

PROSPECT CAPITAL CORP  
Form DEF 14A  
October 19, 2007

**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**

**Filed by the Registrant**  X  
Filed by a Party other than the Registrant  O  
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 Pursuant to Rule 14a-11(c) or Rule 14a-12

**Prospect Capital Corporation  
(Name of Registrant as Specified in Its Charter)**

**(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):
  - (4) Proposed maximum aggregate value of transaction:
  - (5) Total fee paid:
- Fee paid previously with preliminary materials.
- 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.
  - (1)

- Amount previously paid:
- (2) Form, schedule or registration statement no.:
- (3) Filing party:
- (4) Date filed:

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

October 19, 2007

Dear Stockholder:

You are cordially invited to attend the 2007 Annual Meeting of Stockholders of Prospect Capital Corporation (the "Company") to be held on Thursday November 29, 2007 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 provides an outline of the business to be conducted at the meeting. At the meeting, you will be asked to elect one director of the Company and to ratify the selection of BDO Seidman, LLP to serve as the Company's independent registered public accounting firm for the fiscal year ending June 30, 2008. I will also report on the progress of the Company during the past year and answer stockholders' questions.

We are taking advantage of new Securities and Exchange Commission rule that allows companies to furnish proxy materials to their stockholders over the Internet. We believe the new rule will allow us to provide stockholders with the information they need, while lowering our costs of delivery and reducing the environmental impact of our Annual Meeting. On October 19, 2007, we mailed to our stockholders a Notice containing instructions on how to access our Proxy Statement and Annual Report and vote online. The Notice contains instructions on how you can receive a paper copy of the Proxy Statement and Annual Report.

It is important that your shares be represented at the Annual Meeting. Please complete the form of proxy so that your shares can be voted if you do not attend the meeting. If you are present at the meeting and want to vote your shares personally, your form of proxy, if previously requested will be withheld from voting upon your request prior to balloting. You may vote your shares via a toll-free telephone number or over the Internet. If you requested to receive a paper copy of the proxy card by mail, you may sign, date and mail the proxy card in the envelope provided. Instructions regarding all three methods of voting are contained on the proxy card. Your vote is very important to us. I urge you to vote your proxy as soon as possible.

Sincerely yours,

John F. Barry  
Chief Executive Officer

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**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 NOVEMBER 29, 2007**

To the Stockholders of Prospect Capital Corporation:

## Edgar Filing: PROSPECT CAPITAL CORP - Form DEF 14A

The 2007 Annual Meeting of Stockholders of Prospect Capital Corporation (the "Company") will be held at the offices of the Company, 10 East 40th Street, 44th Floor, New York, New York 10016 on Thursday November 29, 2007 at 10:30 a.m. Eastern Time for the following purposes:

1. To elect one Class III director of the Company, to serve for a term of three years, or until his successor is duly elected and qualified; and
2. To ratify the selection of BDO Seidman, LLP to serve as the Company's independent registered public accounting firm for the fiscal year ending June 30, 2008; and
3. To transact such other business as may properly come before the Annual Meeting.

You have the right to receive notice of and to vote at the meeting if you were a stockholder of record at the close of business on October 9, 2007. You may vote your shares via a toll-free telephone number or over the Internet. If you requested to receive a paper copy of the proxy card by mail, you may sign, date and mail the proxy card in the envelope provided. Instructions regarding all three methods of voting are contained on the proxy card. If you are present at the meeting and want to vote your shares personally, your form of proxy will be withheld from voting upon your request prior to balloting. In the event there are not sufficient votes for a quorum or to approve a proposal at the time of the Annual Meeting, the Annual Meeting may be adjourned in order to permit further solicitation of proxies by the Company.

By Order of the Board of Directors,

William E. Vastardis  
Chief Compliance Officer, Chief Financial Officer  
Treasurer and Secretary

New York, New York  
October 19, 2007

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

### **PROXY STATEMENT**

#### **2007 Annual Meeting of Stockholders**

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of Prospect Capital Corporation (the "Company," "we," "us" or "our") for use at the Company's 2007 Annual Meeting of Stockholders to be held on Thursday, November 29, 2007, at 10:30 a.m. Eastern Standard Time at the offices of the Company, 10 East 40<sup>th</sup> Street, 44th Floor, New York, New York 10016 and at any postponements or adjournments thereof (the "Meeting"). This Proxy Statement and, the accompanying proxy card are first being made available to stockholders on or about October 19, 2007.

We encourage you to vote your shares, either by voting in person at the 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 vote by telephone or through the Internet, and the Company receives it in time for the 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 each of the nominees as directors, FOR the ratification of the Company's independent registered public accounting firm, and in the discretion of the persons named as proxies in connection with any other matter which may properly come before the Meeting.**

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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 Meeting. Any stockholder of record attending the Meeting may vote in person whether or not he or she has previously voted his or her shares.

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 Meeting only if you obtain proper written authority from your institution or nominee and present it at the 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, October 9, 2007.

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.

### **Purpose of Meeting**

At the Meeting, you will be asked to vote on the following proposals:

1. To elect one Class III director of the Company, to serve for a term of three years, or until his successor is duly elected and qualified; and
2. To ratify the selection of BDO Seidman, LLP ("BDO") to serve as the Company's independent registered public accounting firm for the fiscal year ending June 30, 2008; and
3. To transact such other business as may properly come before the Meeting.

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### **Internet Access**

Pursuant to the new rules recently adopted by the Securities and Exchange Commission, the Company has elected to provide access to its proxy materials over the Internet. Accordingly, the Company is mailing a Notice Regarding Availability of Proxy Materials (the "Notice") to our stockholders of record and beneficial owners. All stockholders will have the ability to access the proxy materials on a website referred to in the Notice or request to receive a printed set of the proxy materials. Instructions on how to access the proxy materials over the Internet or to request a printed copy may be found in the Notice. In addition, stockholders may request to receive proxy materials in printed form by mail or electronically by email on an ongoing basis.

The Notice will provide you with instructions regarding how to:

- ◆ View the proxy materials for the Annual Meeting on the Internet; and
- ◆ Instruct the Company to send our future proxy materials to you electronically by email.

Choosing to receive your future proxy materials by email will save the Company the cost of printing and mailing documents to you and will reduce the impact of annual stockholders' meetings on the environment. If you choose to receive future proxy materials by email, you will receive an email next year with instructions containing a link to those materials and a link to the proxy voting site. Your election to receive proxy materials by email will remain in effect until you terminate it.

### **Voting Securities**

You may vote your shares at the Meeting only if you were a stockholder of record at the close of business on October 9, 2007 (the "Record Date"). There were 20,021,138 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**

A quorum must be present at the Meeting for any business to be conducted. The presence at the Meeting, in person or by proxy, of the holders of shares of stock of the Company representing a majority of the shares outstanding on the Record Date will constitute a quorum. Shares that are represented at the Meeting but are held by a broker or other nominee for which the nominee has not received voting instructions from the record holder and does not have discretionary authority to vote the shares on certain proposals (which are considered broker non-votes with respect to such proposals), if any, will be treated as shares present for quorum purposes.

If a quorum is not present at the Meeting or if there are not sufficient votes to approve a proposal, the stockholders who are represented may adjourn the Meeting. The persons named as proxies will vote those proxies for such adjournment, unless marked to be voted against any proposal for which an adjournment is sought, to permit the further solicitation of proxies.

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### **Vote Required**

*Election of Directors.* The election of a director requires a plurality of all the votes cast at a meeting of stockholders duly called and at which a quorum is present. Stockholders may not cumulate their votes. If you vote Withhold Authority with respect to a nominee, your shares will not be voted with respect to the person indicated. Because directors are elected by a plurality of the votes, abstentions will have no effect on the election of directors.

*Ratification of Independent Registered Public Accounting Firm.* The affirmative vote of a majority of the votes cast at the Meeting in person or by proxy 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.

*Additional Solicitation.* If there are not enough votes to approve a proposal at the Meeting, the stockholders who are represented may adjourn the Meeting to permit the further solicitation of proxies with respect to that proposal. The persons named as proxies will vote those proxies for such adjournment, unless marked to be voted against any proposal for which an adjournment is sought, to permit the further solicitation of proxies.

### **Information Regarding This Solicitation**

The Company will bear the expense of the solicitation of proxies for the 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 and/or Prospect Capital Management, LLC (PCM), the Company's investment adviser. PCM is located at 10 East 40th Street, 44th Floor, New York, New York 10016. Certain other members of the affiliated present and predecessor companies of PCM are referred to as Prospect. No additional compensation will be paid to directors, officers or regular employees for such services.

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 vote via the Internet, in addition to confirming their voting instructions prior to submission, will also receive an e-mail confirming their instructions upon request.

If a stockholder wishes to participate in the Meeting, but does not wish to provide voting instructions by telephone or electronically, the stockholder may still submit a proxy card or attend in person. Merely attending the Meeting without voting at the Meeting, however, will not revoke any previously given proxy. Should stockholders require additional information regarding the Proxy Statement or require a replacement proxy card, they may contact the Company at 1-212-448-0702 or Broadridge Financial Solutions, Inc., a proxy solicitor on behalf of the Company.

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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 signed by the stockholder in the same manner as the proxy being revoked and delivered to the Company's 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 October 9, 2007, the beneficial ownership of each current director, the nominees for director, the Company's executive officers, and the executive officers and directors as a group. As of October 9, 2007, there were no persons known to us who beneficially own 5% or more of the outstanding shares of our common stock.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission (the "Commission") and includes voting or investment power with respect to the securities. Ownership information for those persons, if any, who beneficially own 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.

Unless otherwise indicated, the Company believes that each beneficial owner set forth in the table has sole voting and investment power 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	Amount and Nature of Beneficial Ownership	Percentage of Class <sup>(1)</sup>
<b>Interested Directors</b>		
John F. Barry	425,889.352 <sup>(2)</sup>	2.1%
M. Grier Eliasek	3,286.805	*
<b>Independent Directors</b>		
William J. Grep	1,400.000	*
F. Lee Liebolt, Jr.	200.000	*
Walter V.E. Parker	100.000	*
<b>Executive Officers</b>		
William E. Vastardis	11,633.786	*
<b>Executive officers and directors as a group</b>	<b>442,509.943</b>	<b>2.2%</b>

\* Represents less than one percent.

(1)

Based on a total of 20,021,138 shares of the Company's common stock issued and outstanding as of October 9, 2007.

- (2) Includes indirect beneficial ownership of 181,680.584 shares of the Company's common stock through Prospect Capital Management, LLC, the Company's investment adviser.

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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 October 9, 2007. 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	Paragraph Range of Equity Securities Beneficially Owned <sup>(1)(2)(3)</sup>
<b>Interested Directors</b>	
John F. Barry	Over \$100,000 <sup>(4)</sup>
M. Grier Eliasek	\$50,001-\$100,000
<b>Independent Directors</b>	
William J. Grep	\$10,001-\$50,000
F. Lee Liebolt, Jr.	\$1-\$10,000
Walter V.E. Parker	\$1-\$10,000

- (1) Beneficial ownership has been determined in accordance with Rule 16a-1(a)(2) under the Securities Exchange Act of 1934.
- (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 equity securities beneficially owned in the Company is based on the closing price of \$17.15 on October 9, 2007 on the Nasdaq Stock Market.
- (4) Includes indirect beneficial ownership of 181,680.584 shares of the Company's common stock through Prospect Capital Management, LLC, the Company's investment adviser.

**PROPOSAL I: ELECTION OF DIRECTORS**

Pursuant to the Company's bylaws, the Board of Directors may modify the number of members of the Board provided that the number thereof shall never be less than three nor more than eight. In accordance with the bylaws, the Company currently has five members of the Board of Directors. Directors are elected for a staggered term of three years each, with a term of office of one of the three classes of directors expiring each year. Each director will hold office for the term to which he or she is elected or until his or her successor is duly elected and qualifies.

A stockholder can vote for or withhold his or her vote from the 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.

**The Board Of Directors Recommends That You Vote FOR The Election Of The Nominee Named In This Proxy Statement.**

**Information about the Nominees and Directors**

Certain information with respect to the Class III nominee for election at the 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.

Mr. John F. Barry has been nominated for election as a Class III director for a three year term expiring in 2010. Mr. Barry is not being proposed for election pursuant to any agreement or understanding with any other Director or the Company.

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**Nominee for Class III Director ☐ Term Expiring in 2007****Interested Director**

*The following director is an ☐interested person☐ as defined by the Investment Company Act of 1940.*

<b>Name, Address and Year of Birth (1)</b>	<b>Position(s) Held with Company</b>	<b>Term of 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 (2)</b>
John F. Barry, 1952(4)	Director Chairman of the Board Chief Executive Officer	Class III Director since June 2004; Term expires 2007	Chairman and Chief Executive Officer of the Company; Managing Director and Chairman of the Investment Committee of PCM and Prospect Administration, LLC since June 2004; Managing Director of Prospect.	None

**Continuing Directors (not up for election at the Meeting)  
Class I Director ☐ Term Expiring in 2008****Independent Directors**

*The following director is not an ☐interested person☐ as defined in the Investment Company Act of 1940.*

<b>Name, Address and Year of Birth (1)</b>	<b>Position(s) Held with Company</b>	<b>Term of 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 (2)</b>
Walter V.E. Parker, 1947	Director	Class I Director since June 2004; Term Expires 2008	Upon completion in 2007 of his responsibilities as Executive Director of the Greenwich Land Trust, Inc., a not for profit land preservation organization, Mr. Parker resumed his management and financial advisory consulting practice. From 1999 to 2004, Mr. Parker served as a founding principal in the Sippican Group, LLC, a financial advisory firm.	None



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F. Lee Liebolt, Jr., 1941	Director	Class I Director since September 2006; Term Expires 2008	Mr. Liebolt is a lawyer in private practice. From September 2005 to August 2006, he was senior counsel at Harkins Cunningham LLP. Prior thereto, Mr. Liebolt practiced at Sidley Austin Brown & Wood LLP certain predecessor firms as a partner (1976 to 2002) and as senior counsel (January 2003 to August 2005).	None
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**Class II Director ☐ Term Expiring in 2009**

**Independent Director**

*The following director is not an ☐interested person☐ as defined in the Investment Company Act of 1940.*

Name, Address and Year of Birth (1)	Position(s) Held with Company	Term of Office and Length of Time Served	Principal Occupation(s) During Past 5 Years	Other Directorships Held by Director or Nominee for Director (2)
William J. Grempe, 1942	Director	Class II Director since June 2006; Term expires 2009	Mr. Grempe has been responsible for traditional banking services, credit and lending, private equity and corporate cash management with Merrill Lynch & Co. since 1999.	None

**Interested Director**

*The following director is an ☐interested person☐ as defined by the Investment Company Act of 1940.*

Name, Address and Year of Birth (1)	Position(s) Held with Company	Term of Office and Length of Time Served	Principal Occupation(s) During Past 5 Years	Other Directorships Held by Director or Nominee for Director (2)
M. Grier Eliasek, 1973 (3)	Director	Class II Director since June 2004; Term expires 2009	President and Chief Operating Officer of the Company, Managing Director of Prospect Capital Management, LLC and Prospect Administration, LLC.	None

(1) The business address of the director nominees and other directors and executive officers is c/o Prospect Energy Corporation, 10 East 40th Street, 44th Floor, New York, New York 10016.

(2) No director otherwise serves as a director of an investment company subject to the 1940 Act.

(3) Mr. Eliasek is an interested director due to his position as an officer of PCM.

- (4) Mr. Barry is an interested director due to his position as an officer of PCM.

**Committees of the Board of Directors**

Our Board of Directors has established an Audit Committee and a Nominating and Corporate Governance Committee. For the fiscal year ended June 30, 2007, the Board of Directors of the Company held 16 Board meetings, 10 Audit Committee meetings, and 3 Nominating and Corporate Governance Committee meetings. All directors attended at least 75% of the aggregate number of meetings of the Board and of the respective committees on which they served. The Company requires each director to make a diligent effort to attend all board and committee meetings, as well as each annual meeting of stockholders.

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*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 (the "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. Gremp, Liebolt and Parker, each of whom is not an "interested person" as defined in the 1940 Act and is considered independent under the National Association of Securities Dealers' Marketplace Rules (the "NASD Marketplace Rules"). The Company's Board of Directors has determined that Mr. Parker is an "audit committee financial expert" as that term is defined under Item 401 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.

The function of the Audit Committee is oversight. Management of the Company 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 the Company's 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 the Company's shareholders. The Board of Directors and the Audit Committee have the ultimate authority and responsibility to select, evaluate and, where appropriate, replace the Company's independent accountants (subject, if applicable, to shareholder ratification).

In fulfilling their responsibilities, it is recognized that members of the Audit Committee are not full-time employees of the Company 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 the Company 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 the officers and employees of the Company, its investment adviser or other third parties as to any information technology, internal audit and other non-audit services provided by the independent accountants to the Company.

*The Nominating and Corporate Governance Committee.* The Nominating and Corporate Governance Committee (the "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 is presently composed of three persons: Messrs. Grempe, Liebolt, and Parker, each of whom is not an interested person as defined in Section 2(a)(19) of the 1940 Act.

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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 William E. Vastardis, Chief Compliance Officer, Chief Financial Officer, Treasurer and Secretary, 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 Company 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 NASD Marketplace 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 the needs of the Company and such factors as the individual's experience, perspective, skills and knowledge of the industry in which the Company operates. The Nominating and Governance Committee also may consider such other factors as it may deem are in the best interests of the Company and its stockholders. The Board of Directors also believes it is appropriate for certain key members of the Company's management to participate as members of the Board of Directors.

### **Corporate Governance**

#### *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*

The Company has adopted a code of conduct which applies to, among others, its senior officers, including its Chief Executive Officer and its Chief Financial Officer, as well as every employee of the Company. The Company's code of conduct is attached as an exhibit to the Company's 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>. The Company intends to disclose amendments to or waivers from a required provision of the code of conduct on Form 8-K.

#### *Code of Ethics*

The Company and PCM have each adopted a code of ethics pursuant to Rule 17j-1 under the 1940 Act that establishes procedures for personal investments and restricts certain personal securities transactions. 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 employees of the Company of concerns regarding questionable accounting or auditing matters. Persons with complaints or concerns regarding Accounting Matters may submit their complaints to the Company's Chief Compliance Officer ("CCO"). Persons who are uncomfortable submitting complaints to the CCO, including complaints involving the CCO, may submit complaints directly to the Company's Audit Committee Chairman (together with the CCO, "Complaint Officers"). Complaints may be submitted on an anonymous basis.

The CCO may be contacted at:

William E. Vastardis  
 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:

Walter V.E. Parker  
 Prospect Capital Corporation  
 Audit Committee Chairman  
 10 East 40th Street, 44th Floor  
 New York, New York 10016.

*Independent Directors*

The Board of Directors, in connection with the 1940 Act and NASD Marketplace Rules 4200(a)(15) and 4350(c), has considered the independence of members of the Board who are not employed by PCM and has concluded that Messrs. William Grempe, F. Lee Liebolt, Jr., and Walter V.E. Parker are not "interested persons" as defined by the 1940 Act and therefore qualify as independent directors under the standards promulgated by the NASD Marketplace Rules. In reaching this conclusion, the Board of Directors concluded that Messrs. Grempe, Liebolt, and Parker had no relationships with PCM or any of its affiliates, other than their positions as directors of the Company and, if applicable, investments in the Company that are on the same terms as those of other shareholders.

**Communication with the Board of Directors**

Stockholders with questions about the Company are encouraged to contact the Company. Shareholders may communicate with the Company or its Board of Directors by sending their communications to Prospect Capital Corporation, c/o William E. Vastardis, Chief Compliance Officer, Chief Financial Officer, Treasurer and Secretary, 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.

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

Name, Address and Year of Birth <sup>(1)</sup>	Position(s) Held with Company	Principal Occupation(s) During Past 5 Years
William E. Vastardis, 1955	Chief Compliance Officer, Chief Financial Officer, Treasurer and	Mr. Vastardis is a founder and President of Vastardis Fund Services LLC (formerly EOS Fund Services LLC) and Chief Executive Officer of Vastardis Compliance

	Secretary	Services LLC (formerly EOS Compliance Services LLC). Mr. Vastardis founded Vastardis Fund Services LLC in 2003 and Vastardis Compliance Services LLC in June 2004. Vastardis Compliance Services LLC performs chief compliance officer services for various registered investment companies and registered investment advisers. Prior to founding Vastardis Fund Services LLC, he managed a third-party fund administration firm, AMT Capital Services Inc., which was acquired by Investors Bank & Trust Company in 1998. Mr. Vastardis continued in the role of Managing Director at the renamed Investors Capital Services until he departed in 2003 to found Vastardis Fund Services LLC.
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- (1) The business address of Mr. Vastardis 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, 2007. 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 <sup>(1)</sup>	Total Compensation Paid to Director/Officer
<b>Interested Directors</b>			
John F. Barry	None	None	None
M. Grier Eliasek	None	None	None
<b>Independent Directors</b>			
Michael E. Basham(4)	\$ 20,417	None	\$ 20,417
Robert A. Davidson(4)	21,875	None	21,875
William J. Grempe(5)	64,385	None	64,385
F. Lee Liebolt, Jr.(6)	48,611	None	48,611
Walter V.E. Parker	75,000	None	75,000
<b>Executive Officers</b>			
William E. Vastardis(2)	(\$)	None	(\$)

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- (1) We do not have a bonus, profit sharing or retirement plan, and directors do not receive any pension or retirement benefits.
- (2) Mr. Vastardis has served as Chief Compliance Officer since January 4, 2005, and as Chief Financial Officer, Treasurer and Secretary since April 30, 2005.
- (3) The compensation of William E. Vastardis for his service as Chief Financial Officer and Treasurer of the Company is paid by Vastardis Fund Services LLC. Vastardis Fund Services was in turn paid by the Company at a monthly minimum rate of \$33,333.33 or annual fees on gross assets of 0.20% on the first \$250 million, 0.15% on the next

\$250 million, 0.10% on the next \$250 million, 0.075% on the next \$250 million and 0.05% over one billion. The compensation of William E. Vastardis for his service as Chief Compliance Officer of the Company is paid by Vastardis Compliance Services LLC. Vastardis Compliance Services LLC is in turn paid by the Company at a monthly rate of \$6,250. In addition, the Company pays Vastardis Compliance Services LLC for certain other services at the rate of \$270 per hour. Both Vastardis Fund Services LLC and Vastardis Compliance Services LLC determines the compensation to be paid to Mr. Vastardis with respect to the Company based on a case-by-case evaluation of the time and resources that is required to fulfill his duties to the Company. For the fiscal year ending June 30, 2007, the Company paid Vastardis Compliance Services LLC approximately \$75,000 for services rendered by Mr. Vastardis as Chief Compliance Officer from July 1, 2006 through June 30, 2007. For the fiscal year ending June 30, 2007, the Company paid Vastardis Fund Services LLC approximately \$491,925 for services rendered by Mr. Vastardis as Chief Financial Officer, Treasurer and Secretary from July 1, 2006 through June 30, 2007.

- (4) On September 15, 2006, Messrs. Basham and Davidson resigned from Prospect's board of directors.
- (5) On July 20, 2006, Mr. Grempp joined Prospect's board of directors.
- (6) On September 21, 2006, Mr. Liebolt joined Prospect's board of directors.

#### **Compensation of Directors**

The independent directors receive an annual fee of \$70,000 plus reimbursement of any reasonable out-of-pocket expenses incurred. The chairman of each committee also receives an additional annual fee of \$5,000. No compensation was paid to directors who are interested persons of the Company as defined in 1940 Act. In addition, the Company purchases directors' and officers' liability insurance on behalf of the directors and officers.

#### **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 by advisers affiliated with PCM. However, our investment adviser and other members of the affiliated present and predecessor companies of PCM (previously defined as "Prospect") 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 LLC 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. Prospect Administration LLC, pursuant to the approval of our Board of Directors, has engaged Vastardis Fund Services LLC to serve as the sub-administrator of the Company.

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

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

Pursuant to Section 16(a) of the Securities Exchange Act of 1934, the Company's directors and executive officers, and any persons holding more than 10% of its common stock, are required to report their beneficial ownership and any changes therein to the Securities and Exchange Commission and the Company. Specific due dates for those reports have been established, and the Company is required to report herein any failure to file such reports by those due dates. Based on the Company's review of Forms 3, 4 and 5 filed by such persons, the following table represents information with respect to late filings of such forms.

Name	Number of Late Reports	Number of Transactions that Were Not Reported on a Timely Basis	Known Failure to File a Required Form
None			

**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. A representative of BDO will not be present at the Meeting, but will be available by telephone and will have an opportunity to make a statement (if the representative so desires) and to respond to appropriate questions. After reviewing the Company's audited financial statements for the fiscal year ending June 30, 2007, the Company's Audit Committee recommended to the Company's Board that such statements be included in the Company's Annual Report to shareholders. 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, 2007 and June 30, 2006 were \$321,431 and \$289,420, 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, 2007 and June 30, 2006 were \$118,954 and \$112,887, 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 for the annual review of its internal controls program under Sarbanes-Oxley Section 404 in the amount of \$65,450 and \$166,313, respectively, in connection with the fiscal years ended June 30, 2007 and June 30, 2006. Fees incurred by the Company for review of its shelf registration and secondary offerings were \$116,706 and \$50,000 for the fiscal years ended June 30, 2007 and June 30, 2006, respectively.

*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 \$10,000 and \$16,000 for its tax years ended August 31, 2006 and August 31, 2005, 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, 2007.

The Audit Committee has reviewed and discussed the Company's audited financial statements with management and BDO, the Company's independent registered public accounting firm, 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 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 (Communications with Audit Committees). 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 Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees). 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.

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- (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.

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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, 2007 be included in the Company's Annual Report on Form 10-K for the same fiscal year for filing with the Commission.

Respectfully Submitted,

The Audit Committee

Walter V.E. Parker, Chairman



William J. Grempe  
F. Lee Liebolt, Jr.

**Unless marked to the contrary, the shares represented by the enclosed proxy card will be voted for ratification of the appointment of BDO Seidman, LLP as the independent registered public accounting firm of the Company.**

**The Board Of Directors Recommends That You Vote FOR Ratifying the Selection of BDO Seidman, LLP as the Independent Registered Public Accounting Firm of the Company.**

#### **OTHER BUSINESS**

The Board of Directors knows of no other business to be presented for action at the Meeting. If any matters do come before the Meeting on which action can properly be taken, it is intended that the proxies shall vote in accordance with the judgment of the person or persons exercising the authority conferred by the proxy at the Meeting.

#### **SUBMISSION OF STOCKHOLDER PROPOSALS**

The submission of a proposal does not guarantee its inclusion in the Company's Proxy Statement or presentation at the Meeting unless certain securities law requirements are met. The Company expects that the 2008 Annual Meeting of Stockholders will be held in November, 2008, but the exact date, time, and location of such meeting have yet to be determined. A stockholder who intends to present a proposal at that annual meeting must submit the proposal in writing to the Company at its address in New York, New York, and the Company must receive the proposal no later than June 19, 2008, in order for the proposal to be considered for inclusion in the Company's proxy statement and form of proxy for the November 2008 meeting.

For any proposal that is not submitted for inclusion in next year's proxy statement (as described in the preceding paragraph) but is instead sought to be presented directly at next year's annual meeting, Commission rules permit management to vote proxies in its discretion if (a) the Company receives notice of the proposal before the close of business on June 19, 2008 and advises stockholders in next year's proxy statement about the nature of the matter and how management intends to vote on such matter, or (b) does not receive notice of the proposal prior to the close of business on June 19, 2008.

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Notices of intention to present proposals at the 2008 Annual Meeting should be addressed to, Corporate Secretary, c/o Prospect Capital Corporation, 10 East 40th Street, 44th Floor, New York, New York 10016 and should be received by the Company in the time period described above. The Company reserves the right to reject, rule out of order, or take other appropriate action with respect to any proposal that does not comply with these and other applicable requirements.

**You are cordially invited to attend the Annual Meeting of Stockholders in person. Whether or not you plan to attend the meeting, you are requested to complete, date, sign and promptly return the proxy card in the postage-paid envelope, or vote by telephone or through the Internet.**

By Order of the Board of Directors

/s/ William E. Vastardis  
Chief Compliance Officer, Chief Financial Officer,  
Treasurer and Secretary

New York, New York  
October 19, 2007

**FOR FASTER, MORE CONVENIENT VOTING  
BY TELEPHONE OR INTERNET**

*(See below for instructions)*

**VOTE BY PHONE: Call toll-free number on the proxy card**

**INTERNET VOTING: [www.proxyvote.com](http://www.proxyvote.com)**

999 999 999 999 99

**PROSPECT CAPITAL CORPORATION (the "Company")  
PROXY SOLICITED BY THE BOARD OF DIRECTORS OF THE COMPANY**

By my signature below, I appoint John F. Barry and M. Grier Eliasek as my attorneys to vote all Company shares that I am entitled to vote at the Annual Meeting of Shareholders be held at the offices of the Company, 10 East 40<sup>th</sup> Street, 44th Floor, New York, New York 10016 on Thursday, November 29, 2007, at 10:30 a.m. Eastern Time and at any adjournments of the meeting. Any one of John F. Barry or M. Grier Eliasek may vote my shares, and they may appoint substitutes to vote my shares on their behalf. I instruct John F. Barry and M. Grier Eliasek to vote this proxy as specified on the reverse side, and I authorize them to vote upon such other business as may properly come before the meeting or any postponement or adjournment thereof. I revoke any previous proxies that I have executed. I acknowledge receipt of the Fund's Notice of Annual Meeting of Shareholders and proxy statement.

**PLEASE SIGN, DATE, AND RETURN  
PROMPTLY IN ENCLOSED ENVELOPE IF  
YOU ARE NOT VOTING BY PHONE OR  
INTERNET.**

Date \_\_\_\_\_

Signature(s) (Title(s), if applicable) **(Sign in the Box)**  
**NOTE:** Please sign exactly as your name appears on this Proxy. When signing in a fiduciary capacity, such as executor, administrator, trustee, attorney, guardian, etc., please so indicate. Corporate or partnership proxies should be signed by an authorized person indicating the person's title.

**Please fill in box as shown using black or blue ink or number 2 pencil. x PLEASE DO NOT USE FINE POINT PENS.**

**THIS PROXY IS REVOCABLE AND WILL BE VOTED IN FAVOR OF (FOR) PROPOSALS 1, 2 AND 3 IF NO SPECIFICATION IS MADE BELOW. AS TO ANY OTHER MATTER, THE PROXY OR PROXIES WILL VOTE IN ACCORDANCE WITH THEIR BEST JUDGMENT.**

1. To elect the following nominee to serve as a Class III director of the Company.	<b>FOR ALL NOMINEES</b>	<b>WITHHOLD FROM ALL NOMINEES</b>	
John F. Barry □ Class III	o	o	
2. The ratification of the selection of BDO Seidman, LLP as the independent registered	<b>FOR</b>	<b>AGAINST</b>	<b>ABSTAIN</b>
	o	o	o

public accounting firm for Prospect Capital Corporation for the fiscal year ending June 30, 2008.

**PLEASE BE SURE TO DATE AND SIGN THE PROXY CARD IN THE SPACES PROVIDED  
ON THE REVERSE SIDE.**

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