Highland Select Equity Master Fund, L.P.
c/o Highland Capital Management, L.P.
300 Crescent Court
Suite 700
Dallas, Texas 75201

02/28/2019

VIA EMAIL AND OVERNIGHT DELIVERY

Medley Capital Corporation
280 Park Avenue, 6th Floor East
New York, NY 10017
Attn: Chairman of the Board of Directors

REGISTERED AGENT BY HAND DELIVERY:

Medley Capital Corporation
c/o Corporation Service Company
251 Little Falls Drive
Wilmington, DE 19808

Re: Stockholder Inspection Pursuant to Section 220 of the DGCL

Dear Chairman:

I am writing to you on behalf of Highland Select Equity Master Fund, L.P. ("Select Fund"). Select Fund is the beneficial owner of 100 shares of common stock of Medley Capital Corporation (the "Company"). Pursuant to Section 220 of the Delaware General Corporation Law (the "DGCL"), Select Fund, hereby demands that the Company make available for inspection and copying the Books and Records of the Company described in Exhibit 1.

Background Facts

On August 9, 2018, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with Sierra Income Corporation ("Sierra"), pursuant to which the Company would merge with and into Sierra, with Sierra continuing as the surviving company in the merger (the "MCC Merger"). The Company is an affiliate of Sierra, as the investment managers of both Sierra and the Company are controlled (directly or indirectly) by Medley Management Inc. ("MDLY"), a publicly traded asset management firm. According to the Merger Agreement, the closing of the MCC Merger is contingent upon MDLY merging with and into Sierra Management, Inc., a wholly owned subsidiary of Sierra ("Merger Sub"), with Merger Sub as the surviving company in the merger (the "MDLY Merger").

On December 21, 2018, the following occurred: (i) Sierra's registration statement on Form N-14 (that included a joint proxy statement (collectively, the "Joint Proxy Statement and

Prospectus") of Sierra, the Company and MDLY) was declared effective by the Staff of the Securities and Exchange Commission (the "SEC"); and (ii) the Company filed the definitive Joint Proxy Statement and Prospectus with the SEC (Items (i) and (ii) being referred to as the "Stockholder Meeting Requirements").

According to the Joint Proxy Statement and Prospectus, the Company set a record date of December 21, 2018 (the "December Record Date") for a special meeting of the Company's stockholders, which was originally to be held on February 8, 2019 (the "February 8 Meeting"). The agenda for the February 8 Meeting included a stockholder vote on the MCC Merger as well as a vote on the adjournment of the February 8 Meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes to approve the MCC Merger.

On December 22, 2018, the United States government entered into a "shutdown," which lasted until January 25, 2019 (the "Government Shutdown").

On February 5, 2019—ten days after the end of the Government Shutdown, and only three days before the scheduled meeting—the Company announced that it intended to adjourn the February 8 Meeting, stating without further explanation that "[d]uring the shutdown, key branches of the U.S. Government were unable to process, review and/or approve documentation required to close the mergers." The Company announced its intentions to (1) reschedule the special meeting for early March, (2) continue to solicit proxies, but (3) nevertheless maintain the December Record Date for the rescheduled meeting. The Stockholder Meeting Requirements were (and remain) – to the best knowledge of Select Fund – the only United States governmental actions required for MCC to hold its stockholder meeting to approve the MCC Merger. In fact, pursuant to Page A-47 of Joint Proxy Statement and Prospectus, the Merger Agreement states ". . . . MCC shall, as soon as practicable **following the effectiveness of the Form N-14 Registration Statement**, duly call, take any action required by the DGCL, the MCC Certificate, or MCC Bylaws and any applicable requirements of the SEC or the NYSE necessary to give notice of, convene and hold, as promptly as practicable, the MCC Stockholder Meeting for the purpose of obtaining MCC Stockholder Approval" (emphasis added). The Merger Agreement itself included no other required governmental actions before the Company ***was required*** to have held its stockholder meeting to approve the MCC Merger.

At the time of the February 5 Announcement, the bylaws of the Company (the "Bylaws"), did not grant anyone other than stockholders the ability to adjourn a stockholders' meeting, meaning that, the vote of a majority of stockholders (even if less than a quorum) would have been required to adjourn the February 8 Meeting. Thus, notwithstanding its desire to adjourn the February 8 Meeting, the power to do so on February 5 rested with the Company's stockholders. On February 6, 2019, however, the Company's board of directors (the "Board") purported to unilaterally amend the Bylaws regarding the conduct of meetings:

> "Unless otherwise determined by the Board prior to the meeting, ***the Chairman*** of the meeting shall determine the order of business and ***shall have the authority in his or her discretion*** to regulate the conduct of any such meeting, ***including***, without limitation, convening the meeting and ***adjourning the meeting (whether or not a quorum is present)***, announcing the date and time of the opening and the closing of the polls

> for each matter upon which the stockholders will vote, imposing restrictions on the persons (other than the stockholders of record of the Corporation or their duly appointed proxies) who may attend any such meeting, establishing procedures for the transaction of business at the meeting (including the dismissal of business not properly presented) . . . ."

(emphasis added) (the "February 6 Amendment"). The Company has disclosed that, following the passage of the February 6 Amendment, the Company formally adjourned the February 8 Meeting.

Select Fund believes that the decision to adjourn the February 8 Meeting and the Board's adoption of the February 6 Amendment to effectuate such decision cannot be the product of rational or disinterested corporate decision-making. Against a well-publicized background of stockholder opposition, including recommendations AGAINST the MCC Merger by leading independent proxy advisory firms Institutional Shareholder Services and Glass Lewis, Select Fund believes that the Company recognized that it did not have enough "For" votes to accomplish the MCC Merger, and is attempting to use the Government Shutdown and an ill-conceived amendment to the Bylaws to make an end run around the requirements of DGCL § 213 in an effort to salvage the MCC Merger. Therefore, we believe that the Board breached their fiduciary duties when they adopted the February 6 Amendment and adjourned the February 8 Meeting because they were acting in the best interest of MDLY and its stakeholders, rather than the stockholders of the Company who we believe rejected the MCC Merger. The Board's independence has been specifically called into question for its unwillingness to seek alternative transactions to the MCC Merger (and related MDLY Merger), or even engage with third parties that have proposed alternative transactions. Two members of the Board, Messrs. Brook (also Chairman of the Board and Chief Executive Officer of the Company) and Seth Taube, are also MDLY's co-Chief Executive Officers and will receive more than $75 million in cash in connection with the MCC Merger. Further, Select Fund believes that the Company's disclosure in connection with the foregoing was materially misleading and was a violation of Rule 10b-5 of the Securities Exchange Act of 1934 ("Rule 10b-5"), and the Board's fiduciary duty to be truthful when communicating with stockholders.

Proper Purposes

As explained more fully below, the purposes of the demanded inspection are:

1. To investigate potential mismanagement, wrongdoing and/or breaches of fiduciary duties by members of the Company's Board or others in connection with adjourning the February 8 Meeting and/or the February 6 Amendment;

2. To investigate wrongdoing, violations of Rule 10b-5 and/or breaches of fiduciary duties in connection with the disclosures disseminated to the Company's stockholders concerning the adjournment of the February 8 Meeting and/or the February 6 Amendment;

3. To evaluate the extent to which the Government Shutdown had a material effect on the Company's ability to proceed with a stockholder vote at the February 8 Meeting;

4. To evaluate the state of the voting at the time that the Company decided to adjourn the February 8 Meeting;

5. To evaluate the deliberations undertaken by the Board in connection with the passage of the February 6 Amendment;

6. To evaluate the deliberations of the Chairman of the Board or others in adjourning the February 8 Meeting;

7. To initiate litigation or take other appropriate action in the event certain directors or others did not properly discharge their duties to the Company and its stockholders;

8. To assess the suitability of the members of the Board to continue in office, to assess the advisability of proposing changes in the members of the Board, and to facilitate informed voting in any election of directors;

9. To assess the advisability of proposing governance reforms in light of the February 6 Amendment and the adjournment of the February 8 Meeting, including, without limitation, reforms concerning stockholder approval of significant corporate transactions or the conduct of stockholder meetings; and

10. Communicating with other stockholders regarding the foregoing.

According to 8 *Del. C.* § 220(b)(2), a "proper purpose" shall mean a purpose reasonably related to such person's interest as a stockholder. Each of the above purposes is a proper purpose. Under Delaware law, it is well established that a stockholder's "desire to investigate wrongdoing or mismanagement is a 'proper purpose'" for a books and records demand. *Seinfeld v. Verizon Commc'n Inc.*, 909 A.2d 117, 121 (Del. 2006) (citing *Nodana Petroleum Corp. v. State ex rel. Brennan*, 123 A.2d 243, 246 (Del. 1956)). Investigating mismanagement is proper "because where the allegations of mismanagement prove meritorious, investigation furthers the interest of all stockholders and should increase stockholder return." *Id.* (citing *Saito v. McKesson HBOC, Inc.*, 806 A.2d 113, 115 (Del. 2002)). Select Fund has the requisite "credible basis" for suspecting wrongdoing or mismanagement in connection with the February 6 Amendment, the adjournment of the February 8 Meeting and the disclosures made in connection therewith. Further, investigating the suitability of directors is another recognized proper purpose. *See Pershing Square, L.P. v. Ceridian Corp*., 923 A.2d 810, 818 (Del. Ch. 2007). So too is communicating with stockholders about matters of corporate concern, particularly in connection with a pending stockholders' meeting. *See Devon v. Pantry Pride, Inc*., 1984 WL 8250, at *2 (Del. Ch. Nov. 21, 1984). These proper purposes establish unequivocally our right to the information requested below.

Books and Records Sought

Accordingly, Select Fund hereby demands the right to inspect and copy the Books and Records of the Company described in Exhibit 1. For purposes of this letter, the term "Books and Records" means all documents and other nonverbal methods of information storage of any nature whatsoever referring or relating to the listed topics, including, but not limited to, memoranda, board minutes, telephone records, diaries, data compilations, emails and other correspondence

authored by or received by any of the Company's directors, officers, or other employees or its financial advisors.

Select Fund hereby demands that: (1) originals or attested copies of the documents and records described in Exhibit 1 be made available for inspection and copying by Select Fund, its designated representatives, or its attorneys or agents during usual business hours, beginning no later than five business days after the Company receives this letter, and continuing from day to day thereafter during usual business hours until the inspection is completed, or (2) the Company deliver copies of such records, within five business days after receipt of this letter, to the attention of Select Fund's counsel, Jeffrey Kochian, of the law firm of Akin Gump Strauss Hauer & Feld LLP. Mr. Kochian's contact information is as follows:

Jeffrey Kochian
Akin Gump Strauss Hauer & Feld LLP
One Bryant Park
New York, NY 10036
(212) 872-7412
jkochian@akingump.com

Select Fund will reimburse reasonable copy costs if the documents are sent to its counsel.

This demand authorizes Mr. Kochian and his respective partners, employees and any other persons designated by him, to conduct the inspection and copying of the Books and Records demanded, and to otherwise act on Select Fund's behalf. Select Fund has executed a Power of Attorney designating Mr. Kochian as its agent, which is enclosed with this letter. An affidavit relating to this notice and stockholder demand pursuant to Section 220 of the DGCL has also been attached to this letter.

The DGCL requires your response to our above request within five business days of the date of this letter. Accordingly, please promptly advise Mr. Kochian in writing on or before the expiration of five business days after the date this demand is received by the Company as to where and on what dates the Books and Records demanded will be made available to Select Fund, our designated representatives, or its attorneys or agents. Alternatively, if the Company desires, it can provide the Books and Records demanded without the need for inspection and copying by sending complete and unredacted copies of them to Select Fund's counsel. Should the Company refuse to provide the demanded Books and Records, please provide us with a detailed written explanation for the reasons behind that refusal. In that regard, to the extent Books and Records responsive to the Demand are withheld as privileged or otherwise immune from disclosure, please provide a description of any documents withheld and information sufficient to assess any claim of privilege or other immunity.

This notice complies in all respects with applicable law. If, however, the Company believes that this notice is incomplete or otherwise deficient in any respect, please contact Mr. Kochian immediately so that any alleged deficiencies may be promptly addressed.

Please acknowledge receipt of this letter and the enclosures by signing and dating the enclosed copy of this letter and returning the same to the undersigned in the enclosed envelope.

I hereby affirm that the purposes for the demanded inspection as set forth above constitute a true and accurate statement of the reasons Select Fund seeks to review the demanded books and records, and that such demand is made in good faith. These purposes are both proper and reasonably related to its interest as a stockholder of the Company.

Very truly yours,

Highland Select Equity Master Fund, L.P.
By: Highland Select Equity Fund GP, L.P., its general partner
By: Highland Select Equity GP, LLC, its general partner
By: Highland Capital Management, L.P., its sole member
By: Strand Advisors, Inc., its general partner

/s/ James Dondero

By: James Dondero
Sole Director and President

Enclosures.

cc: Jeffrey Kochian, Esq.

Receipt acknowledged on

[DATE]

By:_____
Name
Title

EXHIBIT 1

1. Documents and communications between or among any members of the Board, officers and/or any financial advisor, proxy solicitor or counsel to the Company reflecting any consideration of whether to proceed with, postpone or adjourn the stockholder vote on the MCC Merger in connection with or since the February 8 Meeting.

2. Documents and communications between or among any members of the Board, officers and/or any financial advisor, proxy solicitor or counsel to the Company concerning the Company's power or authority to adjourn the February 8 Meeting under the bylaws or Delaware law as they existed prior to the February 6 Amendment.

3. Documents and communications between or among any members of the Board, officers and/or any financial advisor, proxy solicitor or any counsel to the Company relating to the February 6 Amendment, including without limitation the purposes or effects of such amendment.

4. Documents and communications between or among any members of the Board, officers and/or any financial advisor, proxy solicitor or any counsel to the Company concerning any factual basis for the Company's statement that "[d]uring the shutdown, key branches of the U.S. Government were unable to process, review and/or approve documentation required to close the mergers."

5. Documents sufficient to show the proxies returned for or against the MCC Merger and/or any adjournment of the February 8 Meeting as of February 5, 2019.

6. Documents and communications between or among any members of the Board, officers and/or any financial advisor, proxy solicitor or any counsel to the Company concerning the decisions to (i) maintain the December Record Date, and (ii) continue to solicit proxies in support of the MCC Merger following the adjournment of the February 8 Meeting.

7. To the extent not provided in response to the foregoing requests, all Board Materials[1] related to the proxies returned as of February 5, the February 6 Amendment or any consideration of whether to proceed with, postpone or adjourn the stockholder vote on the MCC Merger in connection with or since the February 8 Meeting.

---

[1] The term "Board Materials" as used herein means all documents concerning, related to, provided at, considered at, discussed at, or prepared or disseminated in connection with, any regular, special, or ad hoc meeting of any Board of Directors (the "Board") or any regular, specially created, or ad hoc committee or subcommittee of the Board, including all presentations, analyses, data, board packages, recordings, agendas, summaries, memoranda, transcripts, notes, minutes of meetings, drafts of minutes of meetings, exhibits distributed at meetings, summaries of meetings, and resolutions.

AFFIDAVIT

STATE OF TEXAS)
) ss.
COUNTY OF DALLAS)

I, James Dondero, being duly sworn upon oath, depose and state as follows:

1. I am the sole Director and President of Strand Advisors, Inc., the general partner of Highland Capital Management, L.P., which is the sole member of Highland Select Equity GP, LLC, which is the general partner of Highland Select Equity Fund GP, L.P., which is the general partner of Highland Select Equity Master Fund, L.P. ("Select Fund"). Select Fund is the beneficial owner of 100 shares of common stock of Medley Capital Corporation (the "Company").

2. I am authorized on behalf of Select Fund to make the accompanying demand for the Company's Books and Records pursuant to DGCL Section 220.

3. Select Fund's rights in the 100 shares of stock of the Company have not been sold, assigned, hypothecated, pledged or otherwise transferred or disposed of to anyone whomsoever.

4. The facts and statements contained in the Stockholder Demand Letter are true and correct to the best of my knowledge.

I affirm the foregoing statements to be true and correct to the best of my knowledge and belief under penalty of perjury.

Dated: February 28, 2019

/s/ James Dondero
James Dondero

SWORN TO AND SUBSCRIBED

before me this 28th day of

February, 2019

/s/ Sarah Goldsmith
NOTARY PUBLIC

POWER OF ATTORNEY

KNOW ALL BY THESE PRESENTS that the undersigned hereby constitutes, designates and appoints Jeffrey Lazar Kochian, and his partners, associates, employees and any other persons to be designated by him, as the undersigned's true and lawful attorney-in-fact and agent for the undersigned, and in the undersigned's name, place and stead, in any and all capacities, to conduct the inspection and copying of the books and records demanded in the enclosed Stockholder Inspection Demand pursuant to DGCL Section 220, dated February 28, 2019.

IN WITNESS THEREOF, the undersigned has executed this instrument effective as of the 28th day of February, 2019.

Highland Select Equity Master Fund, L.P.
By: Highland Select Equity Fund GP, L.P., its general partner
By: Highland Select Equity GP, LLC, its general partner
By: Highland Capital Management, L.P., its sole member
By: Strand Advisors, Inc., its general partner

/s/ James Dondero
_____
By: James Dondero
Sole Director and President

SWORN TO AND SUBSCRIBED

before me this 28th day of

February, 2019

/s/ Sarah Goldsmith
_____
NOTARY PUBLIC