruptcy Remote LLC or (y) a corporation, limited partnership or limited liability company which at all times since its formation and at all times thereafter

(i) was and will be organized solely for the purpose of (A) owning the Property or (B) acting as a general partner of the limited partnership that owns the Property or member of the limited liability company that owns the Property;

(ii) has not engaged and will not engage in any business unrelated to (A) the ownership of the Property, (B) acting as general partner of the limited partnership that owns the Property or (C) acting as a member of the limited liability company that owns the Property, as applicable;

(iii) has not had and will not have any assets other than those related to the Property or its partnership or member interest in the limited partnership or limited liability company that owns the Property, as applicable;

(iv) has not engaged, sought or consented to and will not engage in, seek or consent to any dissolution, winding up, liquidation, consolidation, merger, asset sale (except as expressly permitted by this Agreement), transfer of partnership or membership interests or the like, or amendment of its limited partnership agreement, articles of incorporation, or operating agreement (as applicable);

(v) if such entity is a limited partnership, has and will have, as its only general partner a single purpose entity that is a corporation;

(vi) if such entity is a corporation, has and will have at least one Independent Director, and has not caused or allowed and will not cause or allow the board of directors of such entity to take any action requiring the unanimous affirmative vote of one hundred percent (100%) of the members of its board of directors unless all of the directors and an Independent Director shall have participated in such vote;

(vii) if such entity is a limited liability company, has and will have at least one member that has been and will be a single purpose entity that is the managing member of such limited liability company;

(viii) if such entity is a limited liability company, has and will have articles of organization, a certificate of formation and/or an operating agreement, as applicable, providing that (A) such entity will dissolve only upon the bankruptcy of the managing member, (B) the vote of a majority-in-interest of the remaining members is sufficient to continue the life of the limited liability company in the event of such bankruptcy of the managing member and (C) if the vote of a majority-in-interest of the remaining members to continue the life of the limited liability company following the bankruptcy of the managing member is not obtained, the limited liability company may not liquidate the Property without the consent of the applicable Rating

Agencies for as long as the Loan is outstanding;

(ix) has not, and without the unanimous consent of all of its partners, directors or members (including any Independent Director and/or Independent Manager), as applicable, will not, with respect to itself or to any other entity in which it has a direct or indirect legal or beneficial ownership interest, take any Bankruptcy Action;

(x) has maintained and will maintain adequate capital in light of its contemplated business operations;

(xi) has not failed and will not fail to correct any known misunderstanding regarding the separate identity of such entity;

(xii) has maintained and will maintain its accounts, books and records separate from any other Person and will file its own tax returns;

(xiii) has maintained and will maintain its books, records, resolutions and agreements as official records;

(xiv) has not commingled and will not commingle its funds or assets with those of any other Person;

(xv) has held and will hold its assets in its own name;

(xvi) has conducted and will conduct its business in its name only, and has not and will not use any trade name,

(xvii) has maintained and will maintain its financial statements, accounting records and other entity documents separate from any other Person;

(xviii) has paid and will pay its own liabilities, including the salaries of its own employees, out of its own funds and assets;

(xix) has observed and will observe all partnership, corporate or limited liability company formalities, as applicable;

(xx) has maintained and will maintain an arm's-length relationship with its Affiliates;

(xxi) (a) if such entity owns the Property, has and will have no indebtedness other than the Permitted Indebtedness, or

(b) if such entity acts as the general partner of a limited partnership which owns the Property, has and will have no indebtedness other than unsecured trade payables in the ordinary course of business relating to acting as general partner of the limited partnership which owns the Property which (1) do not exceed, at any time, \$10,000 and (2) are paid within thirty (30) days of the date incurred, or

(c) if such entity acts as a managing member of a limited liability company

which owns the Property, has and will have no indebtedness other than unsecured trade payables in the ordinary course of business relating to acting as a member of the limited liability company which owns the Property which (1) do not exceed, at any time, \$10,000 and (2) are paid within thirty (30) days of the date incurred;

(xxii) has not and will not assume or guarantee or become obligated for the debts of any other Person or hold out its credit as being available to satisfy the obligations of any other Person except for the Loan;

(xxiii) has not and will not acquire obligations or securities of its partners, members or shareholders;

(xxiv) has allocated and will allocate fairly and reasonably shared expenses, including shared office space, and uses separate stationery, invoices and checks;

(xxv) except in connection with the Loan, has not pledged and will not pledge its assets for the benefit of any other Person;

(xxvi) has held itself out and identified itself and will hold itself out and identify itself as a separate and distinct entity under its own name and not as a division or part of any other Person;

(xxvii) has maintained and will maintain its assets in such a manner that it will not be costly or difficult to segregate, ascertain or identify its individual assets from those of any other Person;

(xxviii) has not made and will not make loans to any Person;

(xxix) has not entered into or been a party to, and will not enter into or be a party to, any transaction with its partners, members, shareholders or Affiliates except in the ordinary course of its business and on terms which are intrinsically fair and are no less favorable to it than would be obtained in a comparable arm's-length transaction with an unrelated third party; and

(xxx) has and will have no obligation to indemnify its partners, officers, directors, members or Special Members, as the case may be, or has such an obligation that is fully subordinated to the Debt and will not constitute a claim against it if cash flow in excess of the amount required to pay the Debt is insufficient to pay such obligation.

"Independent Director" means in the case of a corporation, a natural person who, for the five (5) year period prior to his or her appointment as Independent Director has not been, and during the continuation of his or her service as Independent Director is not, directly or indirectly:

(i) an employee, manager, stockholder, director, member, partner, officer, attorney or counsel of the corporation or any of its Affiliates (other than his or her service as an Independent Director of the corporation),

(ii) a creditor, customer of, or supplier or other Person who derives any of its purchases or revenues from its activities with the corporation or any of its shareholders or

Affiliates (other than his or her service as an Independent Director if such Person has been provided by a nationally-recognized company that provides professional independent managers),

(iii) a Person controlling or under common control with any such employee, manager, stockholder, director, member, partner, officer, attorney, counsel, customer, supplier or other Person, or

(iv) any member of the immediate family (including a grandchild or sibling) of a person described in clauses (i), (ii) or (iii) immediately above. A natural person who otherwise satisfies the foregoing definition shall not be disqualified from serving as an Independent Director of the corporation because such person is an independent director of a "Special Purpose Bankruptcy Remote Entity" affiliated with the corporation that does not own a direct or indirect equity interest in the corporation or any entity that is a co-borrower with the corporation if such individual is an independent director provided by a nationally-recognized company that provides professional independent directors.

"Independent Manager" means in the case of a limited liability company, (a) a member that is a single purpose entity, (b) a single purpose entity that is not a member or (c) a natural person who, for the five (5) year period prior to his or her appointment as Independent Manager is not, directly or indirectly:

(i) an employee, manager, stockholder, director, member, partner, officer, attorney or counsel of the limited liability company or any of its Affiliates (other than his or her service as an Independent Manager or Special Member of the limited liability company),

(ii) a creditor, customer of, or supplier or other Person who derives any of its purchases or revenues from its activities with the limited liability company or any of its members or Affiliates (other than his or her service as an Independent Manager if such Person has been provided by a nationally-recognized company that provides professional independent managers),

(iii) a Person controlling or under common control with any such employee, manager, stockholder, director, member, partner, officer, attorney, counsel, customer, supplier or other Person, or

(iv) any member of the immediate family (including grandchildren or siblings) of a person described in clauses (i), (ii) or (iii) immediately above. A natural person who otherwise satisfies the foregoing definition shall not be disqualified from serving as an Independent Manager of the limited liability company because such person is an independent manager of a "Special Purpose Bankruptcy Remote Entity" affiliated with the limited liability company that does not own a direct or indirect equity interest in the limited liability company or any entity that is a co-borrower with the limited liability company if such individual is an independent manager provided by a nationally-recognized company that provides professional independent managers.

"Single Member Bankruptcy Remote LLC" means a limited liability company organized under the laws of the State of Delaware which at all times since its formation and at all times thereafter

(i) complies with the following clauses of the definition of Special Purpose Bankruptcy Remote Entity above: (i)(A), (ii)(A), (iii), (iv), (ix), (x), (xi) and (xiii) through (xxx);

(ii) has maintained and will maintain its accounts, books and records separate from any other person;

(iii) has and will have an operating agreement which provides that the business and affairs of Borrower shall be managed by or under the direction of

(A) a board of one (1) or more directors designated by the sole member of the Single Member Bankruptcy Remote LLC (the "**Sole Member**"), and at all times there shall be at least one (1) duly appointed Independent Director on the board of directors, and the board of directors will not take any action requiring the unanimous affirmative vote of one hundred percent (100%) of the members of its board of directors unless, at the time of such action there is at least one (1) member of the board of directors who is an Independent Director, and all of the directors and the Independent Director shall have participated in such vote or

(B) Sole Member, provided that at all times there shall be at least one (1) Independent Manager designated by Sole Member and the operating agreement provides that Sole Member shall not take any Bankruptcy Actions without the affirmative vote of the Independent Manager;

(iv) has and will have an operating agreement which provides that, as long as any portion of the Debt remains outstanding,

(A) upon the occurrence of any event that causes Sole Member to cease to be a member of Borrower (other than (x) upon an assignment by Sole Member of all of its limited liability company interest in Borrower and the admission of the transferee, if permitted pursuant to the organizational documents of Borrower and the Loan Documents, or (y) the resignation of Sole Member and the admission of an additional member of Borrower, if permitted pursuant to the organizational documents of Borrower and the Loan Documents), one of the Independent Managers shall, without any action of any Person and simultaneously with Sole Member ceasing to be a member of Borrower, automatically be admitted as the sole member of Borrower (the "**Special Member**") and shall preserve and continue the existence of Borrower without dissolution,

(B) no Special Member may resign or transfer its rights as Special Member unless a successor Special Member has been admitted to Borrower as a Special Member, and

(C) except as expressly permitted pursuant to the terms of this Agreement, Sole Member may not resign and no additional member shall be admitted to Borrower;

(v) has and will have an operating agreement which provides that, as long as any portion of the Debt remains outstanding,

(A) Borrower shall be dissolved, and its affairs shall be wound up only upon the first to occur of the following: (x) the termination of the legal existence of the last remaining member of Borrower or the occurrence of any other event which terminates the continued membership of the last remaining member of Borrower in Borrower unless the business of Borrower is continued in a manner permitted by its operating agreement or the Delaware Limited Liability Company Act (the "**Act**") or (y) the entry of a decree of judicial dissolution under

Section 18 802 of the Act;

(B) upon the occurrence of any event that causes the last remaining member of Borrower to cease to be a member of Borrower or that causes Sole Member to cease to be a member of Borrower (other than (x) upon an assignment by Sole Member of all of its limited liability company interest in Borrower and the admission of the transferee, if permitted pursuant to the organizational documents of Borrower and the Loan Documents, or (y) the resignation of Sole Member and the admission of an additional member of Borrower, if permitted pursuant to the organizational documents of Borrower and the Loan Documents), to the fullest extent permitted by law, the personal representative of such member shall be authorized to, and shall, within ninety (90) days after the occurrence of the event that terminated the continued membership of such member in Borrower, agree in writing to continue the existence of Borrower and to the admission of the personal representative or its nominee or designee, as the case may be, as a substitute member of Borrower, effective as of the occurrence of the event that terminated the continued membership of such member in Borrower;

(C) the bankruptcy of Sole Member or a Special Member shall not cause such member or Special Member, respectively, to cease to be a member of Borrower and upon the occurrence of such an event, the business of Borrower shall continue without dissolution;

(D) in the event of dissolution of Borrower, Borrower shall conduct only such activities as are necessary to wind up its affairs (including the sale of the assets of Borrower in an orderly manner), and the assets of Borrower shall be applied in the manner, and in the order of priority, set forth in Section 18 804 of the Act; and

(E) to the fullest extent permitted by law, each of Sole Member and the Special Members shall irrevocably waive any right or power that they might have to cause Borrower or any of its assets to be partitioned, to cause the appointment of a receiver for all or any portion of the assets of Borrower, to compel any sale of all or any portion of the assets of Borrower pursuant to any applicable law or to file a complaint or to institute any proceeding at law or in equity to cause the dissolution, liquidation, winding up or termination of Borrower.

“**Bankruptcy Action**” means, with respect to any Person, if such Person

- (i) makes an assignment for the benefit of creditors,
- (ii) files a voluntary petition in bankruptcy,
- (iii) is adjudged a bankrupt or insolvent, or has entered against it an order for relief, in any bankruptcy or insolvency proceedings,
- (iv) consents to or files a petition or answer seeking for itself any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any statute, law or regulation,
- (v) files an answer or other pleading admitting or failing to contest the material allegations of a petition filed against it in any bankruptcy or insolvency proceeding,

(vi) seeks, consents to or acquiesces in the appointment of a trustee, receiver, liquidator, sequestrator, custodian or any similar official of or for such Person or of all or any substantial part of its properties,

(vii) one hundred twenty (120) days after the commencement of any proceeding against such Person seeking reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any statute, law or regulation, if the proceeding has not been dismissed,

(viii) within ninety (90) days after the appointment without such Person's consent or acquiescence of a trustee, receiver or liquidator of such Person or of all or any substantial part of its properties, the appointment is not vacated or stayed, or within ninety (90) days after the expiration of any such stay, the appointment is not vacated or

(ix) takes any action in furtherance of any of the foregoing.

Schedule 5

Allocated Loan Amounts

<u>Property</u>	<u>Loan Allocation</u>
T-Mobile Property	\$ 9,032,280
Wohlert Property	\$ 747,270
Growth Property	\$ 779,760
Rock Falls Property	\$ 714,780
Converting Property	\$ 3,625,910
Total	\$ 14,900,000

PROMISSORY NOTE

\$ 14,900,000.00

April 27, 2006

For value received, 2525 N WOODLAWN VSTRM WICHITA KS, LLC, a Delaware limited liability company, CI05 CLINTONVILLE WI LLC, a Delaware limited liability company and MSI05-3 LLC, a Delaware limited liability company, having an address at in care of Gladstone Commercial Corporation, 1521 Westbranch Drive, Suite 200, McLean, Virginia 22102 (collectively "**Maker**"), promises to pay to the order of IXIS REAL ESTATE CAPITAL INC., a New York corporation, at its principal place of business at 9 West 57th Street, New York, New York 10019 (together with its successors and assigns "**Payee**"), or at such place as the holder hereof may from time to time designate in writing, the principal sum of FOURTEEN MILLION NINE HUNDRED THOUSAND and No/100 Dollars (\$14,900,000.00), in lawful money of the United States of America, with interest on the unpaid principal balance from time to time outstanding to be computed in the manner, at the times and, subject to the provisions of Section 2.2.2 of the Loan Agreement (as hereinafter defined), at the Interest Rate provided in that certain Loan Agreement (as amended, modified, restated, consolidated, replaced or supplemented from time to time, the "**Loan Agreement**") dated as of the date hereof between Maker and Payee. Capitalized terms used but not defined herein shall have the respective meanings given such terms in the Loan Agreement.

1. Payment Terms. Maker shall pay the Monthly Debt Service Payment Amount to Payee in the manner and at the times specified in Article 2 of the Loan Agreement, which payments shall be applied in the order of priority set forth in said Article 2. Maker shall also pay to Payee interest at the Default Rate, Late Payment Charges, the Yield Maintenance Premium, if any, and all other amounts due and payable as and when provided for in the Loan Agreement. The balance of the Principal, together with all accrued and unpaid interest thereon, and all other amounts payable to Payee hereunder, under the Loan Agreement and under the other Loan Documents shall be due and payable on the Maturity Date.

2. Loan Documents. This Note is evidence of that certain loan made by Payee to Maker contemporaneously herewith and is executed pursuant to the terms and conditions of the Loan Agreement. This Note is secured by and entitled to the benefits of the Mortgages and the other Loan Documents. Reference is made to the Loan Documents for a description of the nature and extent of the security afforded thereby, the rights of the holder hereof in respect of such security, the terms and conditions upon which this Note is secured and the rights and duties of the holder of this Note. All of the agreements, conditions, covenants, provisions and stipulations contained in the Loan Agreement and the other Loan Documents are by this reference hereby made part of this Note to the same extent and with the same force and effect as if they were fully set forth in this Note, and Maker covenants and agrees to keep and perform the same, or cause the same to be kept and performed, in accordance with their terms.

3. Loan Acceleration; Prepayment. The Debt shall, without notice, become immediately due and payable at the option of Payee upon the happening of any Event of Default. This Note may not be prepaid except as otherwise expressly provided in, and subject to the terms and conditions, of the Loan Agreement.

4. Revival. To the extent that Maker makes a payment or Payee receives any payment or proceeds for Maker's benefit, which are subsequently invalidated, declared to be fraudulent or preferential, set aside or required to be repaid to a trustee, debtor in possession, receiver, custodian or any other party under the Bankruptcy Code or any other bankruptcy law, common law or equitable cause, then, to such extent, the obligations of Maker hereunder intended to be satisfied shall be revived and continue as if such payment or proceeds had not been received by Payee.

5. Amendments. This Note may not be modified, amended, waived, extended, changed, discharged or terminated orally or by any act or failure to act on the part of Maker or Payee, but only by an agreement in writing signed by the party against whom enforcement of any modification, amendment, waiver, extension, change, discharge or termination is sought. Whenever used, the singular number shall include the plural, the plural the singular, and the words "*Payee*" and "*Maker*" shall include their respective successors, assigns, heirs, executors and administrators. If Maker consists of more than one person or party, the obligations and liabilities of each such person or party shall be joint and several.

6. Waiver. Maker and all others who may become liable for the payment of all or any part of the Debt do hereby severally waive presentment and demand for payment, notice of dishonor, protest, notice of protest, notice of nonpayment, notice of intent to accelerate the maturity hereof and of acceleration. No release of any security for the Debt or any Person liable for payment of the Debt, no extension of time for payment of this Note or any installment hereof, and no alteration, amendment or waiver of any provision of the Loan Documents made by agreement between Payee and any other person or party shall release, modify, amend, waive, extend, change, discharge, terminate or affect the liability of Maker, and any other Person or party who may become liable under the Loan Documents, for the payment of all or any part of the Debt.

7. Exculpation. It is expressly agreed that recourse against Maker for failure to perform and observe its obligations contained in this Note shall be limited as and to the extent provided in Section 10.1 of the Loan Agreement.

8. Notices. All notices or other communications required or permitted to be given pursuant hereto shall be given in the manner specified in the Loan Agreement directed to the parties at their respective addresses as provided therein.

9. Governing Law. THIS NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK AND THE APPLICABLE LAWS OF THE UNITED STATES OF AMERICA, WHICH LAWS OF THE UNITED STATES OF AMERICA SHALL, TO THE EXTENT THE SAME PREEMPT SUCH STATE LAWS, GOVERN AND BE CONTROLLING.

IN WITNESS WHEREOF, Maker has executed this Note as of the date first written above.

MAKER:

2525 N WOODLAWN VSTRM WICHITA KS, LLC, a Delaware limited liability company

By: /s/ Arthur S. Cooper
Name: Arthur S. Cooper
Its: Vice President

CI05 CLINTONVILLE WI LLC, a Delaware limited liability company

By: /s/ Arthur S. Cooper
Name: Arthur S. Cooper
Its: Vice President

MSI05-3 LLC, a Delaware limited liability company

By: /s/ Arthur S. Cooper
Name: Arthur S. Cooper
Its: Vice President

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

I, David Gladstone, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Gladstone Commercial Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 2, 2006

/s/ DAVID GLADSTONE

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

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

I, Harry Brill, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Gladstone Commercial Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 2, 2006

/s/ HARRY BRILL

Harry Brill
Chief Financial Officer

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned, the Chief Executive Officer of Gladstone Commercial Corporation (the "Company"), hereby certifies on the date hereof, pursuant to 18 U.S.C. §1350(a), as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 ("Form 10-Q"), filed concurrently herewith by the Company, fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Dated: May 2, 2006

/s/ David Gladstone

David Gladstone
Chief Executive Officer

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned, the Chief Financial Officer of Gladstone Commercial Corporation (the "Company"), hereby certifies on the date hereof, pursuant to 18 U.S.C. §1350(a), as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 ("Form 10-Q"), filed concurrently herewith by the Company, fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Dated: May 2, 2006

/s/ Harry Brill

Harry Brill
Chief Financial Officer