

PROSPECT CAPITAL CORP  
Form PRE 14A  
August 22, 2012

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material under §240.14a-12

**Prospect Capital Corporation**

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
  - (1) Title of each class of securities to which transaction applies:
  - (2) Aggregate number of securities to which transaction applies:
  - (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
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- o Fee paid previously with preliminary materials.
  - o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
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    - (2) Form, Schedule or Registration Statement No.:
    - (3) Filing Party:
    - (4) Date Filed:
-

**PRELIMINARY PROXY STATEMENT SUBJECT TO COMPLETION**

**PROSPECT CAPITAL CORPORATION**

**10 East 40th Street, 44th Floor  
New York, New York 10016**

September , 2012

Dear Stockholder:

You are cordially invited to attend the 2012 Annual Meeting of Stockholders, or the Annual Meeting, of Prospect Capital Corporation, a Maryland corporation (the "Company" or "we," "us" or "our"), to be held on Friday, December 7, 2012, at 10:30 a.m., Eastern Time, at the offices of the Company, 10 East 40th Street, 44th Floor, New York, New York 10016.

The notice of Annual Meeting and proxy statement accompanying this letter provide an outline of the business to be conducted at the meeting. At the meeting, you will be asked to elect two directors of the Company, to ratify the selection of the Company's independent registered public accounting firm and to consider and vote on a proposal to authorize the Company, with approval of its Board of Directors, to sell shares of the Company's common stock at a price or prices below the Company's then current net asset value per share in one or more offerings subject to certain limitations set forth in the accompanying proxy statement (including, without limitation, that the number of shares sold on any given date does not exceed 25% of the Company's outstanding common stock immediately prior to such sale).

It is important that you be represented at the Annual Meeting. Please complete, sign, date and return your proxy card to us in the enclosed, postage-prepaid envelope at your earliest convenience, even if you plan to attend the meeting. If you prefer, you can authorize your proxy through the Internet or by telephone as described in the proxy statement and on the enclosed proxy card. If you attend the meeting, you may revoke your proxy prior to its exercise and vote in person at the meeting. Your vote is very important to us. I urge you to submit your proxy as soon as possible.

If you have any questions about the proposals to be voted on, please call our solicitor at (866) 721-1372.

Further, from time to time we may repurchase a portion of our common shares and are notifying you of our intention as required by applicable securities law.

Sincerely yours,

John F. Barry III  
*Chief Executive Officer*

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PRELIMINARY PROXY STATEMENT SUBJECT TO COMPLETION

**PROSPECT CAPITAL CORPORATION**

10 East 40th Street, 44th Floor  
New York, New York 10016  
(212) 448-0702

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD ON DECEMBER 7, 2012**

To the Stockholders of Prospect Capital Corporation:

The 2012 Annual Meeting of Stockholders, or the Annual Meeting, of Prospect Capital Corporation, a Maryland corporation (the "Company" or "we," "us" or "our"), will be held at the offices of the Company, 10 East 40th Street, 44th Floor, New York, New York 10016 on Friday, December 7, 2012, at 10:30 a.m., Eastern Time, for the following purposes:

1. To elect two Class II directors of the Company to serve until the Annual Meeting of Stockholders in 2015, in each case until his successor is duly elected and qualifies;
2. To ratify the selection of BDO USA, LLP to serve as the Company's independent registered public accounting firm for the fiscal year ending June 30, 2013;
3. To consider and vote upon a proposal to authorize the Company, with approval of its Board of Directors, to sell shares of its common stock (during the next 12 months) at a price or prices below the Company's then current net asset value per share in one or more offerings subject to certain conditions as set forth in the accompanying proxy statement (including that the number of shares sold on any given date does not exceed 25% of its outstanding common stock immediately prior to such sale); and
4. To transact such other business as may properly come before the Annual Meeting and any adjournments, postponements or delays thereof.

You have the right to receive notice of and to vote at the Annual Meeting if you were a stockholder of record at the close of business on September 10, 2012. Please complete, sign, date and return your proxy card to us in the enclosed, postage-prepaid envelope at your earliest convenience, even if you plan to attend the Annual Meeting. If you prefer, you can authorize your proxy through the Internet or by telephone as described in the proxy statement and on the enclosed proxy card. If you attend the meeting, you may revoke your proxy prior to its exercise and vote in person at the meeting. In the event that there are not sufficient stockholders present for a quorum or sufficient votes to approve a proposal at the time the Annual Meeting is convened, the Annual Meeting may be adjourned from time to time in order to permit further solicitation of proxies by the Company.

If you have any questions about the proposals to be voted on, please call our solicitor at (866) 721-1372.

By Order of the Board of Directors,

Brian H. Oswald  
*Chief Financial Officer, Chief Compliance Officer,  
Treasurer and Secretary*

New York, New York  
September , 2012

**This is an important meeting. To ensure proper representation at the Annual Meeting, please complete, sign, date and return the proxy card in the enclosed, postage-prepaid envelope, or authorize a proxy to vote your shares by telephone or through the Internet. Even if you authorize a proxy prior to the Annual Meeting, you still may attend the Annual Meeting, revoke your proxy, and vote your shares in person.**

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PRELIMINARY PROXY STATEMENT SUBJECT TO COMPLETION

**PROSPECT CAPITAL CORPORATION**

10 East 40th Street, 44th Floor  
New York, New York 10016  
(212) 448-0702

**PROXY STATEMENT**

**2012 Annual Meeting of Stockholders**

This proxy statement, or this Proxy Statement, is furnished in connection with the solicitation of proxies by the Board of Directors of Prospect Capital Corporation, a Maryland corporation (the "Company" or "we," "us" or "our"), for use at our 2012 Annual Meeting of Stockholders, or the Annual Meeting, to be held on Friday, December 7, 2011, at 10:30 a.m., Eastern Time, at our offices, 10 East 40th Street, 44th Floor, New York, New York 10016, and at any postponements, adjournments or delays thereof. This Proxy Statement, the accompanying proxy card and the Company's Annual Report for the fiscal year ended June 30, 2012 are first being sent to stockholders on or about September 10, 2012.

Unlike many companies where the majority of the outstanding shares are held by institutional investors, a majority of our stockholders are retail investors who generally hold smaller numbers of shares than institutional investors. **As a result, it is important that every stockholder authorize a proxy so that we can achieve a quorum and hold the Annual Meeting.** The presence at the Annual Meeting, in person or by proxy, of stockholders entitled to cast a majority of the votes entitled to be cast at the meeting will constitute a quorum for the transaction of business. If a quorum is not met, then we will be required to adjourn the meeting and incur additional expenses to continue to solicit additional votes.

We have engaged a proxy solicitor, who may call you and ask you to vote your shares. The proxy solicitor will not attempt to influence how you vote your shares, but only ask that you take the time to cast a vote. You may also be asked if you would like to authorize your proxy over the telephone and to have your voting instructions transmitted to our proxy tabulation firm.

We encourage you to vote, either by voting in person at the Annual Meeting or by granting a proxy (*i.e.*, authorizing someone to vote your shares). If you properly sign and date the accompanying proxy card or authorize a proxy to vote your shares by telephone or through the Internet, and we receive it in time for the Annual Meeting, the persons named as proxies will vote the shares registered directly in your name in the manner that you specified. **If you give no instructions on the proxy card, the shares covered by the proxy card will be voted FOR the election of the nominees as directors and FOR the ratification of BDO USA, LLP, or BDO, to serve as the Company's independent registered public accounting firm for the fiscal year ending June 30, 2013 and FOR the proposal to authorize the Company, with the approval of its Board of Directors, to sell shares of its common stock (during the next 12 months) at a price or prices below the Company's then current net asset value per share in one or more offerings subject to certain conditions as set forth herein (including that the number of shares sold on any given date does not exceed 25% of its outstanding common stock immediately prior to such sale).**

If you are a "stockholder of record" (*i.e.*, you hold shares directly in your name), you may revoke a proxy at any time before it is exercised by notifying the Company's Secretary in writing, by submitting a properly executed, later-dated proxy, or by voting in person at the Annual Meeting. Any stockholder of record attending the Annual Meeting may vote in person whether or not he or she has previously authorized a proxy.

If your shares are held for your account by a broker, trustee, bank or other institution or nominee, you may vote such shares at the Annual Meeting only if you obtain proper written authority from your institution or nominee and present it at the Annual Meeting. Please bring with you a legal proxy or letter from the broker, trustee, bank or other institution or nominee confirming your beneficial ownership of the shares as of the record date, September 10, 2012.

If your shares are registered in the name of a bank or brokerage firm, you may be eligible to vote your shares electronically via the Internet or by telephone.

For information on how to obtain directions to attend the Annual Meeting in person, please contact our solicitor at (866) 721-1372.

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**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE STOCKHOLDER MEETING TO BE HELD ON DECEMBER 7, 2012**

The following materials relating to this Proxy Statement are available at <http://www.> :

this Proxy Statement;

the accompanying Notice of Annual Meeting; and

the Company's Annual Report for the fiscal year ended June 30, 2012.

**Purpose of Annual Meeting**

The Annual Meeting has been called for the following purposes:

1. To elect two Class II directors of the Company to serve until the Annual Meeting of Stockholders in 2015, in each case until his successor is duly elected and qualifies;
2. To ratify the selection of BDO to serve as the Company's independent registered public accounting firm for the fiscal year ending June 30, 2013;
3. To consider and vote upon a proposal to authorize flexibility for the Company, with approval of its Board of Directors, to sell shares of its common stock (during the next 12 months) at a price or prices below the Company's then current net asset value per share in one or more offerings subject to certain conditions as set forth herein (including that the number of shares sold on any given date does not exceed 25% of its outstanding common stock immediately prior to such sale); and
4. To transact such other business as may properly come before the Annual Meeting and any adjournments, postponements or delays thereof.

**Voting Securities**

You may vote your shares at the Annual Meeting only if you were a stockholder of record at the close of business on September 10, 2012 (the "Record Date"). There were \_\_\_\_\_ shares of the Company's common stock outstanding on the Record Date. Each share of the common stock is entitled to one vote.

**Quorum Required**

Shares that are present at the Annual Meeting, but then abstain, including by reason of so called "broker non-votes," will be treated as present for purposes of establishing a quorum. However, abstentions and "broker non-votes" on a matter are not treated as votes cast on such matter. A broker non-vote with respect to a matter occurs when a nominee holding shares for a beneficial owner is present at the meeting with respect to such shares, has not received voting instructions from the beneficial owner on the matter in question and does not have, or chooses not to exercise, discretionary authority to vote the shares on such matter.

If a quorum is not present at the Annual Meeting or if there are not sufficient votes to approve a proposal, the chairman of the Annual Meeting or, if a stockholder vote is called, the stockholders who are present at the Annual Meeting, may adjourn the Annual Meeting from time to time to permit further solicitation of proxies.

### Vote Required

*Proposal I. Election of Directors.* The election of a director requires the affirmative vote of the holders of a majority of shares of stock outstanding and entitled to vote thereon. If you vote to "Withhold Authority" with respect to a nominee, your shares will not be voted with respect to the person indicated. Because directors are elected by vote of the holders of a majority of the outstanding shares, votes to "Withhold Authority," abstentions and broker non-votes will have the effect of a vote against a nominee.

*Proposal II. Ratification of Independent Registered Public Accounting Firm.* Assuming the presence of a quorum, the affirmative vote of a majority of the votes cast at the Annual Meeting is required to ratify the appointment of BDO to serve as the Company's independent registered public accounting firm. Abstentions will not be included in determining the number of votes cast and, as a result, will have no effect on this proposal.

*Proposal III. To Authorize the Company to Sell Shares of its Common Stock (During the Next 12 Months) at a Price or Prices Below the Company's Then Current Net Asset Value Per Share in One or More Offerings Subject to Certain Conditions Described Herein (Including, That the Number of Shares Sold on Any Given Date Does Not Exceed 25% of its Outstanding Common Stock Immediately Prior to Such Sale).* Approval of this proposal may be obtained in either of two ways. First, the proposal will be approved if the Company obtains the affirmative vote of (1) a majority of the outstanding shares of common stock entitled to vote at the Annual Meeting; and (2) a majority of the outstanding shares of common stock entitled to vote at the Annual Meeting that are not held by affiliated persons of the Company. For purposes of this alternative, the Investment Company Act of 1940, or 1940 Act, defines "a majority of the outstanding shares" as: (1) 67% or more of the voting securities present at a meeting if the holders of more than 50% of the outstanding voting securities of such company are present or represented by proxy; or (2) 50% of the outstanding voting securities of a company, whichever is the less. Second, the proposal will also be approved if the Company receives approval from a majority of the number of the beneficial holders of its common stock entitled to vote at the Annual Meeting, without regard to whether a majority of such shares are voted in favor of the proposal. Abstentions and broker non-votes on Proposal III will have the effect of a vote against this proposal.

*Additional Solicitation.* If a quorum is not present or there are not enough votes to approve a proposal at the Annual Meeting, the chairman of the meeting or, if a stockholder vote is called, the stockholders who are present in person or by proxy, may adjourn the Annual Meeting with respect to any or all of the proposals, including to permit the further solicitation of proxies with respect to any proposal.

If a quorum is present, a stockholder vote may be called on one or more of the proposals described in this Proxy Statement prior to any such adjournment if there are sufficient votes for approval of such proposal(s).

### Information Regarding This Solicitation

We will bear the expense of the solicitation of proxies for the Annual Meeting, including the cost of preparing, printing and mailing this Proxy Statement, the accompanying Notice of Annual Meeting of Stockholders and proxy card. If brokers, nominees, fiduciaries and other persons holding shares in their names, or in the name of their nominees, which are beneficially owned by others, forward the proxy materials to and obtain proxies from such beneficial owners, we will reimburse such persons for their reasonable expenses in so doing.

In addition to the solicitation of proxies by the use of the mails, proxies may be solicited in person and by telephone or facsimile transmission by directors, officers or employees of the Company,

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Prospect Capital Management LLC, or PCM, the Company's investment adviser, and/or Prospect Administration LLC, or Prospect Administration, the Company's administrator. PCM and Prospect Administration are located at 10 East 40th Street, 44th Floor, New York, New York 10016. Certain other members of the affiliated companies of PCM and Prospect Administration are referred to as "Manager." No additional compensation will be paid to directors, officers or regular employees for such services.

The Company has also retained AST Fund Solutions, LLC to assist in the solicitation of proxies for a fee of approximately \$153,000 plus out-of-pocket expenses.

Stockholders may provide their voting instructions by telephone or through the Internet. These options require stockholders to input the control number which is located on each proxy card. After inputting this number, stockholders will be prompted to provide their voting instructions. Stockholders will have an opportunity to review their voting instructions and make any necessary changes before submitting their voting instructions and terminating their telephone call or Internet link. Stockholders who authorize a proxy via the Internet, in addition to confirming their voting instructions prior to submission, will also receive an e-mail confirming their instructions upon request.

Any proxy given pursuant to this solicitation may be revoked by notice from the person giving the proxy at any time before it is exercised. Any such notice of revocation should be provided in writing and signed by the stockholder in the same manner as the proxy being revoked and delivered to our proxy tabulator.

### **Security Ownership of Certain Beneficial Owners and Management**

As of the Record Date, there were no persons that owned 25% or more of our outstanding voting securities, and no person would be deemed to control us, as such term is defined in the 1940 Act.

Our directors are divided into two groups interested directors and independent directors. Interested directors are "interested persons" of the Company, as defined in the 1940 Act.

The following table sets forth, as of August 21, 2012, certain ownership information with respect to our common stock for those persons who may, insofar as is known to us, directly or indirectly own, control or hold with the power to vote, 5% or more of our outstanding common stock and the beneficial ownership of each current director, the nominee for director, the Company's executive officers, and the executive officers and directors as a group.

Ownership information for those persons, if any, who own, control or hold the power to vote, 5% or more of our shares of common stock is based upon Schedule 13D or Schedule 13G filings by such persons with the Commission and other information obtained from such persons, if available. Such information is as of the date of the applicable filing and may no longer be accurate.



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Unless otherwise indicated, we believe that each person set forth in the table below has sole voting and investment power with respect to all shares of the Company's common stock he or she beneficially owns and has the same address as the Company. Our address is 10 East 40th Street, 44th Floor, New York, New York 10016.

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned	Percentage of Class(1)
<b>5% or more holders</b>		
Zazove Associates, LLC 1001 Tahoe Blvd. Incline Village, NV 89451	11,605,300(2)	6.5%
Jupiter Street, Inc. Post Office Box 12485 Jackson, MS 39236-2485	11,378,067(3)	6.8%
<b>Interested Directors</b>		
John F. Barry III(4)	2,965,365	1.8%
M. Grier Eliasek(5)	114,338	*
<b>Independent Directors</b>		
Andrew C. Cooper		
William J. Grempe	2,001	*
Eugene S. Stark	11,988	*
<b>Executive Officers</b>		
Brian H. Oswald	27,000	*
<b>Executive officers and directors as a group</b>	<b>3,147,794</b>	<b>1.9%</b>

\* Represents less than one percent.

(1) Based on a total of 166,236,979 shares of our common stock issued and outstanding as of August 21, 2012.

(2) Based upon a Schedule 13G filed with the SEC on January 5, 2012 by Zazove Associates, LLC, or Zazove. According to the Schedule 13G, all of the shares beneficially owned by Zazove represent shares issuable upon the conversion of certain convertible notes, or the Notes, issued by the Company and beneficially owned by Zazove. Notwithstanding the percentage of common stock set forth in the table above, each of the Notes contain a provision that limits the holders of the Notes from converting the Notes to shares of common stock of the Company to the extent such conversion would cause the holder to become a beneficial owner of more than 5.0% of the Company's outstanding common stock at the time of conversion. Percentage of common stock outstanding includes the shares issuable upon the conversion of such Notes in the total outstanding.

(3) Based upon a Schedule 13G jointly filed with the SEC on June 22, 2012 by Jupiter Street, Inc., or Jupiter, Capitol Street Corporation, or Capitol, and Galaxie Corporation, or Galaxie. According to the Schedule 13G, Jupiter acquired shares of the Company on June 15, 2012, Capitol owns 100% of Jupiter, and Galaxie owns 100% of Capitol. According to the Schedule 13G, various persons have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of the common stock of the Company held by Jupiter. According to the Schedule 13G, no one person's interest in the common stock of the Company is more than five percent of the total outstanding common shares.

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(4) Mr. Barry also serves as the Chief Executive Officer of the Company.

(5) Mr. Eliasek also serves as the Chief Operating Officer of the Company.

The following table sets forth the dollar range of equity securities beneficially owned by each director and each nominee for election as a director of the Company as of August 21, 2012. Information as to beneficial ownership is based on information furnished to the Company by the directors. We are not part of a "family of investment companies" as that term is defined in the 1940 Act.

Name of Director	Dollar Range of Equity Securities Beneficially Owned(1)(2)(3)
<b><i>Interested Directors</i></b>	
John F. Barry III	Over \$100,000
M. Grier Eliasek	Over \$100,000
<b><i>Independent Directors</i></b>	
Andrew C. Cooper	None
William J. Grempp	\$10,001 - \$50,000
Eugene S. Stark	over \$100,000

(1) Beneficial ownership has been determined in accordance with Rule 16a-1(a)(2) under the Securities Exchange Act of 1934, which requires pecuniary interest.

(2) The dollar ranges are: none, \$1-\$10,000, \$10,001-\$50,000, \$50,001-\$100,000, or over \$100,000.

(3) The dollar range of our equity securities beneficially owned is based on the closing price of \$        on August 21, 2012 on The NASDAQ Stock Market.

**Proposal I: Election of Directors**

Pursuant to our Bylaws, our Board of Directors may change the number of directors constituting the Board, provided that the number thereof shall never be less than three nor more than eight. In accordance with the Bylaws, we currently have five directors on our Board of Directors. Directors are elected for staggered terms of three years each, with a term of office of one of the three classes of directors expiring at each annual meeting of stockholders. Each director will hold office for the term to which he or she is elected and until his or her successor is duly elected and qualifies.

Our Class II directors are standing for election this year.

A stockholder can vote for or withhold his or her vote from any nominee. **In the absence of instructions to the contrary, it is the intention of the persons named as proxies to vote such proxy FOR the election of the nominees named below. If a nominee should decline or be unable to serve as a director, it is intended that the proxy will be voted for the election of such person as is nominated by the Board of Directors as a replacement.** The Board of Directors has no reason to believe that any of the persons named below will be unable or unwilling to serve, and each such person has consented to being named in this Proxy Statement and to serve if elected.

**The Board of Directors recommends that you vote FOR the election of the nominees named in this Proxy Statement.**

**Information about the Nominees and Directors**

Certain information with respect to the Class II nominees for election at the Annual Meeting, as well as each of the other directors, is set forth below, including their names, ages, a brief description of their recent business experience, including present occupations and employment, certain directorships that each person holds, and the year in which each person became a director of the Company.

The 1940 Act and the NASDAQ rules require that the Company's Board of Directors consist of at least a majority of independent directors. Under the 1940 Act, in order for a director to be deemed independent, he or she, among other things, generally must not: own, control or hold power to vote, 5% or more of the voting securities or be an officer or employee of the Company or of an investment advisor or principal underwriter to the Company; control the Company or an investment advisor or principal underwriter to the Company; be an officer, director or employee of an investment advisor or principal underwriter to the Company; be a member of the immediate family of any of the foregoing persons; knowingly have a direct or indirect beneficial interest in, or be designated as an executor, guardian or trustee of an interest in, any security issued by an investment advisor or principal underwriter to the Company; be a partner or employee of any firm that has acted as legal counsel to Company or an investment advisor or principal underwriter to the Company during the last two years; or have certain relationships with a broker-dealer or other person that has engaged in agency transactions, principal transactions, lent money or other property to, or distributed shares on behalf of the Company. Under NASDAQ rules, in order for a director to be deemed independent, our Board of Directors must determine that the individual does not have a relationship that would interfere with the director's exercise of independent judgment in carrying out his or her responsibilities.

The Board of Directors, in connection with the 1940 Act and NASDAQ rules, has considered the independence of members of the Board of Directors who are not employed by PCM and has concluded that Andrew C. Cooper, William J. Grempe and Eugene S. Stark are not "interested persons" as defined by the 1940 Act and therefore qualify as independent directors under the standards promulgated by the 1940 Act and the NASDAQ rules. In reaching this conclusion, the Board of Directors concluded that Messrs. Cooper, Grempe and Stark had no relationships with PCM or any of its affiliates, other than their positions as directors of the Company and, if applicable, investments in us that are on the same terms as those of other stockholders.

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Andrew C. Cooper and M. Grier Eliasek have each been nominated for election as a Class II director to serve until the Annual Meeting of Stockholders in 2015 and until his successor is duly elected and qualifies. Mr. Cooper is not being proposed for election pursuant to any agreement or understanding with any other director or the Company. We have entered into an investment advisory agreement with PCM. Mr. Barry is the sole member of and controls PCM. In addition, pursuant to the terms of an administration agreement, Prospect Administration provides, or arranges to provide, the Company with the office facilities and administrative services necessary to conduct our day-to-day operations. PCM is the sole member of and controls Prospect Administration.

### Nominees for Class II Directors Term Expiring in 2015

#### Independent Director

*The following director is not an "interested person" as defined in the 1940 Act.*

Name, Address and Age	Position(s) Held with Company	Term at Office and Length of Time Served	Principal Occupation(s) During Past 5 Years	Other Directorships Held by Director or Nominee for Director
Andrew C. Cooper, 50(1)	Director	Class II Director since February 2009; Term expires 2012	Mr. Cooper is an entrepreneur, who over the last 12 years has founded, built, run and sold three companies. He is Co-Chief Executive Officer of Unison Site Management, Inc., a specialty finance company focusing on cell site easements, and Executive Director of Brand Asset Digital, a digital media marketing and distribution company.	None

- (1) The business address of Mr. Cooper is c/o Prospect Capital Corporation, 10 East 40th Street, 44th Floor, New York, New York 10016.

#### Interested Director

*The following director is an "interested person" as defined in the 1940 Act.*

Name, Address and Age	Position(s) Held with Company	Term at Office and Length of Time Served	Principal Occupation(s) During Past 5 Years	Other Directorships Held by Director or Nominee for Director
M. Grier Eliasek, 39(1)(2)	Director, Chief Operating Officer	Class II Director since June 2004; Term expires 2012	President and Chief Operating Officer of the Company, Managing Director of PCM and Prospect Administration.	Priority Senior Secured Income Fund, Inc.(3)

- (1) The business address of Mr. Eliasek is c/o Prospect Capital Corporation, 10 East 40th Street, 44th Floor, New York, New York 10016.
- (2) Mr. Eliasek is an interested director due to his position as an officer of PCM.
- (3) An investment company subject to the 1940 Act.



**Current Directors (not up for election at the Annual Meeting)  
Class I Director Terms Expiring 2014**

**Independent Director**

*The following director is not an "interested person" as defined in the 1940 Act.*

<b>Name, Address and Age</b>	<b>Position(s) Held with Company</b>	<b>Term at Office and Length of Time Served</b>	<b>Principal Occupation(s) During Past 5 Years</b>	<b>Other Directorships Held by Director or Nominee for Director</b>
William J. Grep, 69(1)	Director	Class II Director from 2006 to 2009; Class I Director since April 2010; Term expires 2014	Mr. Grep is responsible for traditional banking services, credit and lending, private equity and corporate cash management with Merrill Lynch & Co. from 1999 to present.	None

- (1) The business address of Mr. Grep is c/o Prospect Capital Corporation, 10 East 40th Street, 44th Floor, New York, New York 10016.

**Current Directors (not up for election at the Annual Meeting)  
Class III Directors Terms Expiring 2013**

**Independent Director**

*The following director is not an "interested person" as defined in the 1940 Act.*

<b>Name, Address and Age</b>	<b>Position(s) Held with Company</b>	<b>Term at Office and Length of Time Served</b>	<b>Principal Occupation(s) During Past 5 Years</b>	<b>Other Directorships Held by Director or Nominee for Director</b>
Eugene S. Stark, 54(1)	Director	Class III Director since September 2008; Term expires 2013	Principal Financial Officer, Chief Compliance Officer and Vice President Administration of General American Investors Company, Inc. from May 2005 to present.	None

- (1) The business address of Mr. Stark is c/o Prospect Capital Corporation, 10 East 40th Street, 44th Floor, New York, New York 10016.

**Interested Director**

The following director is an "interested person" as defined in the 1940 Act.

<b>Name, Address and Age</b>	<b>Position(s) Held with Company</b>	<b>Term at Office and Length of Time Served</b>	<b>Principal Occupation(s)</b>	<b>Other Directorships Held by Director or Nominee for Director</b>
John F. Barry III, 60(1)(2)	Director, Chairman of the Board, and Chief Executive Officer	Class III Director since June 2004; Term expires 2013	Chairman and Chief Executive Officer of the Company; Managing Director of PCM and Prospect Administration since June 2004.	None

(1) The business address of Mr. Barry is c/o Prospect Capital Corporation, 10 East 40th Street, 44th Floor, New York, New York 10016.

(2) Mr. Barry is an interested director due to his position as an officer and control person of PCM.

**Committees of the Board of Directors**

Our Board of Directors has established an Audit Committee and a Nominating and Corporate Governance Committee. The Board of Directors does not have a compensation committee because the Company's executive officers do not receive any direct compensation from the Company. For the fiscal year ended June 30, 2012, our Board of Directors held 12 Board meetings, 9 Audit Committee meetings, and 2 Nominating and Corporate Governance Committee meeting. All directors attended at least 75% of the aggregate number of meetings of the Board and of the respective committees on which they served. We require each director to make a diligent effort to attend all board and committee meetings, as well as each annual meeting of stockholders. Three directors attended last year's annual meeting of stockholders in person.

*The Audit Committee.* The Audit Committee operates pursuant to a charter approved by the Board of Directors. The charter sets forth the responsibilities of the Audit Committee, which include selecting or retaining each year an independent registered public accounting firm, or independent accountants, to audit the accounts and records of the Company; reviewing and discussing with management and the independent accountants the annual audited financial statements of the Company, including disclosures made in management's discussion and analysis, and recommending to the Board of Directors whether the audited financial statements should be included in the Company's annual report on Form 10-K; reviewing and discussing with management and the independent accountants the Company's quarterly financial statements prior to the filings of its quarterly reports on Form 10-Q; pre-approving the independent accountants' engagement to render audit and/or permissible non-audit services; and evaluating the qualifications, performance and independence of the independent accountants. The Audit Committee is presently composed of three persons: Messrs. Cooper, Grempe and Stark, each of whom is not an "interested person" as defined in the 1940 Act and is considered independent under applicable NASDAQ rules, with Mr. Stark serving as chairman of the committee. The Board of Directors has determined that Mr. Stark is an "audit committee financial expert" as that term is defined under Item 407 of Regulation S-K. The Audit Committee may delegate its pre-approval responsibilities to one or more of its members. The member(s) to whom such responsibility is delegated must report, for informational purposes only, any pre-approval decisions to the Audit Committee at its next scheduled meeting. Messrs. Cooper, Grempe and Stark were added to the Audit Committee concurrent with their election or appointment to the Board of Directors on February 12, 2009, April 1, 2010 and September 4, 2008, respectively.

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The function of the Audit Committee is oversight. Our management is primarily responsible for maintaining appropriate systems for accounting and financial reporting principles and policies and internal controls and procedures that provide for compliance with accounting standards and applicable laws and regulations. The independent accountants are primarily responsible for planning and carrying out a proper audit of our annual financial statements in accordance with generally accepted accounting standards. The independent accountants are accountable to the Board of Directors and the Audit Committee, as representatives of our stockholders. The Board of Directors and the Audit Committee have the ultimate authority and responsibility to select, evaluate and, where appropriate, replace our independent accountants (subject, if applicable, to stockholder ratification).

In fulfilling their responsibilities, it is recognized that members of the Audit Committee are not our full-time employees or management and are not, and do not represent themselves to be, accountants or auditors by profession. As such, it is not the duty or the responsibility of the Audit Committee or its members to conduct "field work" or other types of auditing or accounting reviews or procedures, to determine that the financial statements are complete and accurate and are in accordance with generally accepted accounting principles, or to set auditor independence standards. Each member of the Audit Committee shall be entitled to rely on (a) the integrity of those persons within and outside us and management from which it receives information; (b) the accuracy of the financial and other information provided to the Audit Committee absent actual knowledge to the contrary (which shall be promptly reported to the Board of Directors); and (c) statements made by our officers and employees, our investment adviser or other third parties as to any information technology, internal audit and other non-audit services provided by the independent accountants to us.

*The Nominating and Corporate Governance Committee.* The Nominating and Corporate Governance Committee, or Nominating and Governance Committee, is responsible for selecting qualified nominees to be elected to the Board of Directors by stockholders; selecting qualified nominees to fill any vacancies on the Board of Directors or a committee thereof; developing and recommending to the Board of Directors a set of corporate governance principles applicable to the Company; overseeing the evaluation of the Board of Directors and management; and undertaking such other duties and responsibilities as may from time to time be delegated by the Board of Directors to the Nominating and Governance Committee. The Nominating and Governance Committee takes into consideration the educational, professional and technical backgrounds and diversity of each nominee when evaluating such nominees to be elected to the Board of Directors. The Nominating and Governance Committee does not have a formal policy with respect to diversity. The Nominating and Governance Committee is presently composed of three persons: Messrs. Cooper, Grempe and Stark, each of whom is not an "interested person" as defined in the 1940 Act and is considered independent under applicable NASDAQ rules, with Mr. Grempe serving as chairman of the committee. Messrs. Cooper, Grempe and Stark were added to the Nominating and Governance Committee concurrent with their election or appointment to the Board of Directors on February 12, 2009, April 1, 2010 and September 4, 2008, respectively.

The Nominating and Governance Committee will consider stockholder recommendations for possible nominees for election as directors when such recommendations are submitted in accordance with the Company's Bylaws and any applicable law, rule or regulation regarding director nominations. Nominations should be sent to the Corporate Secretary c/o Prospect Capital Corporation, 10 East 40th Street, 44th Floor, New York, New York 10016. When submitting a nomination to the Company for consideration, a stockholder must provide all information that would be required under applicable Commission rules to be disclosed in connection with election of a director, including the following minimum information for each director nominee: full name, age and address; principal occupation during the past five years; current directorships on publicly held companies and investment companies; number of shares of our common stock owned, if any; and, a written consent of the individual to stand for election if nominated by the Board of Directors and to serve if elected by the stockholders. Criteria



considered by the Nominating and Governance Committee in evaluating the qualifications of individuals for election as members of the Board of Directors include compliance with the independence and other applicable requirements of the NASDAQ rules and the 1940 Act and all other applicable laws, rules, regulations and listing standards, the criteria, policies and principles set forth in the Nominating and Corporate Governance Committee Charter, and the ability to contribute to the effective management of the Company, taking into account our needs and such factors as the individual's experience, perspective, skills, expertise and knowledge of the industries in which the Company operates, personal and professional integrity, character, business judgment, time availability in light of other commitments, dedication, and conflicts of interest. The Nominating and Governance Committee also may consider such other factors as it may deem to be in our best interests and those of our stockholders. The Board of Directors also believes it is appropriate for certain key members of our management to participate as members of the Board of Directors.

## **Corporate Governance**

### *Board Leadership Structure*

The Board of Directors believes that the combined position of Chief Executive Officer of the Company and Chairman of the Board of Directors of the Company is a superior model that results in greater efficiency regarding management of the Company, reduced confusion due to the elimination of the need to transfer substantial information quickly and repeatedly between a chief executive officer and chairman, and business advantages to the Company arising from the specialized knowledge acquired from the duties of the dual roles. The need for efficient decision making is particularly acute in the line of business of the Company, whereby multiple factors including market factors, interest rates and innumerable other financial metrics change on an ongoing and daily basis. The Board of Directors has not identified a lead independent director of the Board of Directors of the Company in as much as the Board consists of only five individuals.

### *Director Independence*

The 1940 Act and the NASDAQ rules require that the Company's Board of Directors consist of at least a majority of independent directors. Under the 1940 Act, in order for a director to be deemed independent, he or she, among other things, generally must not: own 5% or more of the voting securities or be an officer or employee of the Company or of an investment advisor or principal underwriter to the Company; control the Company or an investment advisor or principal underwriter to the Company; be an officer, director or employee of an investment advisor or principal underwriter to the Company; be a member of the immediate family of any of the foregoing persons; knowingly have a direct or indirect beneficial interest in, or be designated as an executor, guardian or trustee of an interest in, any security issued by an investment advisor or principal underwriter to the Company; be a partner or employee of any firm that has acted as legal counsel to Company or an investment advisor or principal underwriter to the Company during the last two years; or have certain relationships with a broker-dealer or other person that has engaged in agency transactions, principal transactions, lent money or other property to, or distributed shares on behalf of the Company. Under NASDAQ rules, in order for a director to be deemed independent, our Board of Directors must determine that the individual does not have a relationship that would interfere with the director's exercise of independent judgment in carrying out his or her responsibilities. On an annual basis, each member of our Board of Directors is required to complete an independence questionnaire designed to provide information to assist the Board of Directors in determining whether the director is independent under the 1940 Act and the NASDAQ rules. Our Board of Directors has determined that each of our directors, other than Messrs. Barry and Eliasek, is independent under the 1940 Act and the applicable NASDAQ rules.

*Role of the Chairman and Chief Executive Officer*

As Chairman of the Board of Directors and Chief Executive Officer, Mr. Barry assumes a leading role in mid- and long-term strategic planning and supports major transaction initiatives of the Company. Mr. Barry also manages the day-to-day operations of the Company, with the support of the other executive officers. As Chief Executive Officer, Mr. Barry has general responsibility for the implementation of the policies of the Company, as determined by the Board of Directors, and for the management of the business and affairs of the Company. The Board of Directors has determined that its leadership structure, in which the majority of the directors are not affiliated with the Company, PCM or Prospect Administration, is appropriate in light of the services that PCM and Prospect Administration and their affiliates provide to the Company and the potential conflicts of interest that could arise from these relationships.

*Experience, Qualifications, Attributes and/or Skills that Led to the Board's Conclusion that such Members Should Serve as Director of the Company*

The Board believes that, collectively, the directors have balanced and diverse experience, qualifications, attributes and skills, which allow the Board to operate effectively in governing the Company and protecting the interests of its stockholders. Below is a description of the various experiences, qualifications, attributes and/or skills with respect to each director considered by the Board.

*John F. Barry III*

The Board benefits from Mr. Barry's years of experience in the investment banking and the financial advisory industries, as well as his service on multiple boards for various companies. In addition to overseeing the Company, Mr. Barry has served on the boards of directors of private and public companies, including financial services, financial technology and energy companies. Mr. Barry also managed an investment bank, focusing on private equity and debt financing for energy and other companies, and was the founding member of the project finance group at Merrill Lynch & Co. The Board also benefits from Mr. Barry's past experience as a corporate securities lawyer at a premiere United States law firm, advising energy companies and their commercial and investment bankers. Mr. Barry is also chairman of the board of directors of the Mathematics Foundation of America, a non-profit foundation which enhances opportunities in mathematics education for students from diverse backgrounds. Mr. Barry's longstanding service as chairman and chief executive officer of the Company and as a Managing Director of PCM and Prospect Administration provide him with a specific understanding of the Company, its operation, and the business and regulatory issues facing the Company.

*M. Grier Eliasek*

Mr. Eliasek brings to the Board business leadership and experience and knowledge of senior loan, mezzanine, bridge loan, private equity and venture capital investments, as well as a knowledge of diverse management practices. Mr. Eliasek is the President and Chief Operating Officer of the Company and a Managing Director of PCM and Prospect Administration. He is also responsible for leading the origination and assessment of investments for the Company. The Board also benefits from Mr. Eliasek's experience as a consultant with Bain & Company, a global strategy consulting firm, where he managed engagements for companies in several different industries, by providing the Company with unique views on investment and management issues. At Bain, Mr. Eliasek analyzed new lines of businesses, developed market strategies, revamped sales organizations, and improved operational performance for Bain & Company clients. Mr. Eliasek's longstanding service as director, President and Chief Operating Officer of the Company and as a Managing Director of PCM and Prospect

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Administration provide him with a specific understanding of the Company, its operation, and the business and regulatory issues facing the Company.

### *Andrew C. Cooper*

Mr. Cooper's over 25 years of experience in venture capital management, venture capital investing and investment banking provides the Board with a wealth of leadership, business investing and financial experience. Mr. Cooper's experience as the co-founder, director and former co-CEO of Unison Site Management LLC, a leading cellular site owner with 2,000 plus cell sites which generate more than \$40 million in annual cash flow, and as co-founder, former CFO and VP of business development for Avesta Technologies, an enterprise, information and technology management software company bought by Visual Networks in 2000, provides the Board with the benefit of leadership and experience in finance and management. Mr. Cooper also serves on the board of Brand Asset Digital, Aquatic Energy and the Madison Square Boys and Girls Club of New York. Further, Mr. Cooper's time as a director of CSG Systems, Protection One Alarm, LionBridge Technologies and Weblink Wireless, provides the Board with a wealth of experience and an in-depth understanding of management practices. Mr. Cooper's knowledge of financial and accounting matters qualifies him to serve on the Company's Audit Committee and his independence from the Company, PCM and Prospect Administration enhances his service as a member of the Nominating and Corporate Governance Committee.

### *William J. Grep*

Mr. Grep brings to the Board a broad and diverse knowledge of business and finance as a result of his career as an investment banker, spanning over 40 years working in corporate finance and originating and executing transactions and advisory assignments for energy and utility related clients. Since 1999, Mr. Grep has been responsible for traditional banking services, credit and lending, private equity and corporate cash management with Merrill Lynch & Co. From 1996 to 1999, he served at Wachovia as senior vice president, managing director and co-founder of the utilities and energy investment banking group, responsible for origination, structuring, negotiation and successful completion of transactions utilizing investment banking, capital markets and traditional commercial banking products. From 1990 to 1996, Mr. Grep was the managing director of global power and project finance at JPMorgan Chase & Co., and from 1970 to 1990, Mr. Grep was with Merrill Lynch & Co., starting out as an associate in the mergers and acquisitions department, then in 1986 becoming the senior vice president, managing director and head of the regulated industries group. Mr. Grep's knowledge of financial and accounting matters qualifies him to serve on the Company's Audit Committee and his independence from the Company, PCM and Prospect Administration enhances his service as a member of the Nominating and Corporate Governance Committee.

### *Eugene S. Stark*

Mr. Stark brings to the Board over 20 years of experience in directing the financial and administrative functions of investment management organizations. The Board benefits from his broad experience in financial management; SEC reporting and compliance; strategic and financial planning; expense, capital and risk management; fund administration; due diligence; acquisition analysis; and integration activities. Since May 2005, Mr. Stark's position as the Principal Financial Officer, Chief Compliance Officer and Vice President of Administration at General American Investors Company, Inc., where he is responsible for operations, compliance, and financial functions, allows him to provide the Board with added insight into the management practices of other financial companies. From January to April of 2005, Mr. Stark was the Chief Financial Officer of the Company, prior to which he worked at Prudential Financial, Inc. between 1987 and 2004. His many positions within Prudential include 10 years as Vice President and Fund Treasurer of Prudential Mutual Funds, 4 years as Senior Vice President of Finance of Prudential Investments, and 2 years as Senior Vice President of

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Finance of Prudential Amenities. Mr. Stark is also a Certified Public Accountant. Mr. Stark's knowledge of financial and accounting matters qualifies him to serve on the Company's Audit Committee and his independence from the Company, PCM and Prospect Administration enhances his service as a member of the Nominating and Corporate Governance Committee. Mr. Stark is also a member of Mount Saint Mary Academy's Finance Committee.

### *Means by Which the Board of Directors Supervises Executive Officers*

The Board of Directors is regularly informed on developments and issues related to the Company's business, and monitors the activities and responsibilities of the executive officers in various ways.

At each regular meeting of the Board of Directors, the executive officers report to the Board of Directors on developments and important issues. Each of the executive officers, as applicable, also provide regular updates to the members of the Board of Directors regarding the Company's business between the dates of regular meetings of the Board of Directors.

Executive officers and other members of PCM, at the invitation of the Board of Directors, regularly attend portions of meetings of the Board of Directors and its committees to report on the financial results of the Company, its operations, performance and outlook, and on areas of the business within their responsibility, including risk management and management information systems, as well as other business matters.

### *The Board's Role in Risk Oversight*

The Company's Board of Directors performs its risk oversight function primarily through (a) its two standing committees, which report to the entire Board of Directors and are comprised solely of independent directors and (b) monitoring by the Company's Chief Compliance Officer, or CCO, in accordance with its compliance policies and procedures.

As set forth in the descriptions regarding the Audit Committee and the Nominating and Governance Committee, the Audit Committee and the Nominating and Governance Committee assist the Board of Directors in fulfilling its risk oversight responsibilities. The Audit Committee's risk oversight responsibilities include reviewing and discussing with management and the independent accountants the annual audited financial statements of the Company, including disclosures made in management's discussion and analysis; reviewing and discussing with management and the independent accountants the Company's quarterly financial statements prior to the filings of its quarterly reports on Form 10-Q; pre-approving the independent accountants' engagement to render audit and/or permissible non-audit services; and evaluating the qualifications, performance and independence of the independent accountants. The Nominating and Governance Committee's risk oversight responsibilities include selecting qualified nominees to be elected to the Board of Directors by stockholders; selecting qualified nominees to fill any vacancies on the Board of Directors or a committee thereof; developing and recommending to the Board of Directors a set of corporate governance principles applicable to the Company; and overseeing the evaluation of the Board of Directors and management. Both the Audit Committee and the Nominating and Governance Committee consist solely of independent directors.

The Company's Board of Directors also performs its risk oversight responsibilities with the assistance of the Chief Compliance Officer. The Company's Chief Compliance Officer prepares a written report annually discussing the adequacy and effectiveness of the compliance policies and procedures of the Company and certain of its service providers. The Chief Compliance Officer's report, which is reviewed by the Board of Directors, addresses at a minimum (a) the operation of the compliance policies and procedures of the Company and certain of its service providers since the last report; (b) any material changes to such policies and procedures since the last report; (c) any recommendations for material changes to such policies and procedures as a result of the Chief Compliance Officer's annual review; and (d) any compliance matter that has occurred since the date of

the last report about which the Board of Directors would reasonably need to know to oversee the Company's compliance activities and risks. In addition, the Chief Compliance Officer meets separately in executive session with the independent directors at least once each year.

The Company believes that its Board of Director's role in risk oversight is effective and appropriate given the extensive regulation to which it is already subject as a business development company, or BDC, under the 1940 Act. Specifically, as a BDC the Company must comply with certain regulatory requirements that control certain types of risk in its business and operations. For example, the Company's ability to incur indebtedness is limited such that its asset coverage must equal at least 200% immediately after each time it incurs certain kinds of indebtedness, and the Company generally has to invest at least 70% of its total assets in "qualifying assets." In addition, the Company elected to be treated as a regulated investment company, or RIC, under Subchapter M of the Internal Revenue Code of 1986, as amended. As a RIC the Company must, among other things, meet certain income source, asset diversification and income distribution requirements.

The Company believes that the extent of its Board of Directors' (and its committees') role in risk oversight complements its Board's leadership structure because it allows the Company's independent directors to exercise oversight of risk without any conflict that might discourage critical review through the two fully independent board committees, auditor and independent valuation providers, and otherwise.

The Company believes that a board's role in risk oversight must be evaluated on a case by case basis and that the Board of Directors' practices concerning risk oversight is appropriate. However, the Company continually re-examines the manner in which the Board of Directors administers its oversight function on an ongoing basis to ensure that they continue to meet the Company's needs.

#### *Corporate Governance Guidelines*

Upon the recommendation of the Nominating and Governance Committee, the Board of Directors has adopted Corporate Governance Guidelines on behalf of the Company. These Corporate Governance Guidelines address, among other things, the following key corporate governance topics: director responsibilities; the size, composition, and membership criteria of the Board of Directors; composition and responsibilities of directors serving on committees of the Board of Directors; director access to officers, employees, and independent advisors; director orientation and continuing education; director compensation; and an annual performance evaluation of the Board of Directors.

#### *Code of Conduct*

We have adopted a code of conduct which applies to, among others, our senior officers, including our Chief Executive Officer and Chief Financial Officer, as well as all of our employees. Our code of conduct is an exhibit to our Annual Report on Form 10-K filed with the Commission, and can be accessed via the Internet site of the Commission at <http://www.sec.gov>. We disclose amendments to or waivers from a required provision of the code of conduct, if any, on Form 8-K.

#### *Code of Ethics*

We, PCM and Prospect Administration have each adopted a code of ethics pursuant to Rule 17j-1 under the 1940 Act and PCM and Prospect Administration have each adopted a code of ethics pursuant to Rule 204A-1 under the Investment Advisers Act of 1940 that establishes procedures for personal investments and restricts certain personal securities transactions. Our code of ethics can be accessed via our Internet site at <http://www.prospectstreet.com>. Personnel subject to each code may invest in securities for their personal investment accounts, including securities that may be purchased or held by us, so long as such investments are made in accordance with the code's requirements.

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### *Internal Reporting and Whistle Blower Protection Policy*

The Company's Audit Committee has established guidelines and procedures regarding the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters (collectively, "Accounting Matters"), and the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters. Persons with complaints or concerns regarding Accounting Matters may submit their complaints to our CCO. Persons who are uncomfortable submitting complaints to the CCO, including complaints involving the CCO, may submit complaints directly to our Audit Committee Chairman. Complaints may be submitted on an anonymous basis.

The CCO may be contacted at:

Prospect Capital Corporation  
Chief Compliance Officer  
10 East 40th Street, 44th Floor  
New York, New York 10016

The Audit Committee Chairman may be contacted at:

Prospect Capital Corporation  
Audit Committee Chairman  
10 East 40th Street, 44th Floor  
New York, New York 10016

### **Communication with the Board of Directors**

Stockholders with questions about the Company are encouraged to contact the Company. Stockholders may communicate with the Company or its Board of Directors by sending their communications to Prospect Capital Corporation, Chief Compliance Officer, 10 East 40th Street, 44th Floor, New York, New York 10016. All stockholder communications received in this manner will be delivered as appropriate to the Board of Directors.

### **Information about Executive Officers Who Are Not Directors**

<b>Name, Address and Age</b>	<b>Position(s) Held with Company</b>	<b>Term at Office and Length of Time Served</b>	<b>Principal Occupation(s) During Past 5 Years</b>
Brian H. Oswald, 51(1)	Chief Financial Officer, Chief Compliance Officer, Treasurer and Secretary	November 2008 to present as Chief Financial Officer, Treasurer and Secretary, and October 2008 to present as Chief Compliance Officer	Joined Prospect Administration as Managing Director in June 2008. Previously Managing Director in Structured Finance Group at GSC Group (2006 to 2008).

(1)

The business address of Mr. Oswald is c/o Prospect Capital Corporation, 10 East 40th Street, 44th Floor, New York, New York 10016.

### Compensation of Executive Officers and Directors

The following table sets forth information regarding the compensation received by the directors and executive officers from the Company for the fiscal year ended June 30, 2012. No compensation is paid to the interested directors by the Company.

#### Compensation Table

Name and Position	Aggregate Compensation from the Company	Pension or Retirement Benefits Accrued as Part of the Company's Expenses(1)	Total Compensation Paid to Director/Officer
<b><i>Interested Directors</i></b>			
John F. Barry III(2)	None	None	None
M. Grier Eliasek(2)	None	None	None
<b><i>Independent Directors</i></b>			
Andrew C. Cooper(3)	\$90,000	None	\$90,000
William J. Grempp(4)	\$90,000	None	\$90,000
Eugene S. Stark(5)	\$90,000	None	\$90,000
<b><i>Executive Officers</i></b>			
Brian H. Oswald(2)	None	None	None

(1) We do not have a bonus, profit sharing or retirement plan, and directors do not receive any pension or retirement benefits.

(2) We have not paid, and we do not intend to pay, any annual cash compensation to our executive officers for their services as executive officers. Messrs. Barry and Eliasek are compensated by PCM from the income PCM receives under the management agreement between PCM and us. Mr. Oswald is compensated from the income Prospect Administration receives under the administration agreement.

(3) Mr. Cooper joined our Board of Directors on February 12, 2009.

(4) Mr. Grempp joined our Board of Directors on April 1, 2010.

(5) Mr. Stark joined our Board of Directors on September 4, 2008.

#### Compensation of Directors

Effective March 1, 2012, the independent directors of the Board receive an annual fee of \$100,000 per director plus reimbursement of any reasonable out-of-pocket expenses incurred. Prior to March 1, 2012, the Board received an annual fee of \$85,000 plus reimbursement of any reasonable out-of-pocket expenses incurred.

#### Certain Relationships and Transactions

##### Transactions with Affiliated Persons

We have entered into an investment advisory agreement with PCM. Our Chairman of the Board is the sole member of and controls PCM. Our senior management may in the future also serve as principals of other investment managers affiliated with PCM that may in the future manage investment funds with investment objectives similar to ours. In addition, our executive officers and directors and the principals of PCM may serve as officers, directors or principals of entities that operate in the same or related lines of business as we do or of investment funds

managed by affiliates. Accordingly, we may not be given the opportunity to participate in certain investments made by investment funds managed



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by advisers affiliated with PCM. However, our investment adviser and other members of the affiliated present and predecessor companies of PCM (previously defined as "Manager") intend to allocate investment opportunities in a fair and equitable manner consistent with our investment objectives and strategies so that we are not disadvantaged in relation to any other client.

In addition, pursuant to the terms of an administration agreement, Prospect Administration provides, or arranges to provide, the Company with the office facilities and administrative services necessary to conduct our day-to-day operations. PCM is the sole member of and controls Prospect Administration.

We have no intention of investing in any portfolio company in which the Manager or any affiliate of the Manager currently has an investment.

### **Section 16(a) Beneficial Ownership Reporting Compliance**

Pursuant to Section 16(a) of the Securities Exchange Act of 1934, our directors and executive officers, and any persons holding more than 10% of our common stock, are required to report their beneficial ownership and any changes therein to the Securities and Exchange Commission and us. Specific due dates for those reports have been established, and we are required to report herein any failure to file such reports by those due dates. Based on our review of Forms 3, 4 and 5 filed by such persons, and information provided by our directors and officers, we believe that during the fiscal year ended June 30, 2012, all Section 16(a) filing requirements applicable to such persons were met in a timely manner.

**Proposal II: Ratification of Independent  
Registered Public Accounting Firm**

The 1940 Act requires that the Company's independent registered public accounting firm be selected by a majority of the independent directors of the Company. One of the purposes of the Audit Committee is to recommend to the Company's Board of Directors the selection, retention or termination of the independent registered public accounting firm for the Company. The Company's independent registered public accounting firm for the fiscal year ended June 30, 2012 was BDO. At a meeting held on August 21, 2012 and September 5, the Company's Audit Committee recommended and the Company's Board, including a majority of the independent directors, approved the selection of BDO as the Company's independent registered public accounting firm for the fiscal year ending June 30, 2013. Neither the 1940 Act nor the NASDAQ rules require that the Board's selection of BDO be submitted for ratification by our stockholders but the Company believes that submitting ratification of BDO to the stockholders is prudent and enables stockholders to exercise greater autonomy over the corporate actions of the Company. The Company expects to interview and appoint a new auditor in the event the Company's stockholders do not approve the ratification of BDO as independent registered public accounting firm for the fiscal year ending June 30, 2013. We expect that a representative of BDO will be present at the Annual Meeting and will have an opportunity to make a statement if he or she so chooses and will be available to respond to appropriate questions. After reviewing the Company's audited financial statements for the fiscal year ending June 30, 2012, the Company's Audit Committee recommended to the Company's Board that such statements be included in the Company's Annual Report to stockholders. A copy of the Audit Committee report appears below.

The Audit Committee and the Board of Directors have considered the independence of BDO and have concluded that BDO is independent as required by Independence Standards Board Standard No. 1. In connection with their determination, BDO has advised the Company that neither the firm nor any present member or associate of it has any material financial interest, direct or indirect, in the Company or its affiliates.

*Audit Fees.* Audit fees consist of fees billed for professional services rendered for the audit of our year-end financial statements included in the Company's Annual Report on Form 10-K and a review of financial statements included in the Company's Quarterly Reports on Form 10-Q, or services that are normally provided by BDO in connection with statutory and regulatory filings for the past two fiscal years. Audit fees incurred by the Company for its fiscal years ended June 30, 2012 and June 30, 2011 were approximately \$899,000 and \$701,000, respectively. Audit fees incurred by Company for the audit of its internal controls under Sarbanes-Oxley Section 404 in conjunction with its fiscal years ended June 30, 2012 and June 30, 2011 were approximately \$94,000 and \$105,000, respectively. Fees incurred by the Company for review of its shelf registration, secondary offerings and debt issuances were approximately \$264,000 and \$323,000 for the fiscal years ended June 30, 2012 and June 30, 2011, respectively.

*Audit-Related Fees.* Audit-related services consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements and are not reported under "Audit Fees." These services include attest services that are not required by statute or regulation and consultations concerning financial accounting and reporting standards. The Company incurred audit-related fees with Citrin Cooperman & Co. LLP in the amount of approximately \$59,000 and \$87,000, respectively, for the annual review of its internal controls program under Sarbanes-Oxley Section 404 in connection with the fiscal years ended June 30, 2012 and June 30, 2011.

*Tax Fees.* Tax fees consist of fees billed for professional services for tax compliance. These services include assistance regarding federal, state, and local tax compliance. The Company has a tax year end of August 31. Tax fees incurred by the Company were approximately \$58,000 and \$48,000 for its tax years ended June 30, 2012 and June 30, 2011, respectively, and include services for BDO's provision of tax preparation services and the execution and filing of the Company's tax returns.

*All Other Fees.* All other fees would include fees for products and services other than the services reported above. The Company incurred no such fees for the past two fiscal years.

**Audit Committee Report(1)**

The following is the report of the Audit Committee with respect to the Company's audited financial statements for the fiscal year ended June 30, 2012.

The Audit Committee has reviewed and discussed the Company's audited financial statements with management and BDO USA, LLP, the Company's independent registered public accounting firm ("BDO"), with and without management present. The Audit Committee included in its review results of BDO's examinations, the Company's disclosure controls and procedures, and the quality of the Company's financial reporting. The Audit Committee also reviewed the Company's procedures and disclosure controls designed to ensure full, fair and adequate financial reporting and disclosures, including procedures for certifications by the Company's chief executive officer and chief financial officer that are required in periodic reports filed by the Company with the Securities and Exchange Commission (the "Commission"). The Audit Committee is satisfied that the Company's disclosure controls and procedures are adequate and that the Company employs appropriate accounting and auditing procedures.

The Audit Committee also has discussed with BDO matters relating to BDO's judgments about the quality, as well as the acceptability, of the Company's accounting principles as applied in its financial reporting as required by Statement of Auditing Standards No. 61, as amended. In addition, the Audit Committee has discussed with BDO their independence from management and the Company, as well as the matters in the written disclosures received from BDO and required by Public Company Accounting Oversight Board Rule 3526, "Communication with Audit Committees Concerning Independence." The Audit Committee received oral communications from BDO confirming their independence and discussed the matter with BDO. The Audit Committee discussed and reviewed with BDO the Company's critical accounting policies and practices, disclosure controls, other material written communications to management, and the scope of BDO's audits and all fees paid to BDO during the fiscal year. Pursuant to the Audit Committee charter, the Audit Committee may review and pre-approve audit and permissible non-audit services performed by BDO for the Company. The Audit Committee may delegate pre-approval authority to one or more of its members. The member or members to whom such authority is delegated shall report any pre-approval decisions to the Audit Committee at its next scheduled meeting. The Audit Committee does not delegate its responsibilities to pre-approve services performed by the independent registered public accounting firm to management. The Audit Committee has reviewed and considered the compatibility of BDO's performance of non-audit services with the maintenance of BDO's independence as the Company's independent registered public accounting firm.

Based on the Audit Committee's review and discussions referred to above, the Audit Committee recommended to the Board of Directors that the Company's audited financial statements for the fiscal year ended June 30, 2012 be included in the Company's Annual Report on Form 10-K for the same fiscal year for filing with the Commission. In addition, the Audit Committee has engaged BDO to serve as the Company's independent registered public accounting firm for the fiscal year ending June 30, 2013.

Respectfully Submitted,  
The Audit Committee  
Eugene S. Stark, *Chairman*  
Andrew C. Cooper  
William J. Grempe

August 21, 2012

- (1) The material in this report is not "soliciting material," is not deemed "filed" with the Commission, and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

**The Board of Directors recommends that you vote "FOR" Ratifying the Selection of BDO as the Independent Registered Public Accounting Firm for the fiscal year ending June 30, 2013.**

**Proposal III: Authorization of the Company to Sell or Otherwise Issue Shares of its Common Stock at a Price Below its Then Current Net Asset Value Per Share Subject to the Conditions Set Forth in This Proposal**

We are a closed-end investment company that has elected to be regulated as a BDC under the 1940 Act. Generally, the 1940 Act prohibits us from selling shares of our common stock at a price below the current net asset value, or NAV, per share of such stock. However, certain provisions of the 1940 Act permit such a sale if approved by our stockholders and, in certain cases, if our Board of Directors makes certain determinations.

Pursuant to this provision, we are seeking the approval of our common stockholders so that we may, in one or more public or private offerings of our common stock, sell or otherwise issue shares of our common stock at a price below our then current NAV per share, subject to certain conditions discussed below. If approved, the authorization would be effective for a twelve month period expiring on the anniversary of the date the Annual Meeting is concluded.

The Company's Board of Directors, including a majority of the independent Directors who have no financial interest in this proposal, has approved this proposal as in the best interests of the Company and its stockholders and recommends it to the stockholders for their approval. Upon obtaining the requisite stockholder approval, the Company will comply with the conditions described below in connection with any financing undertaken pursuant to this proposal.

It should be noted that the maximum number of shares salable below NAV on any given date pursuant to this authority that could result in such dilution is limited to 25% of the Company's then outstanding common stock immediately prior to such date. There is no maximum level of discount from NAV at which we may sell shares pursuant to this authority. *See below for a discussion and examples of the dilutive effect of the sale of shares below NAV.*

**Reasons to Offer Common Stock Below NAV Per Share**

We believe that market conditions will continue to provide attractive opportunities to deploy capital. Over the past several years, U.S. credit markets, including middle market lending, experienced significant turbulence spurred in large part by the sub-prime residential mortgage crisis and concerns generally about the state of the U.S. economy. This led to significant stock price volatility for capital providers like us and made access to capital more challenging for many firms, particularly those (unlike us) who have relied heavily on secured lending facilities. These factors accelerated during the second half of 2008 and much of 2009, when the number of investors selling assets in order to repay debt or meet equity redemption requirements or other obligations increased significantly. This created forced selling that negatively impacted valuations of debt securities in most markets. The negative pressure on valuations contributed to significant unrealized write-downs of debt investments of many finance companies, including investments in the Company's portfolio. However, the change in market conditions also has had beneficial effects for capital providers, including more appropriate pricing of risk and more favorable contractual terms.

Market conditions began to improve in 2009 through 2011; however, markets recently have experienced another disruption due to, among other things, uncertainty surrounding U.S. lawmakers' agreement to raise the federal debt ceiling, including a fiscal consolidation plan, and the Standard & Poor's downgrade of the long term sovereign credit rating of the United States of America and the credit rating of several related government agencies and institutions. Although we are seeing increased stability over recent months, there can be no assurance that the financial markets will not worsen again in the future. If these adverse market conditions return, we and other companies in the financial services sector may not have access to sufficient debt and equity capital in order to take advantage of favorable investment opportunities. Capital may not be available to us on favorable terms, or at all, in light of the inherent uncertainty and volatility of the financial markets. The current economic

environment gives firms that have access to capital a significant advantage. Even with the recent market disruption, we still believe that there are opportunities in the secondary market and, accordingly, firms that continue to have access to capital in the current environment will have investment opportunities on more favorable terms than have been available in recent periods. Our ability to take advantage of these opportunities is dependent upon, among other things, our access to equity capital.

As a BDC and a RIC, for tax purposes, we are dependent on our ability to raise capital through the issuance of common stock. RICs generally must distribute substantially all of their earnings to stockholders as dividends in order to avoid being subject to U.S. federal income tax, which prevents us from using those earnings to support new investments. Further, BDCs must as a practical matter maintain a debt and preferred stock to common equity ratio of no more than 1:1, which requires us to finance our investments with at least as much common equity as debt and preferred stock in the aggregate. Exceeding the 1:1 debt to equity ratio could have severe negative consequences for a BDC, including the inability to pay dividends, breaching debt covenants and failure to qualify for tax treatment as a RIC. Although the Company does not currently expect that it will exceed this 1:1 debt to equity ratio, the markets it operates in and the general economy remain volatile and uncertain. Continued volatility in the capital markets and the resulting negative pressure on debt investment valuations could negatively impact the Company's asset valuations, stockholders' equity and the Company's debt to equity ratio. We maintain sources of liquidity through our maintenance of a credit facility and other means, but generally attempt to remain close to fully invested and do not hold substantial cash for the purpose of making new investments. Therefore, to continue to build our investment portfolio, and thereby support maintenance and growth of our dividends, we endeavor to maintain continuing access to capital through the public and private equity markets enabling us to take advantage of investment opportunities as they arise.

Even though the underlying performance of a particular portfolio company may not necessarily indicate impairment or its inability to repay all principal and interest in full, the volatility in the debt capital markets may continue to negatively impact the valuations of debt investments and result in further unrealized write-downs of those debt investments. These unrealized write-downs, as well as unrealized write-downs based on the underlying performance of the Company's portfolio companies, if any, negatively impact stockholders' equity and the resulting debt to equity ratio.

As noted above, market disruption had resulted in good opportunities to invest at attractive risk-adjusted returns. However, the extreme volatility and dislocation that the capital markets had experienced also materially and adversely impacted the broader financial and credit markets and reduced the availability of debt and equity capital for the market as a whole and financial services firms in particular. If these adverse market conditions return and/or worsen in the future, the Company and other companies in the financial services sector may not have access to sufficient debt and equity capital in order to take advantage of these good investment opportunities. In addition, the debt capital that will be available, if at all, may be at a higher cost and on less favorable terms and conditions in the future.

Shares of BDCs may trade at a market price that is less than the value of the net assets attributable to those shares, regardless of the performance of the BDC's investments. Recently our shares of common stock have traded at both a discount to and a premium over the net assets attributable to those shares. The possibility that our shares of common stock will trade at discounts from NAV or at premiums that are unsustainable over the long term is a risk separate and distinct from the risk that our NAV will decrease. It is not possible to predict whether the shares that may be offered pursuant to this approval will trade at, above, or below NAV. The following table lists the high and low closing sales prices for our common stock, and the sales price as a percentage of NAV per share. On August 21, 2012, the last reported closing sale price of our common stock was \$11.36 per

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share, which represented a premium of approximately 4.9% to our last reported NAV per share as of June 30, 2012 of \$10.83.

	NAV		Stock Price		Premium (Discount)	
	Per Share(1)		High(2)	Low(2)	High	Low
<b>Twelve Months Ending June 30, 2009</b>						
First quarter	\$ 14.63	\$ 14.24	\$ 11.12		(2.7)%	(24.0)%
Second quarter	14.43	13.08	6.29		(9.4)%	(56.4)%
Third quarter	14.19	12.89	6.38		(9.2)%	(55.0)%
Fourth quarter	12.40	10.48	7.95		(15.5)%	(35.9)%
<b>Twelve Months Ending June 30, 2010</b>						
First quarter	\$ 11.11	\$ 10.99	\$ 8.82		(1.1)%	(20.6)%
Second quarter	10.10	12.31	9.93		21.9%	(1.7)%
Third quarter	10.12	13.20	10.45		30.4%	3.3%
Fourth quarter	10.30	12.20	9.65		18.4%	(6.3)%
<b>Twelve Months Ending June 30, 2011</b>						
First quarter	\$ 10.24	\$ 10.00	\$ 9.18		(2.3)%	(10.4)%
Second quarter	10.25	10.86	9.69		6.0%	(5.5)%
Third quarter	10.33	12.33	10.72		19.4%	3.8%
Fourth quarter	10.36	12.18	9.95		17.6%	(4.0)%
<b>Twelve Months Ending June 30, 2012</b>						
First quarter	\$ 10.41	\$ 10.18	\$ 7.14		(2.2)%	(28.8)%
Second quarter	10.69	9.88	7.99		7.6%	(25.3)%
Third quarter	10.82	11.39	9.43		5.3%	(12.8)%
Fourth quarter	10.83	11.39	10.55		5.2%	(2.5)%
<b>Twelve Months Ending June 30, 2013</b>						
First quarter (to August 21, 2012)	\$ (3)	\$ 11.90	\$ 10.83		%(3)	%(3)

- (1) NAV per share is determined as of the last day in the relevant quarter and therefore may not reflect the NAV per share on the date of the high or low sales price. The net asset values shown are based on outstanding shares at the end of each period.
- (2) The High/Low stock price is calculated as of the closing price on a given day in the applicable quarter.
- (3) NAV per share has not yet been determined for any day after June 30, 2012.

At the 2008, 2009, 2010 and 2011 Annual Meetings of Stockholders held on February 12, 2009, December 11, 2009, December 10, 2010, and December 8, 2011, respectively, the stockholders authorized the Company, with the approval of its Board of Directors, to issue shares of its common stock at a price below NAV per share. The current authorization will expire on the one year anniversary of the completion of the 2011 Annual Meeting of Stockholders. Pursuant to authority from

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our stockholders and the approval of our Board of Directors, we have made the following offerings below NAV per share:

Date of Offering	Price Per Share to Investors	Shares Issued
March 18, 2009	\$8.20	1,500,000
April 22, 2009	\$7.75	3,680,000
May 19, 2009	\$8.25	7,762,500
July 7, 2009	\$9.00	5,175,000
August 20, 2009	\$8.50	3,449,686
September 24, 2009	\$9.00	2,807,111
June 21, 2010 to June 25, 2010(1)	\$10.01 - \$10.67	1,072,500
June 28, 2010 to July 16, 2010(2)	\$9.47 - \$10.04	2,748,600
July 19, 2010 to August 19, 2010(3)	\$9.28 - \$10.04	3,814,528
September 7, 2010 to September 23, 2010(4)	\$9.47 - \$9.98	2,185,472
September 24, 2010 to September 27, 2010(5)	\$9.74 - \$9.92	302,400
September 28, 2010 to October 29, 2010(6)	\$9.65 - \$10.09	4,929,556
November 11, 2010 to December 10, 2010(7)	\$9.70 - \$10.54	4,513,920
June 24, 2011(8)	\$10.15	10,000,000
July 18, 2011	\$10.15	1,500,000

- (1) At the market offering. Dates of offering represent the sales dates of the stock. The settlement dates are three business days later or June 24, 2010 to June 30, 2010.
- (2) At the market offering. Dates of offering represent the sales dates of the stock. The settlement dates are three business days later or July 1, 2010 to July 21, 2010.
- (3) At the market offering. Dates of offering represent the sales dates of the stock. The settlement dates are three business days later or July 22, 2010 to August 24, 2010.
- (4) At the market offering. Dates of offering represent the sales dates of the stock. The settlement dates are three business days later or September 10, 2010 to September 28, 2010.
- (5) At the market offering. Dates of offering represent the sales dates of the stock. The settlement dates are three business days later or September 29, 2010 to September 30, 2010.
- (6) At the market offering. Dates of offering represent the sales dates of the stock. The settlement dates are three business days later or October 1, 2010 to November 3, 2010.
- (7) At the market offering. Dates of offering represent the sales dates of the stock. The settlement dates are three business days later or November 16, 2010 to December 15, 2010.
- (8) On July 18, 2011, the underwriter exercised its option to purchase an additional 1,500,000 shares at \$10.15.

The current stockholder authorization will expire on the one year anniversary of the completion of the 2011 Annual Meeting of Stockholders. To date, we have not offered shares of our common stock at a price below NAV per share pursuant to the current stockholder authorization.

The Board of Directors believes that having the flexibility to issue our common stock below NAV per share in certain instances is in the best interests of stockholders. If we were unable to access the capital markets as attractive investment opportunities arise, our ability to grow over time and continue to pay steady or increasing dividends to stockholders could be adversely affected. It could also have the





effect of forcing us to sell assets that we would not otherwise sell, and such sales could occur at times that are disadvantageous to sell. We could also expend considerable time and resources on a capital raise advantageous for stockholders, but be forced to abandon it solely due to stock market activity causing our stock price to dip momentarily below our NAV per share. Even if we are able to access the capital markets, there is no guarantee that we will grow over time and continue to pay steady or increasing dividends. In addition, the Board of Directors believes that the Company's sales of common stock at less than NAV per share during 2009, 2010 and 2011 provided the Company with capital strength and flexibility and contributed to the strengthening of the Company's stock price. The Board of Directors believes that sales of common stock at less than NAV per share in the future could have either a positive or negative effect on the Company's stock price depending on a variety of factors, including the Company's use of the proceeds of such sales.

#### **Conditions to Sales Below NAV Per Share**

If this proposal is approved by a majority (as defined under " Required Vote" below) of the outstanding shares of common stock entitled to vote on the matter and is not also approved by a majority of the number of beneficial holders of our common stock entitled to vote on the matter, we will only sell shares of our common stock pursuant to such authority at a price below NAV per share if the following conditions are met:

a majority of our independent directors who have no financial interest in the sale have approved the sale; and

a majority of such directors, who are not interested persons of us, in consultation with the underwriter or underwriters of the offering if it is to be underwritten, have determined in good faith, and as of a time immediately prior to the first solicitation by or on behalf of us of firm commitments to purchase such securities or immediately prior to the issuance of such securities, that the price at which such securities are to be sold is not less than a price which closely approximates the market value of those securities, less any underwriting commission or discount, which could be substantial.

If this proposal is approved by a majority of the number of beneficial holders of our common stock entitled to vote on the matter, we may sell shares of our common stock at a price below NAV per share without satisfying the foregoing conditions.

Notwithstanding the foregoing, the maximum number of shares the Company may sell on any given date below NAV is limited to 25% of the Company's outstanding common stock immediately prior to such date. There is no maximum level of discount from NAV at which we may sell shares pursuant to this authority.

#### **Key Stockholder Considerations**

Before voting on this proposal or giving proxies with regard to this matter, stockholders should consider the potentially dilutive effect of the issuance of shares of our common stock at a price that is less than the NAV per share and the expenses associated with such issuance on the NAV per outstanding share of our common stock. Any sale of common stock at a price below NAV per share would result in an immediate dilution to existing common stockholders. This dilution would include reduction in the NAV per share as a result of the issuance of shares at a price below the NAV per share and a disproportionately greater decrease in a stockholder's interest in our earnings and assets and their voting interests than the increase in our assets resulting from such issuance. Our Board of Directors will consider the potential dilutive effect of the issuance of shares at a price below the NAV per share when considering whether to authorize any such issuance. Our Board of Directors also will consider, among other things, the fact that sales of common stock at a discount to net asset value will benefit the Company's investment advisor as the investment advisor will earn additional investment management fees on the proceeds of such offerings, as it would from the offering of any other securities of the Company or from the offering of common stock at a premium to NAV per share.

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In addition, if we are not successful with this proposal, we may utilize a rights offering in order to access the equity markets if we trade below NAV per share. A rights offering may be at a greater discount to NAV per share than an offering of our common stock at a price below our NAV per share because, among other things, a rights offering requires a long registration process and marketing period which might result in greater share price erosion. As such, we believe that having the ability to issue our common stock below NAV per share in accordance with the terms of this proposal would, in many instances, be preferable to such an issuance pursuant to a rights offering.

The 1940 Act establishes a connection between common stock sale price and NAV per share because, when stock is sold at a sale price below NAV per share, the resulting increase in the number of outstanding shares reduces NAV per share. Stockholders should also consider that they will have no subscription, preferential or preemptive rights to additional shares of the common stock proposed to be authorized for issuance, and thus any future issuance of common stock will dilute such stockholders' holdings of common stock as a percentage of shares outstanding to the extent stockholders do not purchase sufficient shares in the offering or otherwise to maintain their percentage interest. Further, if our current stockholders do not purchase any shares to maintain their percentage interest, regardless of whether such offering is above or below the then current NAV per share, their voting power will be diluted.

Stockholders should also be aware that we have previously obtained stockholder approval to sell warrants, options or rights to subscribe to, convert or to purchase our voting securities if the issuance of such securities is approved by a majority of our directors who have no financial interest in such issuance and a majority of our independent directors. In accordance with the 1940 Act, the price of such voting securities may be less than NAV per share. This authority does not have an expiration date. Shares of common stock sold at prices below then current NAV upon exercise or conversion of any warrants or other securities issued under authority previously approved by shareholders in accordance with Section 61(a) of the 1940 Act will not be treated as having been sold at less than NAV per share for purposes of the authority being requested under this Proposal III.

### **Examples of Dilutive Effect of the Issuance of Shares Below NAV Per Share**

The following table illustrates the level of net asset value dilution that would be experienced by a nonparticipating stockholder in three different hypothetical offerings of different sizes and levels of discount from net asset value per share, although it is not possible to predict the level of market price decline that may occur. Actual sales prices and discounts may differ from the presentation below. There is no maximum level of discount from NAV at which we may sell shares pursuant to this authority.

The examples assume that we have 170,000,000 common shares outstanding, \$2,591,100,000 in total assets and \$750,000,000 in total liabilities. The current net asset value and net asset value per share are thus \$1,841,100,000 and \$10.83. The table illustrates the dilutive effect on nonparticipating Stockholder A of (1) an offering of 8,500,000 shares (5% of the outstanding shares) at \$10.29 per share after offering expenses and commission (a 5% discount from net asset value); (2) an offering of 17,000,000 shares (10% of the outstanding shares) at \$9.75 per share after offering expenses and commissions (a 10% discount from net asset value); and (3) an offering of 42,500,000 shares (25% of the outstanding shares) at \$8.12 per share after offering expenses and commissions (a 25% discount from net asset value).

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		Example 1 5% Offering at 5% Discount		Example 2 10% Offering at 10% Discount		Example 3 25% Offering at 25% Discount	
	Prior to Sale Below NAV	Following Sale	% Change	Following Sale	% Change	Following Sale	% Change
<b>Offering Price</b>							
Price per Share to Public		\$ 10.89		\$ 10.29		\$ 8.56	
Net Proceeds per Share to Issuer		\$ 10.29		\$ 9.75		\$ 8.12	
<b>Decrease to NAV</b>							
Total Shares Outstanding	170,000,000	178,500,000	5.00%	187,000,000	10.00%		