Karen Salmansohn

Letter of Comment No: 3 File Reference: 1102-001

Date Received:

From:

Director - FASB

Sent:

Monday, January 20, 2003 1:40 PM

To:

Karen Salmansohn

Subject:

FW: Reference No. 1102-001 Accounting for Stock Options

Importance: High

Sensitivity: Confidential

----Original Message----

From: David Gladstone [mailto:David.Gladstone@GladstoneCapital.com]

Sent: Friday, January 17, 2003 4:13 PM

To: director@fasb.org

Subject: Reference No. 1102-001 Accounting for Stock Options

Importance: High Sensitivity: Confidential

MP&T Director-File Reference 1102-001 Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, Connecticut 06856-5116

RE: Reference No. 1102-001 Accounting For Stock Options

Dear Financial Accounting Standards Board:

We respectively submit this letter as a comment on the possible rule making on the subject of how companies will be required to account for stock options. As we understand the alternatives of the Board, you will determine if the current system of accounting for stock options is to remain or mandate that all companies must expense stock options.

We argue for the current system on two levels:

First, as a business development company (BDC) we are a special type of company that was created by Congress in 1980 that permits us to pass through our investment income the same way a Real Estate Investment Trust does, without paying any

corporate tax. Congress enacted legislation creating BDC's to increase the flow of capital to small and medium sized business the same way venture capital private equity funds operate and the same way leverage buyout funds operate. Our mandate is to invest in small businesses. We compete with these private forms of investment capital. And we provide a method for ordinary investors in stocks and bonds to invest in small and medium sized private companies.

Most BDC's reward their managers with stock options. These stock options permit us to attract managers of private equity pools to come work for us. Private equity pools provide their employees with a carries interest in the equity of their private pool of capital. Their long term rewards are not taxed at the private pool level because they are organized as partnerships.

If the Board elects to make Business Development Companies (BDC's) account for the stock options as expenses then all BDC's will be at a competitive disadvantage in hiring new employees. Also if BDC's are accounting for stock options as expenses then their payout to shareholders will be burdened with this expense and the payout will be lowered. This will increase capital cost and hurt their competitive position regarding the private equity pools.

For these two reasons we argue that the Board should let Business Development Companies (BDC's) account for stock options as they feel is required to remain competitive with the private equity pools and therefore exempt BDC's from being required to expense a cost associated with the issuance of stock options.

Second, we would argue for all small businesses that must compete with large companies for capital, that smaller enterprises of less than \$500 million in revenue should be exempt from this requirement also. To burden the smaller companies with this expense will limit their ability to attract top people to grow their business and will make their stock less desirable to the capital markets because earnings will be reduced by the costs attributed to the options. Both the cost of capital and the cost of top employees are strong reasons to exempt the smaller companies from a regulation that makes them recognize stock options as an expense. As the Board knows, small businesss is the economic engine of the economy. Small businesses create 90% of all the new jobs created. And with the economy stalled, we do not want to hinder the job creating engine in our economy. So we would propose that you exempt small businesses from having to recognize stock options as an expense so that they can do what they are best at, creating jobs.

And finally let me ad that all the accounting firms make all of us in public companies, report the cost of stock options to our shareholders. Therefore there is no investor that cannot determine what the cost is. In the interest of keeping the free enterprise system as free as possible, we would suggest that you leave the decision to recognize or not recognize stock options as an expense, to the company. This would let the free market determine what is best.

Sincerely,

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David Gladstone

Chairman and CEO

Gladstone Capital Corp.

1616 Anderson Road

McLean, VA 22102

and for