



COMPANY UPDATE/ESTIMATE CHANGE

Key Metrics

GOOD - NASDAQ - 2/15/17	\$19.99
2-3 Year Price Target	\$23.50
52-Week Range	\$13.41 - \$20.68
Shares Outstanding (mm)	25.0
Market Cap. (\$mm)	\$499.8
1-Mo. Average Daily Volume	36,512
Institutional Ownership	32.0%
Debt/Total Capital Dec-16	49.0%
Est 3-year FFO Growth Rate	1.0%
Est 3-year Dividend Growth Rate	0.0%
Book Value	\$10.67
Annual Dividend Rate	\$ 1.50
Dividend Yield	7.50%
Est. Fixed Charge Coverage	2.3X

FFO

	2015	2016	Prior 2017E	Current 2017E
1Q	\$0.38 --	\$0.39	\$0.39	\$0.38
2Q	\$0.39 --	\$0.39	\$0.41	\$0.39
3Q	\$0.38 --	\$0.39	\$0.42	\$0.40
4Q	\$0.39 --	\$0.38	\$0.42	\$0.41
Year	\$1.54	\$1.55	\$1.65	\$1.58
P/E	13.0x	12.9x		12.7x

Note that quarters may not add due to rounding

Revenue (\$mm)

	2015	2016	Prior 2017E	Current 2017E
1Q	\$19.9 --	\$21.5	\$22.6	\$22.7
2Q	\$20.7 --	\$21.2	\$23.2	\$23.5
3Q	\$21.4 --	\$21.6	\$23.9	\$24.4
4Q	\$21.8 --	\$22.1	\$24.5	\$25.2
Year	\$83.8	\$86.4	\$94.2	\$95.8

Company Description: Gladstone Commercial Corp., headquartered in McLean, VA, is a real estate investment trust (REIT) that is focused on investments in industrial and commercial properties and mortgage loans, primarily to small to medium sized businesses.

Real Estate Investment Trusts

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Gladstone Commercial Corp.

GOOD -- NASDAQ – Long-term Buy-3

Conference Call Discussion

Investment Highlights

- Following an analysis of Q4 earnings and a discussion with management we are fine-tuning our 2017 FFO estimate down slightly to \$1.58 a share. We are increasing our expectation for equity being issued to fund acquisitions, as management continues to de-lever the balance sheet and shoots for a significantly lower debt to equity ratio. Some of this could be the result of an equity offering, although we believe most of the equity issued will be through the “at the market” (ATM) program and will be both common and preferred. We are also, slightly reducing our expectations for interest cost in the face of attractive refinancing opportunities, discussed later. We are initiating a projection of \$1.68 in FFO for 2018, although this number is dependent upon timing of equity offerings and the amount of acquisitions/investment made during the year.
- During the fourth quarter conference call management discussed their moves to modify the balance sheet, lowering the general leverage structure and reducing interest expense through refinancing and issuing more equity. They also discussed the potential to recycle capital through selling non-core properties. Based on our discussions with management we expect them to finance future investment with 50% debt/50% equity, with an emphasis on more equity.
- We are retaining our rating for GOOD at Long-term Buy. We are also retaining our price target at \$23.50 a share, a function of an increased multiple of 12.5 times our new 2020 projection, with an assumption of less leveraged balance sheet. We estimate that GOOD shares could provide investors with a total return of about 40% over the coming 2-3 years should the shares reach our target, a solid return, in our opinion, with an ongoing return around the monthly dividend payment that stands at 7.5%.

Note Important Disclosures on Pages 6-7.
Note Analyst Certification on Page 6.

Additional Conference Call Discussion

On the conference call management spent time discussing recent acquisitions as well as expectations for leasing activity and expected asset moves going forward. They noted that another property sale is likely during Q1, as GOOD currently has a property under contract for a sale to the existing tenant. They noted that current occupancy remains strong and that only one full property is currently vacant with a couple of others that are partially vacant. Management has two prospects to lease the entire vacant property and another for part of the space. The current occupancy rate stands at 97.9%, and management notes that since 2003 portfolio occupancy has never dropped below 96%. Management has been very diligent in underwriting to keep vacant space as low as possible. Note that less than 2% of the company's leased space is expiring between now and the end of 2018, which should result in occupancy remaining strong over the next several years.

They also discussed the company's expansion project, under which it is expanding a property for an existing tenant. Once that expansion is complete the tenant will be signing a new lease with the cap rate increasing to a very accretive 10.4% on the entire property.

On the capital raising front, management noted that it has been seeing its long-term mortgage availability moving up a bit in a volatile environment over the last several quarters. GOOD has continued to refinance significant debt in the past year, reducing interest expense. Management expects an additional \$35 million coming due in 2017 with a 5.6% average debt cost which management anticipates to refinance at 4 ¼-5.0% depending on the maturity length. Management continues its strategy of reducing its leverage and is attempting to finance its future purchases at about 50% debt/50% equity, with our estimate being that the company will be issuing about \$10-\$15 million a quarter in common and preferred stock under the ATM to satisfy the equity part of the equation.

As is typical on the call, David Gladstone once again noted that a big portion of the company's dividend is a return of capital, which reduces the cost basis of the shares, but means investors will not be paying taxes on that income in the current year. We note that the amount of return of capital in 2016 was a little over 70%, thus the investor will pay no taxes on that portion of the distribution in the current year, a very attractive attribute due to the company's highly levered capital structure and heavy concentration of preferred stock, which is allocated to the taxable portion of the income first. With that in mind, GOOD shares are more appropriate for taxable, rather than tax exempt accounts.

1st Quarter and 2017 Outlook

GOOD closed on a total of a little under \$70 million in acquisitions for the year, a little under our initial estimate for the year as the low share price through most of 2016 constrained investment. We are assuming approximately \$100 million will be closed in 2017 based on, the lack of early year acquisition activity, combined with the more attractive level of capital availability, with about \$50 million-plus in common and preferred issued to fund the purchases. We anticipate that acquisitions will be closed throughout the year, and that there will be no underwritten equity offering, but that the ATM will be used to finance this investment activity. We are also assuming an overall reduction in the interest rate on the corporate debt load, although this decline will end this year and tick up a little going forward.

Our Q1 estimate remains at \$0.38 a share. Our full year 2017 FFO estimate is now \$1.58 a share. On the fundamental front, we are projecting a modest level of growth in revenue, as rollover leases should see a little upside and the recent and future acquisitions should push rental income up as the year progresses. Our 2018 FFO estimate is \$1.68 a share.

Valuation

At current price levels GOOD shares remain attractively priced, in our opinion. The shares are trading at 12.2x our normalized 2017 FFO estimate, an attractive valuation, in our opinion, given the multiple of its peer group and GOOD's high dividend yield. We also note that near term FFO growth is likely to be lower than the peer group because of de-leveraging activity on the company's balance sheet. We note that relative

to the peer group, GOOD's shares are trading at a discount on a 2017 P/FFO basis, and we believe given its risk profile it should probably trade slightly closer to par.

Peer Group Comparison

Ranked by Market Cap.		Price	Current		2017E		17E/ 16		Price / FFO	
Mixed - Industrial / Office	Symbol	2/15/2017	Dividend	Yield	Payout Ratio	2016	2017E	Growth Rate	2016	2017E
Duke Realty Corp.	DRE	\$24.97	\$0.72	2.9%	57.6%	\$1.20	\$1.25	4.2%	20.8x	20.0x
Liberty Property Trust	LPT	\$38.56	\$1.90	4.9%	77.2%	\$3.29	\$2.46	-25.2%	11.7x	15.7x
Industrial REITs										
Prologis	PLD	\$49.41	\$1.68	3.4%	63.2%	\$2.36	\$2.66	12.7%	20.9x	18.6x
First Industrial Realty	FR	\$26.36	\$0.76	2.9%	50.0%	\$1.45	\$1.52	4.8%	18.2x	17.3x
EastGroup Properties	EGP	\$71.15	\$2.48	3.5%	58.6%	\$4.02	\$4.23	5.2%	17.7x	16.8x
First Potomac Realty Trust	FPO	\$10.17	\$0.40	3.9%	48.8%	\$1.05	\$0.82	-21.9%	9.7x	12.4x
Average		\$36.77	\$1.32	3.6%	61.4%	\$2.23	\$2.16	-3.2%	16.5x	17.0x
Gladstone Commercial	GOOD	\$19.99	\$1.50	7.5%	91.5%	\$1.54	\$1.64	6.5%	13.0x	12.2x

Note: First Potomac is rated Neutral by Hilliard Lyons; the rest are Not Rated.

Source: NAREIT, Baseline and Hilliard Lyons' estimates.

2016 numbers for FPO and FR are estimates.

Target Price: We are retaining our 2-3 year target price at \$23.50 per share, using our new 2020 FFO projection as investors will be evaluating GOOD shares on that number in two and a half years. Our target is based on a multiple of 12.5 times our projection, which we have moved up as risk will come down with the reduction in leverage. We believe this is a conservative multiple, given the current peer group multiple of 17.0 times on forward FFO, a 35% discount to the current group multiple. It is a little above GOOD's historic trading multiple, excluding the depths of the market dislocations in 2008 and 2009, which we believe is appropriate in a low interest rate environment.

Rating

Our rating on GOOD is Long-term Buy. We believe that the company is a quality, high yield investment for income-oriented investors willing to take on some risk based on real estate fundamentals and the associated risks. We believe the dividend is relatively safe and that management is very focused on defending its payment, noting that it did not cut the dividend during the depth of the recession in 2008 and 2009 while many of its peers were eliminating theirs, and with the company's dividend yield at just under 8% that this alone is almost enough to justify a positive rating, in our opinion, with most of the peers paying only 3-5%. GOOD management has traditionally been relatively conservative in how it has run its companies, and we anticipate that will continue in the future. As such, we are retaining our rating on GOOD shares at Long-term Buy, with a \$23.50 a share 2-3 year price target. The company's patience has been instrumental in it avoiding overpaying for properties and its relative dearth of non-paying or problem tenants, an indication of management's risk averse nature which makes it a comfortable investment for shareholders, in our view.

Suitability

GOOD has a suitability rating of 3 on our 1-4 scale. We find the company to have a diversified portfolio of properties with a long list of tenants and relatively long lease terms. Further, the company's occupancy rate is relatively high and the company's lease rollovers are limited over the next several years. On the other hand, the company's balance sheet is more levered than many of its peers, with a higher level of debt on its properties, leading to the lower suitability rating than many of the other REITs we follow.

Risk Factors in Achieving Our Target Price

Gladstone Commercial may not achieve our target price or within the time frame specified due to external factors beyond the company's control or due to internal factors. We believe these risk factors include:

Interest Rate Risk – Like all REITs, GOOD is interest rate sensitive. If short term interest rates were to rise, the spread between the company’s return yield and its cost of capital could shrink.

Asset Size – Gladstone Commercial, with market capitalization of approximately \$500 million, is one of the smallest REITs tracked by NAREIT. As such, it could be difficult to compete against other larger REITs for property acquisitions and in its attempts to raise capital.

Execution Risk – Gladstone Commercial’s unique acquisition strategy makes the company more dependent on the skills of David Gladstone and his management team, more so than other more “traditional” REITs in our opinion.

Operation Expense Risk – Results for the last three years have been significantly helped by the waiving of shareholder approved incentive fee. We note that while only a small amount of the fee was waived in the most recent quarter, due to two tenants leaving, more may be waived to allow cash flow to cover the dividend.

Capital Constraint Risk – With share prices below the peer group on both the company’s common and preferred stock, the company may be constrained in their ability to complete future deals due to a higher cost of capital. Further, if management does decide to undertake an offering to grow, dilution is likely to be fairly significant, which could easily result in GOOD missing our estimates.

Annual yield is calculated by dividing the distribution amount by the current market price of the security. For US income tax purposes, the Company may classify all or a portion of its distributions as dividends or other non-dividend distributions. Note that for some investors, for US income tax purposes all or a portion of the Company’s 2016 dividend or distribution was treated as return of capital and not as “dividend income” as reflected on the IRS Form 1099-Div for the 2016 tax year. The Company generally makes a final determination regarding the proper tax treatment of distributions after calendar year end. We urge each shareholder to consult with his or her own tax advisor to determine the tax consequences of the distributions received, including any state, local or foreign tax considerations.

	2014		2015		2016		2017E		Year							
	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2		Q3	Q4	Year				
Revenues	\$ 59,769	\$ 71,211	\$ 20,012	\$ 20,653	\$ 20,939	\$ 80,892	\$ 20,657	\$ 20,890	\$ 21,205	\$ 21,746	\$ 84,498	\$ 21,958	\$ 22,172	\$ 22,388	\$ 22,606	\$ 89,123
Base rental revenue	\$ -	\$ 465	\$ 324	\$ 282	\$ 285	\$ 1,121	\$ 385	\$ -	\$ -	\$ -	\$ 385	\$ -	\$ -	\$ -	\$ -	\$ -
Interest income	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest income, temp invest.	\$ 1,597	\$ 2,080	\$ 268	\$ 394	\$ 437	\$ 654	\$ 485	\$ 357	\$ 384	\$ 263	\$ 1,489	\$ 307	\$ 325	\$ 350	\$ 369	\$ 1,351
Tenant Recovery income	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 439	\$ 982	\$ 1,661	\$ 2,223	\$ 5,315
Acquisitions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total operating revenue	\$ 61,366	\$ 73,756	\$ 19,880	\$ 20,688	\$ 21,375	\$ 83,780	\$ 21,527	\$ 21,247	\$ 21,589	\$ 22,009	\$ 86,372	\$ 22,704	\$ 23,469	\$ 24,399	\$ 25,198	\$ 95,789
Equity income & other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Property Revenue	\$ 61,410	\$ 73,756	\$ 19,880	\$ 20,688	\$ 21,375	\$ 83,780	\$ 21,527	\$ 21,247	\$ 21,589	\$ 22,009	\$ 86,372	\$ 22,704	\$ 23,469	\$ 24,399	\$ 25,198	\$ 95,789
Expenses	\$ 3,349	\$ 4,712	\$ 962	\$ 1,178	\$ 1,612	\$ 5,296	\$ 1,610	\$ 1,434	\$ 1,410	\$ 1,435	\$ 5,889	\$ 1,635	\$ 1,597	\$ 1,598	\$ 1,638	\$ 6,468
Property Operating Expenses	\$ 768	\$ 1,437	\$ 196	\$ 255	\$ 138	\$ 622	\$ 9	\$ 117	\$ 149	\$ (14)	\$ 261	\$ 100	\$ 200	\$ 200	\$ 200	\$ 700
Due diligence expense	\$ 24,315	\$ 26,123	\$ 6,743	\$ 6,976	\$ 7,142	\$ 28,014	\$ 6,731	\$ 6,931	\$ 6,338	\$ 5,902	\$ 25,902	\$ 5,915	\$ 6,019	\$ 6,186	\$ 6,334	\$ 24,455
Net Interest Expense	\$ 7,682	\$ 8,630	\$ 2,887	\$ 2,992	\$ 1,819	\$ 9,543	\$ 1,883	\$ 1,881	\$ 1,947	\$ 2,074	\$ 7,785	\$ 1,941	\$ 1,987	\$ 2,074	\$ 2,142	\$ 8,153
REIT operating/adviser expenses	\$ 1,655	\$ 2,687	\$ 690	\$ 539	\$ 446	\$ 2,094	\$ 579	\$ 609	\$ 421	\$ 518	\$ 2,127	\$ 570	\$ 526	\$ 493	\$ 572	\$ 2,161
General & admin.	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Impairment Charges	\$ 22,827	\$ 28,865	\$ 8,207	\$ 8,947	\$ 9,006	\$ 35,288	\$ 4,133	\$ 4,3	\$ 1,786	\$ 187	\$ 2,016	\$ 9,708	\$ 9,862	\$ 10,005	\$ 10,146	\$ 39,721
Depreciation	\$ 60,596	\$ 66,692	\$ 19,685	\$ 20,887	\$ 20,785	\$ 81,479	\$ 19,988	\$ 20,177	\$ 21,510	\$ 19,822	\$ 81,497	\$ 19,869	\$ 20,201	\$ 20,566	\$ 21,031	\$ 81,657
Total Expenses	\$ 760	\$ (12,936)	\$ 195	\$ (199)	\$ 590	\$ 2,301	\$ 1,539	\$ 1,070	\$ 79	\$ 2,187	\$ 4,875	\$ 2,835	\$ 3,288	\$ 3,843	\$ 4,166	\$ 14,132
Income before credits, currency and disc	\$ 3,457	\$ 3,163	\$ 1,185	\$ 1,316	\$ -	\$ (1)	\$ 2,500	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Foreign Currency impacts	\$ -	\$ 1,277	\$ -	\$ -	\$ -	\$ 1,538	\$ 1,538	\$ -	\$ -	\$ -	\$ 585	\$ -	\$ -	\$ -	\$ -	\$ -
Other	\$ 4,217	\$ (8,496)	\$ 1,380	\$ 1,117	\$ 590	\$ 6,339	\$ 1,539	\$ 883	\$ 58	\$ 2,980	\$ 5,460	\$ 2,835	\$ 3,288	\$ 3,843	\$ 4,166	\$ 14,132
Taxes on real estate, net	\$ 7,138	\$ (7,380)	\$ 1,933	\$ 1,970	\$ 1,972	\$ 7,844	\$ 1,985	\$ 1,514	\$ 2,387	\$ 3,292	\$ 9,158	\$ 3,350	\$ 3,500	\$ 3,600	\$ 3,700	\$ 14,150
Management fee credit	\$ (2,921)	\$ (15,876)	\$ (553)	\$ (853)	\$ (1,382)	\$ (1,505)	\$ (426)	\$ (631)	\$ (2,329)	\$ (312)	\$ (3,089)	\$ (615)	\$ (212)	\$ 243	\$ 466	\$ (18)
Income from disc	\$ (0.22)	\$ (0.92)	\$ (0.03)	\$ (0.04)	\$ (0.06)	\$ (0.07)	\$ (0.02)	\$ (0.03)	\$ (0.10)	\$ (0.01)	\$ (0.16)	\$ (0.02)	\$ (0.01)	\$ 0.01	\$ 0.02	\$ (0.00)
Income before minority	\$ 1,419	\$ 1,55	\$ 0.39	\$ 0.39	\$ 0.39	\$ 1.54	\$ 0.39	\$ 0.39	\$ 0.40	\$ 0.39	\$ 1.54	\$ 0.39	\$ 0.39	\$ 0.40	\$ 0.42	\$ 1.58
Preferred/senior common dividends	\$ 13,090,061	\$ 17,243,396	\$ 20,210,975	\$ 20,833,787	\$ 21,403,808	\$ 22,163,664	\$ 20,210,975	\$ 22,545,285	\$ 23,509,054	\$ 24,024,280	\$ 23,180,976	\$ 24,474,280	\$ 25,044,280	\$ 25,624,280	\$ 26,084,280	\$ 25,306,780
Fully diluted shares	13,288,718	17,591,984	20,934,606	21,664,386	22,232,251	22,976,182	20,934,606	23,484,507	24,309,170	24,824,397	23,990,869	25,274,397	25,844,397	26,424,397	26,884,397	26,106,897
Dividends	\$ 1.50	\$ 1.50	\$ 0.38	\$ 0.38	\$ 0.38	\$ 1.50	\$ 0.38	\$ 0.38	\$ 0.38	\$ 0.38	\$ 1.50	\$ 0.38	\$ 0.38	\$ 0.38	\$ 0.42	\$ 1.50

Source: Company reports and Hilliard Lyons estimates

Table 5. Funds From Operations Calculation

Net income for common shareholders	-2,921	-15,876	-553	-853	-1,382	1,283	-1,505	-426	-631	-2,329	-312	-3,089	-515	-212	243	466	-18
Adjustments	22,827	28,865	8,207	8,947	9,006	35,288	9,133	9,205	9,459	9,720	37,517	9,708	9,862	10,005	10,146	38,721	
Depreciation and amort.	0	9,051	303	255	780	-187	369	508	2,247	-26	3,098	352	452	452	452	1,708	
Other	19,906	22,040	7,957	8,349	8,384	33,596	9,076	9,082	9,377	9,382	36,917	9,545	10,102	10,700	11,064	41,410	
Total funds from operations for common	19,906	22,040	7,957	8,349	8,384	33,596	9,076	9,082	9,377	9,382	36,917	9,545	10,102	10,700	11,064	41,410	
FFO to partnership units	\$ 1.50	\$ 1.50	\$ 0.39	\$ 0.39	\$ 0.39	\$ 1.54	\$ 0.40	\$ 0.40	\$ 0.40	\$ 0.39	\$ 1.54	\$ 0.39	\$ 0.39	\$ 0.40	\$ 0.42	\$ 1.58	
FFO per common share	\$ 1.50	\$ 1.50	\$ 0.39	\$ 0.39	\$ 0.39	\$ 1.54	\$ 0.40	\$ 0.40	\$ 0.40	\$ 0.39	\$ 1.54	\$ 0.39	\$ 0.39	\$ 0.40	\$ 0.42	\$ 1.58	
Shares, common	13,090,061	17,243,396	20,210,975	20,833,787	21,403,808	22,163,664	20,210,975	22,545,285	23,509,054	24,024,280	23,180,976	24,474,280	25,044,280	25,624,280	26,084,280	25,306,780	
Diluted FFO per common share	\$ 1.50	\$ 1.50	\$ 0.38	\$ 0.38	\$ 0.38	\$ 1.54	\$ 0.39	\$ 0.39	\$ 0.39	\$ 0.38	\$ 1.54	\$ 0.38	\$ 0.38	\$ 0.40	\$ 0.42	\$ 1.58	
Shares, common diluted	13,378,158	17,591,984	21,034,606	21,664,386	22,232,251	22,976,182	21,034,606	23,484,507	24,309,170	24,824,397	23,990,869	25,374,397	25,944,397	26,524,397	26,984,397	26,106,897	
Depreciation %	92.00%	92.00%	1.12%	1.19%	1.18%	1.18%	1.12%	1.17%	1.20%	1.21%	92.00%	1.17%	1.17%	1.17%	1.17%	92.00%	
FFO Available for common	\$ 19,906	\$ 22,040	\$ 7,957	\$ 8,349	\$ 8,384	\$ 33,596	\$ 9,076	\$ 9,082	\$ 9,377	\$ 9,382	\$ 36,917	\$ 9,545	\$ 10,102	\$ 10,700	\$ 11,064	\$ 41,410	
Less:																	
Recurring real estate CAPX	\$ (50)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Required debt repayments	\$ (20,00)	\$ (20,00)	\$ (5,00)	\$ (5,00)	\$ (5,00)	\$ (20,00)	\$ (25,00)	\$ (25,00)	\$ (25,00)	\$ (25,00)	\$ (100,00)	\$ (30,00)	\$ (30,00)	\$ (30,00)	\$ (30,00)	\$ (120,00)	
Non-real estate depreciation	\$ 19,836	\$ 22,020	\$ 7,952	\$ 8,344	\$ 8,379	\$ 33,576	\$ 8,951	\$ 9,057	\$ 9,352	\$ 9,357	\$ 36,817	\$ 9,515	\$ 10,072	\$ 10,670	\$ 11,034	\$ 41,290	
Funds available for distribution	\$ 1.52	\$ 1.28	\$ 0.39	\$ 0.40	\$ 0.39	\$ 1.59	\$ 0.40	\$ 0.40	\$ 0.40	\$ 0.40	\$ 1.59	\$ 0.39	\$ 0.40	\$ 0.42	\$ 0.42	\$ 1.63	

Source: Company reports and Hilliard Lyons estimates

Additional information is available upon request.

Analyst Certification

I, John M. Roberts, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Gladstone Investment Corporation (GAIN - \$9.21; rated Neutral by Hilliard Lyons), Gladstone Commercial Corporation, Gladstone Land Corp. (LAND - \$12.26; rated Long-term Buy) and Gladstone Capital Corporation (GLAD - \$9.36; rated Underperform) share the same management and board.

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

As of February 15, 2017 Hilliard Lyons customers own at least 5% of the outstanding common stock of Gladstone Commercial.

The author of this report or members of his household have a long position in Gladstone Commercial Corp. and Gladstone Investment Corp. common stock, but may not engage in buying or selling contrary to the recommendation.

Hilliard Lyons has participated in a selling group for an offering of securities of Gladstone Commercial in the past 12 months.

Hilliard Lyons has received investment banking compensation from Gladstone Commercial in the past 12 months.

Investment Ratings

Buy - We believe the stock has significant total return potential in the coming 12 months.

Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, generally 2-3 years.

Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

Underperform - We believe the stock is vulnerable to a price set back in the next 12 months.

Suitability Ratings

1 - A large cap, core holding with a solid history

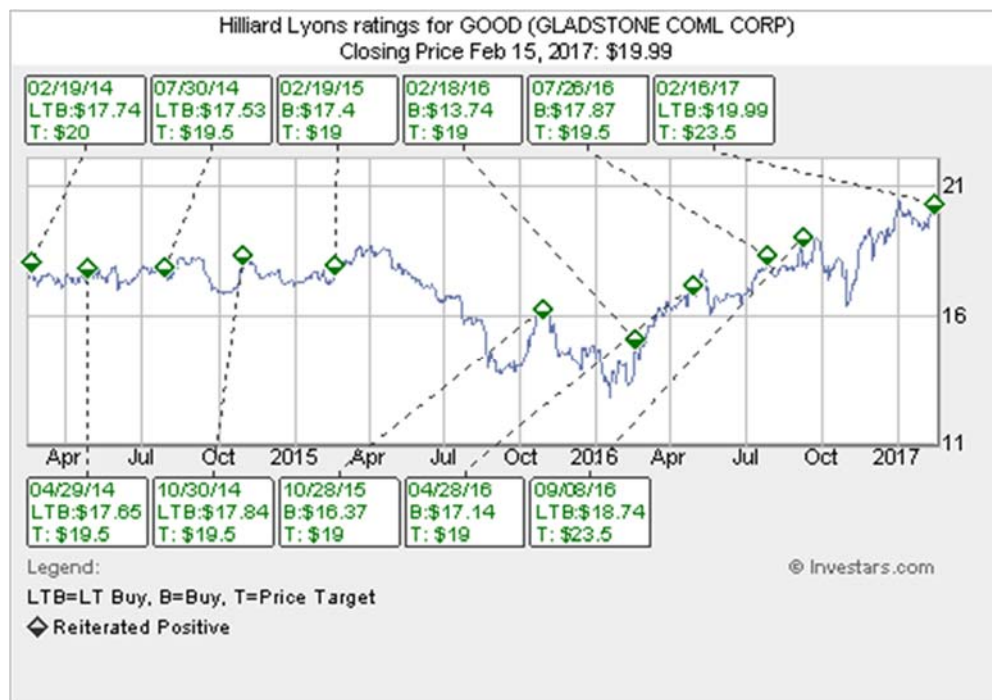
2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks

3 - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage

4 - Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product

Hilliard Lyons Recommended Issues			Investment Banking Provided in Past 12 Mo.	
	# of	% of		
Rating	Stocks Covered	Stocks Covered	Banking	No Banking
Buy	36	30%	17%	83%
Hold/Neutral	76	62%	7%	93%
Sell	10	8%	0%	100%

As of 6 February 2017



Other Disclosures

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