



GLADSTONE INVESTMENT



GLADSTONE CAPITAL

October 12, 2009

Technical Director
File Reference No 1710-100
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Dear Sir or Madam:

The Gladstone Companies, specifically Gladstone Investment Corporation and Gladstone Capital Corporation (“We” or “the Companies”, et al) are responding via this letter to the Financial Accounting Standards Board (FASB) Exposure Draft (ED) Topic 820 *Improving Fair Value Measurements and Disclosures*, a proposed update to FASB Statement No. 157, *Fair Value Measurements* also known as ASC 820-10, *Fair Value Measurements and Disclosures*.

SUMMARY

This letter will address the specific questions for respondents denoted in the ED but is intended to state our objection to this ED in that the:

- proposed additional disclosures regarding the unobservable Level 3 inputs and related sensitivity analysis would create unnecessary, complicated and potentially confusing disclosures for the investing public,
- implementation of suggested disclosure would create an inordinate amount of additional disclosures in the financial statements,
- burden of additional internal and external time, effort and costs to the Companies significantly outweigh the proposed benefits, and
- timing of such implementation as proposed is unreasonable.

Further, the ED denotes that the FASB believes that disclosing a “range of fair values,” assuming an entity discloses “reasonably possible alternative inputs for Level 3 Measurements...” would provide users of financial statements a more useful form of information around fair value techniques. We object to this view as we believe such disclosure would hamper a user of financial statements ability to assess whether an entity has properly determined the fair value of its assets and liabilities. We also believe such disclosure requirements would create the ability for financial statement users, auditors and regulators to

continually question management assumptions and estimations regarding fair value. As the Companies currently have assessed all of its investment portfolio companies at Level 3 in accordance with ASC 820, the ED application would therefore apply to all of its investments. Management would need to consider lengthy disclosures so that any third party could clearly understand management valuation methods and reasoning for not choosing any number of other inputs. Additionally, we believe this could expose management to undue and frivolous legal concerns should a party simply not like the fair value technique management has applied versus another disclosed assumption that would assess a higher or lower value on a financial instrument. In other words, management would be in a “no win” position to defend its fair value position, as subjective interpretation could hamper management’s best fair value assumptions.

Due to the significant critical accounting nature of fair value and related disclosures to the Companies, management has, over time, continually reviewed and updated its fair valuation methodology in accordance with ASC 820, and we believe our current disclosures are robust and adequate for a financial statement user.

FASB ED ISSUES TO BE ADDRESSED

Issue 1 (paraphrase): With respect to the disclosure of the effect of changes in reasonably, possible, significant, alternative inputs for Level 3 measurements for each class of assets and liabilities, the Board is seeking input from:

1. Financial statement preparers about their operations and costs

The Companies currently undergo a significant effort and use of internal/external resources in its aggregation, evaluation and determination of fair value over the investment portfolio. This includes resources from several internal departments along with a coordinated effort with the Companies’ Board of Directors to determine and approve the fair value of the aggregate investment portfolio. Management has adopted fair value methodologies prescribed and outlined in ASC 820, and we believe this standard provides adequate valuation techniques and disclosure that allow for a user to assess an entity’s fair value conclusion(s). GAAP and IFRS allow for both reasonable assumptions and estimations in the reporting of financial statements. The ED suggestion of disclosing a number of possible alternatives would create a new forum/analysis which management would need to address. Such changes would create a significant burden on the Companies’ internal operations and would increase both internal and external costs.

Further, the disclosure effect on the financial statements would create an “endless” scenario by which an entity could propose any number of subjective but “reasonable, alternative” inputs which could either increase or decrease the fair value under a Level 3 scenario. Any disclosure around such scenarios would be extremely lengthy in order to be able to describe the various inputs and how any one input could impact a change in fair value. We believe this would be detrimental to a user’s assessment of the financial statements. Additionally, we believe that such additional disclosures would expose the Companies to unwarranted third party questioning/review, thereby creating significant costs to the Companies.

Finally, given the concern regarding the term “unobservable inputs”, we suggest that FASB modify ASC 820 to further describe such inputs so that users can more precisely discern what those inputs might entail.

Issue 2: With respect to the reconciliation, the amendments in this proposed Update would require separate disclosure of purchases, sales, issuances, and settlements during the reported period. Is this proposed requirement operational?

The Companies do not necessarily object to such a requirement, as we currently disclose, in some manner within our filings, such reconciling items as purchases, sales, issuances and settlements. We believe such disclosure is appropriate under current Management Discussion and Analysis rules and is currently disclosed by management given the nature of the Companies. We do believe this issue to be one of geography placement in public filings and also one that should be evaluated based on a materiality threshold.

Issue 3: Is the proposed effective date operational?

The ED suggested date for the disclosure and clarifications to existing disclosures for interim and annual periods ending after December 15, 2009 and March 31, 2010 for the sensitivity analysis are not reasonable for the Companies. As previously noted, the Companies' entire investment portfolios have been assessed at Level 3. Therefore, management would need to undergo an extensive review of the complete investment portfolios and consider and evaluate a multiple number of possible alternative scenarios. As such, the proposed timing is not feasible for the Companies. Notwithstanding our objection to this ED and its potential implementation, we believe that any consideration by the FASB for an effective operational date should be pushed to interim and annuals period beginning after December 15, 2010.

CONCLUSION

The Companies strongly believe that this ED would not provide users of financial statements more comprehensive or informed disclosures, would create unnecessary additional financial statement disclosure, could subject entities to potential unlimited and subjective inquiries for third parties, and the organizational and operational costs to address this ED would greatly outweigh the prescribed benefits suggested in the ED.

Thank you for your consideration.

Sincerely,

/s/ Mark Perrigo
Mark Perrigo
Chief Financial Officer
Gladstone Investment Corporation

/s/ Gresford Gray
Gresford Gray
Chief Financial Officer
Gladstone Capital Corporation