



December 27, 2006

*Via Electronic Filing*

Ms. Nancy M. Morris  
Secretary  
U.S. Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549-1090

Re: File Number S7-37-04

Dear Ms. Morris:

MCG Capital Corporation (NASDAQ: MCGC) ("MCG Capital") is an internally managed, non-diversified, closed-end investment company that has elected to be regulated as a business development company ("BDC") under the Investment Company Act of 1940 or the "1940 Act." We provide financing and advisory services to middle market, growth oriented companies throughout the United States. As a BDC, we appreciate the work of the Commission to provide clarification on the definition of the term "eligible portfolio company." Newly adopted Rules 2a-46 and 55a-1 have been very helpful in providing clarity as to what companies qualify as eligible portfolio companies, and we welcome the opportunity to comment on re-proposed Rule 2a-46(b) in order to modernize the definition of eligible portfolio company consistent with Congress' intent.

MCG Capital supports the Commission's efforts to adopt a size-based standard for determining what companies qualify as eligible portfolio companies, and we believe that Alternative Two, the market capitalization standard would accomplish the objective of more closely aligning the definition of eligible portfolio company with the purpose that Congress intended. As you discussed in the release adopting Rules 2a-46 and 55a-1, the Small Business Investment Incentive Act ("SBIIA") was adopted by Congress in 1980 as a means of making capital more readily available to small, developing and financially troubled companies that do not have ready access to capital. We believe that market capitalization is a good indicator of the ability of a company to access capital in the market. It is used as a measure of size for mutual funds investing in companies based

on size, and, we believe, it is a commonly accepted measure for determining the size of a company.

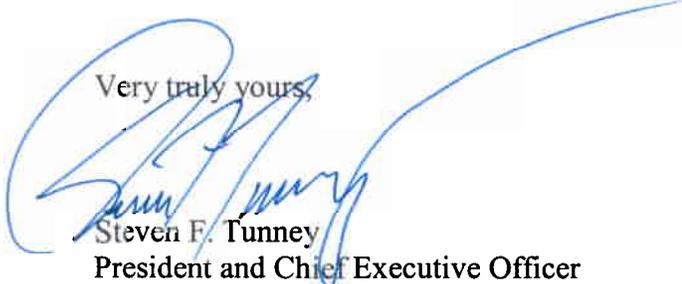
As the Commission noted in its request for comments, market capitalization is readily available through third party sources and public float information is not. This makes the market capitalization standard a more objective test that would prevent confusion in determining whether a company qualifies as an eligible portfolio company.

We further believe that the Commission should adopt the \$250 million threshold for market capitalization that has been proposed. A company with a market capitalization of \$250 million (and sometimes even higher) is often classified as a micro-cap company, which is consistent with Congress' intent to allow BDCs to provide capital to small public companies. In addition, we believe that companies with a market capitalization of less than \$250 million are less likely to be able to access the capital markets for additional capital due to the fact that most have low trading volumes and are unlikely to be covered by analysts.

The Commission also sought comment on the potential for the \$250 million size-based standard resulting in BDCs focusing their investment activities on larger companies to the detriment of the companies that BDCs were intended to help. We do not believe that allowing BDCs to invest in public companies with a market capitalization of up to \$250 million will result in BDCs looking to change their investment focus. MCG Capital seeks to achieve favorable risk-adjusted rates of return in the form of current yield and capital appreciation, while maintaining credit and investment quality in our asset portfolio by applying well established credit processes to the assessment of risk, and structuring and pricing our investments accordingly. We do not believe that larger companies would necessarily be more attractive investments for us; however, we do believe that there are some small public companies that would benefit from BDC financing.

For these reasons, we strongly support the Commission's adoption of Rule 2a-46(b) as proposed by Alternative Two, companies listed on an exchange with a market capitalization of \$250 million or less. Again, we are very appreciative of the Commission's efforts to modernize the definition of eligible portfolio company and for the opportunity to comment on the re-proposed rules.

Very truly yours,



Steven F. Tunney  
President and Chief Executive Officer