



January 2, 2007

VIA EMAIL

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

Re: Definition of Eligible Portfolio Company under Investment Company Act of 1940
File No. S7-37-04

Dear Ms. Morris:

Ares Capital Corporation ("ARCC") appreciates the opportunity to comment on the proposal of the Securities and Exchange Commission (the "Commission"), to revise the definition of eligible portfolio company. ARCC is regulated as a business development company ("BDC") under the Investment Company Act of 1940, and would be impacted by a change to the definition of eligible portfolio company.

ARCC urges the Commission to adopt a final rule that includes in the definition of eligible portfolio company, companies whose securities are listed on a national securities exchange and with a market capitalization of \$250 million or less (the "Proposed Definition").

We believe that use of a market capitalization standard in the Proposed Definition is preferable to the suggested alternative public float standard. Market capitalization is a less complex and more consistent calculation than public float, as it is easily accessible from reliable third-party sources and avoids the complexity of calculating affiliate ownership. In addition, market capitalization is used in other provisions of the securities laws and has proven to be an effective measurement approach.

We further suggest that the Proposed Definition include a \$250 million threshold rather than a \$150 million threshold. In adopting the Small Business Investment Incentive Act of 1980, Congress intended to define eligible portfolio companies as a class of companies that would seek and benefit from BDC financing. Such companies include small and middle market companies, developing businesses and those in financial trouble. We believe using a market capitalization threshold of \$250 million in the Proposed Definition would better encompass these types of companies and would be in accordance with Congress's original intent. As other commenters and Commission Release No. IC-27539 have noted, companies falling under the \$250 million threshold, or "microcap companies,"

have less analyst coverage, institutional ownership and trading volumes than those companies with higher market capitalizations. As a result, microcap companies have limited access to capital from traditional sources and are more dependent on BDC financing. A \$250 million market capitalization threshold would be an effective method to identify those companies in need of BDC financing.

ARCC believes that Congress intended the definition of eligible portfolio company to be flexible and expansive. Adopting the Proposed Definition would be consistent with Congress's intent because it would broaden the definition of eligible portfolio company. A broader definition also would expand upon investment opportunities for BDCs and provide greater options for public companies seeking financing, benefiting the shareholders of both.

ARCC commends the Commission's efforts to modernize the definition of eligible portfolio company and urges the Commission to include the Proposed Definition. ARCC also supports the implementation of a mechanism to increase the threshold in the future so that it will evolve with inflation and the growth of capital markets.

Very truly yours,



Michael J. Arougheti
President