

DOCKET NO. FST-CV-09-4017124-S (X05) ) SUPERIOR COURT  
 )  
 ) JUDICIAL DISTRICT OF STAMFORD-NORWALK  
 BRUCE BELODOFF, Individually and On Behalf of ) COMPLEX LITIGATION DOCKET  
 All Others Similarly Situated, )  
 )  
 Plaintiff, ) AT STAMFORD  
 )  
 vs. )  
 )  
 PATRIOT CAPITAL FUNDING, INC., et al., )  
 )  
 Defendants. )

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DOCKET NO. FST-CV-09-4017230-S ) SUPERIOR COURT  
 )  
 ) JUDICIAL DISTRICT OF STAMFORD-NORWALK  
 THOMAS WEBSTER, Individually and on Behalf of ) COMPLEX LITIGATION DOCKET  
 All Others Similarly Situated, )  
 )  
 Plaintiff, ) AT STAMFORD  
 )  
 vs. )  
 )  
 PATRIOT CAPITAL FUNDING, INC., et al., )  
 )  
 Defendants. )

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DOCKET NO. FST-CV-09-4017705-S ) SUPERIOR COURT  
 )  
 ) JUDICIAL DISTRICT OF STAMFORD-NORWALK  
 BRIAN KILLION, Individually and on Behalf of All ) COMPLEX LITIGATION DOCKET  
 Others Similarly Situated, )  
 )  
 Plaintiff, ) AT STAMFORD  
 )  
 vs. )  
 )  
 PATRIOT CAPITAL FUNDING, INC., et al., )  
 )  
 Defendants. )

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NOTICE OF PENDENCY AND PROPOSED SETTLEMENT OF CLASS ACTION

**IF YOU WERE A COMMON STOCKHOLDER OF PATRIOT CAPITAL FUNDING, INC. (“PATRIOT” OR THE “COMPANY”) ON ANY DAY BETWEEN AUGUST 3, 2009 AND DECEMBER 2, 2009, THE EFFECTIVE DATE OF CONSUMMATION OF THE MERGER OF PATRIOT WITH PROSPECT CAPITAL CORPORATION (“PROSPECT”) (THE “MERGER”), YOUR RIGHTS MAY BE AFFECTED BY THE SETTLEMENT OF A CLASS ACTION.**

*PLEASE READ THIS NOTICE CAREFULLY. THIS NOTICE CONTAINS IMPORTANT INFORMATION REGARDING YOUR RIGHTS. IF THE COURT APPROVES THE PROPOSED SETTLEMENT, YOU WILL BE FOREVER BARRED FROM CONTESTING THE FAIRNESS, REASONABLENESS OR ADEQUACY OF THE PROPOSED SETTLEMENT, AND FROM PURSUING THE SETTLED CLAIMS.*

*IF YOU HELD SHARES OF PATRIOT COMMON STOCK FOR THE BENEFIT OF OTHERS, PLEASE PROMPTLY TRANSMIT THIS DOCUMENT TO SUCH BENEFICIAL OWNERS.*

The Superior Court in Stamford, Connecticut, authorized this Notice. This is not a solicitation from a lawyer.

- The settlement resolves a lawsuit over whether Defendants breached their fiduciary duties to the shareholders of Patriot in connection with the merger between Patriot and Prospect. Patriot, Richard P. Buckanavage, Timothy W. Hassler, Mel P. Melsheimer, Steven Drogin, Richard A. Sebastiao, Dennis C. O'Dowd, Matthew Colucci and Prospect are the Defendants.
- The settlement provided for the disclosure of additional information by Patriot regarding the Merger in the final Proxy Statement that was filed with the Securities and Exchange Commission ("SEC") on or about October 26, 2009, and distributed to Patriot shareholders on or about October 27, 2009. Plaintiffs believe disclosure of such information was necessary in order for Patriot shareholders to make an informed vote on the proposed merger. The settlement also provides for payment of Plaintiffs' Counsel's attorneys' fees and expenses.

**YOUR LEGAL RIGHTS AND OPTIONS IN THIS SETTLEMENT:**

**DO NOTHING**

**OBJECT**

You may write to the Court if you don't like this settlement.

**GO TO A HEARING**

You may ask to speak in Court about the fairness of the settlement.

- These rights and options — **and the deadlines to exercise them** — are explained in this Notice.
- The Court in charge of this case must decide whether to approve the settlement.

*THIS NOTICE SHOULD NOT BE UNDERSTOOD AS AN EXPRESSION OF ANY OPINION OF THE COURT AS TO THE MERITS OF ANY CLAIMS OR DEFENSES BY ANY OF THE PARTIES. IT IS BASED ON STATEMENTS OF THE PARTIES AND IS SENT FOR THE SOLE PURPOSE OF INFORMING YOU OF THE EXISTENCE OF THIS ACTION AND OF A HEARING ON A PROPOSED SETTLEMENT SO THAT YOU MAY MAKE APPROPRIATE DECISIONS AS TO STEPS YOU MAY WISH TO TAKE IN RELATION TO THIS LITIGATION.*

**BASIC INFORMATION**

**1. Why Did I Get This Notice?**

You or someone in your family held shares of Patriot common stock on any day during the period from August 3, 2009, to and including the effective date of the consummation of the Merger, December 2, 2009.

The Court ordered this Notice because you have a right to know about a proposed settlement of a class action lawsuit before the Court decides whether to approve the settlement.

This Notice explains the lawsuit, the settlement and your legal rights.

The Court in charge of the case is the Superior Court for the Judicial District of Stamford-Norwalk, Connecticut, and the case is known as *Belodoff v. Patriot Capital Funding, Inc., et al.*, Docket No. FST-CV-09-4017124-S (X05).

**2. What Is This Lawsuit About?**

This case was brought as a class action. Plaintiffs alleged that the Defendants breached their fiduciary duties to Patriot shareholders in connection with the acquisition of Patriot by Prospect, and that Prospect aided and abetted such breaches, and they sought to stop the Defendants from proceeding with the Merger. Plaintiffs also alleged that the public statements and descriptions of the Merger omitted information necessary for Patriot shareholders to make an informed vote on the proposed merger.

The Defendants contend that the allegations are meritless. They contend that they fully complied with all applicable fiduciary duties and that their public statements and descriptions of the Merger included all information that a reasonable investor would consider important in deciding whether to vote in favor of the Merger.

**3. Why Is This a Class Action?**

In a class action, one or more people or entities (in this case Bruce Belodoff, Thomas Webster and Brian Killion), seek to sue as class representatives on behalf of people and entities who are similarly situated. These similarly situated people and entities are called a Class or Class Members, if the Court determines that the lawsuit should proceed as a class action. One Court resolves the issues for all Class Members.

**4. Why Is There a Settlement?**

The Court did not decide in favor of Plaintiffs or Defendants. Instead, both sides agreed to a settlement, thereby avoiding the costs and risks of a trial. Before agreeing to finalize the settlement, Plaintiffs' Counsel negotiated for the right to conduct

discovery to confirm that the material terms of the Merger were fair. Following completion of the discovery, Plaintiffs' Counsel have determined that they believe the additional disclosures that Defendants provided to shareholders were sufficient to allow Patriot shareholders to make an informed vote on the Merger.

In evaluating the settlement, Plaintiffs and Plaintiffs' Counsel have considered: (i) the substantial benefits to the members of the proposed Class from the settlement; (ii) the facts developed during discovery; (iii) the attendant risks of continued litigation and the uncertainty of the outcome of the Consolidated Action; (iv) the probability of success on the merits of the allegations contained in the Consolidated Action, including the uncertainty relating to the proof of those allegations; and (v) the desirability of permitting the settlement to be consummated as provided by the terms of the Stipulation. Plaintiffs' Counsel have determined that the settlement and the terms of the Merger, and the transactions contemplated thereby, are fair, reasonable and adequate and in the best interests of Plaintiffs and the proposed Class.

Defendants have denied, and continue to deny, that they have committed or aided and abetted in the commission of any violation of law or engaged in any of the wrongful acts alleged in the Consolidated Action, and expressly maintain that they diligently and scrupulously complied with their fiduciary and other legal duties. Defendants entered into the Stipulation because the proposed settlement would eliminate the burden and expense of further litigation and would avoid any risk that Plaintiffs and Plaintiffs' Counsel could present a record sufficient to obtain some form of recovery against Defendants.

#### **5. How Do I Know if I Am Part of the Settlement?**

The Class includes all common stockholders of Patriot at any time between August 3, 2009 and the date of the consummation of the Merger, December 2, 2009, including any and all of their respective legal representatives, predecessors, successors-in-interest, trustees, executors, administrators, heirs and assigns of all such persons or entities, or any person or entity acting for or on behalf of, or claiming under any of them, and each of them, and excluding the Defendants, their subsidiary companies, affiliates, and members of their immediate families, as the case may be.

### **THE SETTLEMENT BENEFITS**

#### **6. What Does the Settlement Provide?**

The settlement is based on the fact that the Defendants made available to Patriot shareholders additional information related to the Merger in the final Proxy Statement, which information had not been included in the draft Proxy Statement originally submitted to the SEC. The expanded disclosures are as follows:

- [T]he business and legal due diligence review of Prospect's operations, its portfolio companies and other corporate and financial matters conducted over an extended period of time by Patriot and its legal and financial advisors.
- On April 3, 2009, a termination event occurred under the Amended Securitization Facility due to the amount of Patriot's advances outstanding under the facility exceeding the maximum availability under the facility for more than three consecutive business days. The maximum availability under the facility is determined by, among other things, the fair market value of all eligible loans serving as collateral under the facility. Because the fair market value of certain eligible loans decreased at December 31, 2008, Patriot's advances outstanding under the facility exceeded the maximum availability under the facility. This determination was made in connection with the delivery of a borrowing base report to the facility lenders on March 31, 2009. As of such date, Patriot had \$157.6 million outstanding under the facility. As a result of the occurrence of the termination event under the facility, Patriot was prohibited from making additional advances under the Amended Securitization Facility and all principal, interest and fees collected from the debt investments secured by the Amended Securitization Facility were required to be used to pay down amounts outstanding under the Amended Securitization Facility within 24 months following the date of the termination event. In addition, the termination event permits the lenders under the facility, upon a 10-day notice to Patriot, to accelerate amounts outstanding under the Amended Securitization Facility and exercise other rights and remedies provided by the Amended Securitization Facility, including the right to sell the collateral under the Amended Securitization Facility.
- Pursuant to an engagement letter dated April 24, 2009, Patriot retained FBR as its financial advisor in connection with, among other things, the proposed merger. Patriot engaged FBR based on FBR's qualifications, experience and reputation as an internationally recognized investment banking and financial advisory firm. FBR will receive a fee of \$1,000,000 for its services, \$900,000 of which is contingent upon the consummation of the merger. FBR also became entitled to receive a fee of \$500,000 upon the rendering of its opinion which is creditable against the fee payable upon the consummation of the merger.

- To date, Prospect has not made any commitments or entered into any agreements to retain any of Patriot's employees, including its executive officers.

The full terms of the settlement are set forth in the Stipulation (see Getting More Information below).

Defendants acknowledge that the pendency of the Consolidated Action and Plaintiffs' efforts were contributing factors leading to the inclusion of the above disclosures in the final Proxy Statement.

#### **7. What Does It Mean to Be Part of the Class?**

If you are in the Class, that means you cannot sue or be part of any other lawsuit, if one is filed, against the Defendants or other Released Persons<sup>1</sup> about the legal issues in this case. It also means that all of the Court's orders will apply to you and legally bind you.

In addition, you are releasing any and all claims, demands, rights, causes of action, liabilities, damages, losses, obligations, judgments, suits, costs, expenses, matters and issues, known or unknown, contingent or absolute, suspected or unsuspected, disclosed or undisclosed, hidden or concealed, matured or unmatured, accrued or unaccrued, apparent or unapparent, including Unknown Claims as defined below, against the Defendants and other Released Persons that you may have arising out of the acts of the Defendants or other Released Persons, which were asserted or could have been asserted in the lawsuit or in an action in any other forum, by the Plaintiffs or any Class Members against any of the Released Persons in connection with, or that arise out of, any claim that was or could have been brought in the Consolidated Action by or on behalf of the Plaintiffs, or the putative Class, and which arise out of the facts, events, matters, transactions, occurrences, statements, representations, or omissions, or set forth in or otherwise related to the allegations in the Consolidated Action, the Merger, the Merger Agreement, and the transactions contemplated therein, or disclosures made in connection therewith (including the adequacy and completeness of such disclosures).

"Unknown Claims" includes claims that you do not know or suspect to exist, which if you knew, might affect your agreement to release the Released Persons and the Settled Claims, or might affect your decision to object to or not object to the settlement.

If the Stipulation of Settlement ("Stipulation") and the settlement are approved by the Court, you shall be deemed to waive any and all provisions, rights and benefits conferred by any law of any state or territory of the United States, or principle of common law, which governs or limits any person's release of the Unknown Claims. The foregoing waiver includes, without limitation, an express waiver, to the full extent permitted by law, by you of any and all rights under California Civil Code §1542, which provides:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR.

The foregoing waiver further includes without limitation an express waiver, to the full extent permitted by law, by you, of any and all rights under any law of any state or territory of the United States, or principle of common law, which is similar, comparable or equivalent to California Civil Code §1542.

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<sup>1</sup> "Released Persons" for the purposes of this settlement means Defendants or any of their families, parent entities, associates, affiliates or subsidiaries (consolidated or non-consolidated), and each and all of their respective past, present or future officers, directors, stockholders, agents, representatives, employees, attorneys, financial or investment advisors, advisors, consultants, accountants, investment bankers, commercial bankers, trustees, engineers, agents, insurers, co-insurers and reinsurers, heirs, executors, trustees, general or limited partners or partnerships, limited liability companies, members, heirs, executors, personal or legal representatives, administrators, predecessors, successors and assigns.

## THE LAWYERS REPRESENTING YOU

### 8. Do I Have a Lawyer in This Case?

The law firm of Coughlin Stoia Geller Rudman & Robbins LLP represents you and other Class Members. These lawyers are called Plaintiffs' Settlement Counsel. You will not be charged for these lawyers. If you want to be represented by your own lawyer, you may hire one at your own expense.

### 9. How Will the Lawyers Be Paid?

Defendants have agreed that if the other conditions of the settlement are satisfied, Prospect, as successor by merger to Patriot, shall pay the attorneys' fees and expenses of Plaintiffs' Counsel of up to \$250,000. The parties negotiated this fee amount after Defendants had added the Supplemental Disclosures to the final Proxy Statement. The fees and expenses awarded will not reduce the Merger consideration paid to Patriot shareholders in any way.

## THE COURT'S FAIRNESS HEARING

The Court will hold a hearing to decide whether to approve the settlement. You may attend and you may ask to speak, but you don't have to. Any Member of the Class who objects to the settlement, or who otherwise wishes to be heard, may appear in person or by counsel, at your own expense, at the Settlement Hearing and show cause why the settlement should not be approved; provided, however, that no person other than Plaintiffs' Counsel and Defendants' counsel shall be heard and no papers, briefs, pleadings or other documents submitted by any person shall be considered by the Court unless not less than fourteen (14) days prior to the Settlement Hearing such person files with the Court and serves upon counsel listed below: (a) a written notice of intention to appear; (b) proof of Class membership; (c) a detailed statement of all of such person's objections to any matters before the Court; and (d) the grounds therefore or the reason that such person desires to appear and be heard, as well as all documents or writings such person desires the Court to consider. Hand deliver any objection by March 29, 2010, or mail to the following places such that it is postmarked by March 29, 2010.

### *Court*

Clerk of the Court  
STAMFORD SUPERIOR COURT  
STAMFORD/NORWALK JUDICIAL DISTRICT  
123 Hoyt Street  
Stamford, CT 06905

### *Counsel for Plaintiffs*

Ellen Gusikoff Stewart  
COUGHLIN STOIA GELLER  
RUDMAN & ROBBINS LLP  
655 West Broadway, Suite 1900  
San Diego, CA 92101-3301

### *Counsel for Defendants*

Thomas D. Goldberg  
Helen Harris  
DAY PITNEY LLP  
One Canterbury Green  
201 Broad Street  
Stamford, CT 06901

Maura Barry Grinalds  
Robert Fumerton  
SKADDEN, ARPS, SLATE,  
MEAGHER & FLOM LLP  
4 Times Square  
New York, NY 10036

Unless the Court otherwise directs, no person shall be entitled to object to the approval of the settlement, or otherwise be heard, except by serving and filing a written objection and supporting papers and documents as described above. Any person who fails to object in the manner described above shall be deemed to have waived the right to object (including any right of appeal) and shall be forever barred from raising such objection or otherwise contesting the settlement in this or any other action or proceeding.

### 10. When and Where Will the Court Decide Whether to Approve the Settlement?

The Court will hold a fairness hearing at 10:00 a.m., on April 12, 2010, at the Superior Court for the Stamford/Norwalk Judicial District, 123 Hoyt Street, Stamford, Connecticut 06905. At this hearing the Court will consider whether (a) the Court should certify for purposes of settlement a class without opt-out rights of all persons or entities who held Patriot stock, other than Defendants, their subsidiaries and members of their immediate families, at any time between August 3, 2009 and December 2, 2009 (the "Class") and (b) the settlement is fair, reasonable, and adequate. If there are objections, the Court will consider them. The Court will listen to people who have asked to speak at the hearing. The Court may decide these issues at the hearing or take them under consideration. We do not know how long the Court's decision will take. The Court has reserved the right to adjourn or continue the fairness hearing without further notice to you.

### **11. Do I Have to Come to the Hearing?**

No. Plaintiffs' Settlement Counsel will answer questions the Court may have, but, you are welcome to come at your own expense. If you send an objection, you don't have to come to Court to talk about it. As long as you submitted your written objection on time, the Court will consider it. You may also pay your own lawyer to attend, but it is not necessary.

## **THE FINAL JUDGMENT OF THE COURT**

### **12. What Does It Mean if the Court Enters Its Final Judgment?**

If the Court determines that the settlement, as provided for in the Stipulation, is fair, reasonable, adequate and in the best interests of the Class, the parties to the Consolidated Action will ask the Court to enter a Final Judgment, which will, among other things:

- approve the settlement as fair, reasonable, adequate and in the best interests of the Class and direct consummation of the settlement in accordance with its terms and conditions;
- finally certify the Class for purposes of the settlement pursuant to Practice Book §§9-7 and 9-8;
- dismiss Plaintiffs' claims with prejudice as against the named Plaintiffs and all of the Members of the Class;
- permanently bar and enjoin the Members of the Class from instituting, commencing, prosecuting, participating in or continuing any action or other proceeding in any court or tribunal of this or any other jurisdiction, either directly, representatively, derivatively or in any other capacity, asserting any claims that are, arise out of, or in any way relating to, the Settled Claims as defined in the Stipulation; and
- retain jurisdiction over all matters relating to the administration and consummation of the settlement provided for therein.

In the event the settlement is not approved, or such approval does not become final, or if the Merger is not consummated, then the settlement shall be of no further force and effect and each party then shall be returned to his, her or its respective position prior to the settlement without prejudice and as if the settlement had not been entered into.

## **GETTING MORE INFORMATION**

### **13. Are There More Details About the Settlement?**

This Notice summarizes the proposed settlement. This summary is qualified by, and subject to, the detailed terms of the Stipulation together with its Exhibits entered into on January 15, 2010. You can get a copy of the Stipulation during business hours at the Clerk of the Court, Stamford/Norwalk Judicial District, 123 Hoyt Street, Stamford, Connecticut 06905; or by writing to Rick Nelson, c/o Shareholder Relations, Coughlin Stoia Geller Rudman & Robbins LLP, 655 West Broadway, Suite 1900, San Diego, CA 92101.

### **14. How Do I Get More Information?**

You can call 619/231-1058 or write to Rick Nelson, c/o Shareholder Relations, Coughlin Stoia Geller Rudman & Robbins LLP, 655 West Broadway, Suite 1900, San Diego, CA 92101.

## **SPECIAL NOTICE TO NOMINEES**

If you held any Patriot common stock on any date from August 3, 2009, to and including December 2, 2009, as nominee for a beneficial owner, then, within ten (10) calendar days after you receive this Notice, you must either: (1) send a copy of this Notice by first class mail to all such persons or entities; or (2) provide a list of the names and addresses of such persons or entities to the Notice Administrator:

*Patriot Capital Funding, Inc. Shareholder Litigation*  
Notice Administrator  
c/o Gilardi & Co. LLC  
P.O. Box 8040  
San Rafael, CA 94912-8040

If you choose to mail the Notice yourself, you may obtain from the Notice Administrator (without cost to you) as many additional copies of these documents as you will need to complete the mailing. Regardless of whether you choose to complete the mailing yourself or elect to have the mailing performed for you, you may obtain reimbursement for or advancement of reasonable administrative costs actually incurred or expected to be incurred in connection with forwarding the Notice and which would not have been incurred but for the obligation to forward the Notice, upon submission of appropriate documentation to the Notice Administrator.

***DO NOT TELEPHONE THE COURT REGARDING THIS NOTICE***

DATED: January 20, 2010

BY ORDER OF THE COURT  
STAMFORD/NORWALK JUDICIAL DISTRICT  
STATE OF CONNECTICUT

*Patriot Capital Funding, Inc. Shareholder Litigation*  
Notice Administrator  
c/o Gilardi & Co. LLC  
P.O. Box 8040  
San Rafael, CA 94912-8040

**Important Legal Document.**

**PATRIOT**