



**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](mailto:Rule-comments@sec.gov)

November 2, 2006

Re: Comments on Eligible Portfolio Company Proposed Rule  
File No. S7-37-04

Dear Ms. Morris,

I serve as Chairman and Chief Executive Officer of Gladstone Capital Corporation, Gladstone Commercial Corporation and Gladstone Investment Corporation, all of which are publicly traded companies. 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 changes to the definition of “eligible portfolio companies” (the “Proposed Rules”). In 1979 and 1980 I worked on the Small Business Investment Incentive Act of 1980 (the “1980 Act”), which established BDCs to enhance capital alternatives for small, developing businesses. Because of this first-hand experience, I believe I am familiar with the intent of Congress and the group of men and women who drafted the 1980 Act.

Both of the Commission’s proposed changes are great extensions of the thinking that went into the drafting of the 1980 Act. Looking at the float of a public company and looking at the market capitalization of a public company are good approaches to seeking a definition of small and middle market businesses. While both alternatives of the Proposed Rules would be consistent with the intent of Congress in defining the types of companies that could benefit from BDC financing, I believe that Alternative Two, the market capitalization standard, is preferable to the public float standard based on ease and consistency of computation. Determining a company’s public float can be difficult, whereas determining market capitalization is a simple mathematical calculation, and uses a figure that is readily available from reliable third-party sources. I believe that it is more difficult to reliably ascertain a company’s public float from third party sources. The original intent of Congress was to provide capital to small and middle market companies as well as developing companies and financially troubled businesses. While the public float is a good method of distinguishing those companies, I believe the market

capitalization approach will avoid ambiguity and confusion as to which companies may qualify for such assistance.

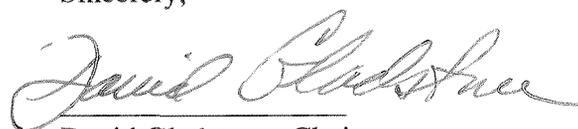
I further recommend that if you select alternative two, the market capitalization standard, that the \$250 million ceiling be used as the standard for market capitalization under the definition of an eligible portfolio company. As the supplementary information provided by the Securities and Exchange Commission pursuant to these Proposed Rules points out, \$250 million is similar to what most market participants use to identify "microcap companies." I agree with the commenters who have noted that these companies have less analyst coverage, institutional ownership and trading volume than companies at higher market capitalizations, and thus often have difficulty accessing traditional capital sources.

For the reasons above, I recommend that the Securities and Exchange Commission adopt the \$250 million market capitalization standard for the purposes of defining an eligible portfolio company under the 1940 Act.

Regardless of which of the alternatives you select, I would urge the Commission to include a requirement in the new rule that the Commission must review these fixed numbers of the rule each year and adjust them for inflation and business circumstances. It would be a simple matter if the Commission had to take a look at these fixed numbers and adjust them for changes in the business world or capital markets. To just leave the fixed numbers in place with no scheduled review would make the numbers obsolete in a relatively short period of time. We have seen this happen in many areas of regulation, and would like to see it avoided in the future. Regular reviews that are mandated by the new rule you are proposing would remove the static nature of selecting a fixed number and allow much-needed regulatory flexibility in this area.

We complement the Commission and the Staff on the efforts and the thoughtful work that has gone into working out this problem. Keep up the good work.

Sincerely,

A handwritten signature in cursive script that reads "David Gladstone". The signature is written in dark ink and is positioned above the printed name.

David Gladstone, Chairman