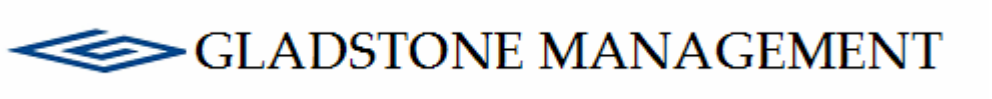

August 4, 2006

SUBMITTED VIA E-MAIL
Ms. Nancy M. Morris, Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549
rule-comments@sec.gov

Re: Comments on Investment Company Governance Proposed Rule
File No. S7-03-04

Dear Ms. Morris,

I serve as chairman and chief executive officer of Gladstone Capital Corporation, Gladstone Commercial Corporation and Gladstone Investment Corporation, which comprise the Gladstone Companies and which are all managed by our investment adviser, Gladstone Management Corporation. Gladstone Capital Corporation and Gladstone Investment Corporation are both closed-end, non-diversified management investment companies that have elected to be treated as business development companies ("***BDCs***") under the Investment Company Act of 1940, as amended (the "***1940 Act***"), and thus would be impacted by the Commission's proposed amendments to the investment company governance rules of having an independent chairman and 75% of the board of directors be independent (the "***Proposed Rules***").

BDCs are not ordinary closed-end investment companies but are rather investment companies that mimic private equity funds in their operations. Under the provisions of the 1940 Act governing BDCs, Gladstone Capital and Gladstone Investment must invest in private businesses by law and cannot invest in public companies. This makes our origination process more like that of a bank or private equity fund. We must have a large origination team to perform diligence on and close these investments, and our funds operate more like lending institutions than mutual funds. We are very specialized financial institutions, and thus our management and board of directors must be very knowledgeable about our investment focus on small to medium sized companies, and the investment and other restrictions that apply to us as BDCs. It is more difficult to recruit these individuals and ensure that they are knowledgeable enough about our business to manage and oversee it in the best interests of our stockholders. For this and other reasons, the Proposed Rules cause us great concern.

The Securities and Exchange Commission ("***SEC***") noted in its June 13, 2006 request for additional comment on the Proposed Rules that it is particularly interested in the costs incurred by small fund groups. The Gladstone Companies, based on the most recent fiscal year-end data for each Fund, have combined total assets of approximately $643 million and annual revenues of approximately $45 million. This puts each of our funds in the "Smallcap Company" category as defined in the SEC's recent report of the Committee on Smaller Public Companies.

The costs of the Proposed Rules will be exceedingly high for small funds like Gladstone Capital and Gladstone Investment. The boards of directors of each of the Gladstone Companies have as members seven individuals who serve as independent, non-interested directors of all companies. The boards of our BDCs are currently comprised of a total of 10 members, seven of whom are independent. We believe that if the pending amendments were enacted, we would retain executive membership on the boards. Executive officers of public companies are subject to a great deal of risk associated with management of the companies, and we believe it only fair that they be allowed to have an avenue to participate in board-level decisions that often involve the later exercise of their discretion in implementing those decisions. If we were to keep our current executive positions on the board, we would have to recruit and add two directors to each of the boards of directors in our fund family to comply with these amendments.

Adding directors to meet the Proposed Rules will be costly to our funds and their stockholders. We will have to recruit very strong directors who are knowledgeable about the valuation of our portfolio. Our BDC portfolios are not composed of publicly traded securities, so the board must be intelligent enough regarding the nature and businesses of our portfolio companies to determine the value of the private investments we make. Such directors are very expensive and any funds spent on them are not available for dividends to stockholders. This hurts stockholders in the lessening of their dividends. Lower dividends means lower stock prices, so stockholders will be affected by these costs if the proposed amendments are made. Having the number of independent directors move from 51% as currently required under the 1940 Act, or 70% in the case of the present makeup of our BDC boards, to 75% adds no proven governance value that can be translated into economic or other benefit to our stockholders. We believe that dedication of stockholder funds to this rule would be wasteful in the absence of any empirical data of its benefits.

Making one of the independent directors become the chairman of the board is also a costly move. There would be a substantial premium to obtain the services of the independent director who is designated to serve as the chair, since the chair would need to have substantial knowledge of the company and sufficient qualifications to act in such a capacity. Combined with the fact that the chair would be more accountable for the actions of the companies, and therefore more vulnerable from a legal standpoint, we expect that the independent chair position would dictate significantly higher compensation than would the other independent directors.

As the current chairman, I spend approximately three weeks of every quarter preparing for the board meetings. This time commitment would have to be taken up by

the independent director. In addition it is likely that an independent chairman would have to devote even more time because he or she would not be familiar with the operations of the funds and would have to garner the information needed to lead the board. We estimate that an independent chairman would need to dedicate at least four months each year to the process of preparing for the board meetings and leading the board through its meetings and attending to numerous follow-up aspects of the meeting. Assuming that a qualified independent chairman would cost the same as a senior partner of a law firm then the cost would be approximately $72,000 per year. We are sure this is the low point for small business and that the estimates would range much higher for larger companies and funds.

As noted, in order for an independent director to become the chairperson, he or she would have to become deeply immersed in the operations of the business. The independent chair would need a staff to prepare the information for the board meeting, and, in our opinion, to be on hand and aware of the issues facing the funds on a day to day basis in order to advise the independent chair of the information that should be included on the board agenda. The revenue devoted to these costs would not be available for our dividends to our stockholders, and in addition, in order to be effective, the "independent" chair would have to become so involved in the business over time that he or she would certainly begin to lose the independence that led to his or her initial appointment.

As noted above, we are very concerned that these amendments will force funds to impose additional costs on stockholders, without being able to assure them through any empirical evidence that the changes will result in any benefit in terms of performance or governance. Since the Gladstone Companies have had an interested chair since their respective inceptions, we have no concrete evidence as to whether our own performance would be helped or hindered by the board independence regulations. However, the April 2005 staff report of the SEC entitled "Exemptive Rule Amendments of 2004: The Independent Chair Condition" examined the issue of whether these amendments would promote performance. With regard to differences in performance and expenses for management-chaired funds compared to independent-chaired funds, the study concluded that "inferences drawn about the relation of fund type to various measures of performance and expenses are sensitive both to the sample and performance measures used in the study." The study could not obtain reliable evidence that funds with independent chairs generally outperform management-chaired funds. Furthermore, the assertion that such a study is sensitive to the sample gives us cause to believe that smaller funds such as the Gladstone Companies may be impacted more adversely by the independent chair regulation.

The costs we are concerned with are not limited to the direct costs of adding directors or an independent chair. We are particularly concerned that the proportionate cost burden on our small funds, relative to the burden that will be experienced by larger funds, will make it more difficult for us to compete with large funds. This competitive cost to small funds is something that we ask the SEC to consider seriously. We believe

that the enactment of these two provisions will significantly reduce the number of small funds and many of the entrepreneurs in our industry. This is not the American way.

Another concern regarding the impact on the industry as a whole is that these amendments are sure to stifle new entrants into the business and reduce competition with the larger funds. As noted above, these rules will contribute to the continually increasing regulatory cost barriers to entry, which are of course higher as a percentage of assets and income to small funds. If small funds make it, the burden will continue to be harder on them relative to large funds, and will serve to decrease the pool of smallcap or microcap investment alternatives available to American investors. Furthermore, I have personally funded the formation of all three of our companies, and cannot say that I would have done so if I had been required to turn over their board leadership as soon as they were launched. I would think that many other fund sponsors would feel the same way. This approach is not the American way of having a level playing field for small funds to compete with large existing funds.

We would further submit to the SEC that closed-end funds should be treated differently. Closed-end funds are already subject to the provisions of Sarbanes-Oxley, which have resulted in major costs to our stockholders. We ask that the SEC, in light of the recent significant increase in regulatory costs incurred by closed-end funds, should not consider costs in a vacuum. The analysis should be one of costs versus benefits to investors, and we submit that the analysis may be different for closed-end funds and open-end funds.

There are better ways to address the SEC's concerns and reach its goals in this area, and we believe that the SEC has already done a great deal to address problems in the mutual fund industry that are working effectively. The recent Investment Company Governance Rule requiring a CCO and annual compliance review has provided protection to investors and has strengthened the role of our existing independent directors. In the previously referenced SEC report, several incidences were outlined as compliance violations that may have been avoided were the board chair independent. While it is possible that having an independent chair may have helped to prevent the referenced violations, we propose that the following alternatives, which we observe at our funds, would provide comparable security to investors while avoiding additional costs:

- As an alternative to having an independent chairman, the SEC should have a rule that any independent member of the board of directors has the right to submit a subject for discussion at the board meeting, and the chairman must put the item on the board agenda at that next meeting. This would force the chairman to consider with the full board any and all items that any one independent director wants the board to consider.

- As an alternative to the 75% rule, the SEC should require that there be a supermajority of independent directors, and that the CCO report quarterly, rather than annually, to the independent directors in executive session. This would serve to strengthen the relationship between the CCO and the independent

directors, and to keep all of the independent directors abreast of possible compliance violations and conflicts of interest. The supermajority would give the independent directors the voting authority to take action in cases of violations such as those outlined in the SEC report, and the regular meetings would give them more of an opportunity, and responsibility, to ensure that their compliance programs are working.

Our funds have been successful under this chairmanship for the past five years, and I think the board should be granted the discretion to determine who the best chair would be. It seems counterintuitive that we should be forced to fix something that our board, which, for our BDCs, is composed of 70% independent directors, doesn't think is broken, and if it becomes so, could fix it at any time. Given that the SEC could not find reliable evidence to infer that having an independent chair corresponds to improved fund performance, and given that the proposed regulations could increase our expenses significantly, we do not view the proposed 75% independence and independent chair rules as cost-effective solutions to fund governance issues in the mutual fund industry. Further, although we believe having a high number of independent directors is a best practice, independence does not provide a cure-all solution. Various commentators have pointed out that some funds implicated in the scandals that prompted this rulemaking had already satisfied these proposed conditions. We believe that this rule cannot provide a guarantee of better performance or governance, and that it may actually provide a "window dressing" for good governance and a sense of security based on independence that may be unfounded based on the lack of empirical evidence.

For these reasons we believe that the benefits that may be provided in some cases by the rule are outweighed, especially in the case of smaller funds, by the financial and other costs, and ask that the SEC consider alternative measures to accomplish its goals, such as those that we have suggested above.

Sincerely,

/s/ David Gladstone

David Gladstone