

PROSPECT CAPITAL CORP
Form 497
February 26, 2019

The information in this preliminary prospectus supplement is not complete and may be changed. A registration statement relating to these securities has been filed with and declared effective by the Securities and Exchange Commission. This preliminary prospectus supplement and prospectus are not offers to sell these securities and are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION DATED FEBRUARY 26, 2019

PRELIMINARY PROSPECTUS SUPPLEMENT
(To Prospectus dated October 31, 2018)
\$]

Prospect Capital Corporation
% Convertible Notes due 2025

This is an offering by Prospect Capital Corporation of \$ aggregate principal amount of its % Convertible Notes due 2025 (the “Notes”). The Notes will be convertible, at your option, into shares of our common stock initially at a conversion rate of shares per \$1,000 principal amount of Notes (equivalent to an initial conversion price of approximately \$ per share), subject to adjustment as described in this prospectus supplement, at any time on or prior to the close of business on the business day immediately preceding the maturity date.

In the case of Notes that are converted in connection with certain types of fundamental changes, we will, in certain circumstances, increase the conversion rate by a number of additional shares.

We may not redeem the Notes prior to December 1, 2024. On or after December 1, 2024, we may redeem the Notes for cash, in whole or from time to time in part, at our option at a redemption price equal to the sum of (i) 100% of the principal amount of the Notes to be redeemed, (ii) accrued and unpaid interest thereon to, but excluding, the redemption date and (iii) the make whole premium, each as further discussed in “Description of the Notes-Redemption During Final Three Month Term of the Notes.” No sinking fund will be provided for the Notes.

The Notes will bear interest at a rate of % per year, payable on March 1 and September 1 of each year, commencing September 1, 2019. The Notes will mature on March 1, 2025, unless earlier converted, repurchased or redeemed. You may require us to repurchase all or a portion of your Notes upon a fundamental change at a cash repurchase price equal to 100% of the principal amount plus accrued and unpaid interest (including additional interest, if any) to, but excluding, the repurchase date. See “Description of the Notes - Fundamental Change Put.”

The Notes will be among our senior unsecured obligations. As of February 25, 2019, we and our subsidiaries had approximately \$2.2 billion of unsecured senior indebtedness outstanding and \$358.0 million of secured indebtedness outstanding.

Our common stock is listed on The Nasdaq Global Select Market under the symbol “PSEC.” The last reported sale price of our common stock on February 25, 2019 was \$6.88 per share. Our most recently estimated NAV per share is \$9.02 on an as adjusted basis solely to give effect to our issuance of common stock since December 31, 2018 in connection with our dividend reinvestment plan, consistent with the \$9.02 determined by us as of December 31, 2018.

We do not intend to apply for listing of the Notes on any securities exchange or for inclusion of the Notes in any automated quotation system.

Investing in the Notes involves certain risks, including those described in the “Risk Factors” section beginning on page S-11 of this prospectus supplement and page 12 of the accompanying prospectus.

| | Per Note | Total ⁽²⁾ |
|---|----------|----------------------|
| Public offering price ⁽¹⁾ | | % \$ |
| Underwriting discounts and commissions (sales load) | | % \$ |
| Proceeds to Prospect Capital Corporation (before expenses) ⁽³⁾ | | % \$ |

(1) Plus accrued and unpaid interest, if any, from , 2019.

(2) Assumes no exercise of the underwriters’ option to purchase additional Notes solely to cover over-allotments as described below.

(3) Expenses payable by us related to this offering are estimated to be \$500,000.

The underwriters may also purchase up to an additional \$ total aggregate principal amount of Notes solely to cover over-allotments, if any, within 13 days of the date of this prospectus supplement. If the underwriters exercise this option in full, the total public offering price will be \$, the total underwriting discount (sales load) paid by us will be \$ and total proceeds before expenses will be \$.

This prospectus supplement and the accompanying prospectus contain important information you should know before investing in our securities. Please read it before you invest and keep it for future reference. We file annual, quarterly and current reports, proxy statements and other information about us with the Securities and Exchange Commission, or the “SEC.” This information is available free of charge by contacting us at 10 East 40th Street, 42nd Floor, New York, NY 10016 or by telephone at (212) 448-0702. The SEC maintains a website at www.sec.gov where such information is available without charge upon written or oral request. Our internet website address is www.prospectstreet.com. Information contained on our website is not incorporated by reference into this prospectus supplement or the accompanying prospectus and you should not consider information contained on our website to be part of this prospectus supplement or the accompanying prospectus.

Neither the SEC nor any state securities commission has approved or disapproved of these securities or passed on the adequacy or accuracy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

Obligations of Prospect Capital Corporation and any subsidiary of Prospect Capital Corporation are not guaranteed by the full faith and credit of the United States of America. Neither Prospect Capital Corporation nor any subsidiary of Prospect Capital Corporation is a government-sponsored enterprise or an instrumentality of the United States of America.

The underwriters expect to deliver the Notes on or about , 2019.

Goldman Sachs & Co. LLC Barclays RBC Capital Markets
 Prospectus Supplement dated February , 2019.

FORWARD-LOOKING STATEMENTS

This prospectus supplement and the accompanying prospectus may contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, or the “Exchange Act,” which involve substantial risks and uncertainties. Forward-looking statements predict or describe our future operations, business plans, business and investment strategies and portfolio management and the performance of our investments and our investment management business. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections about our industry, our beliefs, and our assumptions. Words such as “intends,” “intend,” “intended,” “goal,” “estimate,” “estimates,” “expects,” “expect,” “expected,” “project,” “projected,” “projects,” “seeks,” “anticipates,” “anticipated,” “should,” “could,” “may,” “will,” “designed to,” “foreseeable future,” “believe,” “believe in,” “scheduled” and variations of these words and similar expressions are intended to identify forward-looking statements. Our actual results or outcomes may differ materially from those anticipated. Readers are cautioned not to place undue reliance on these forward looking statements, which speak only as of the date the statement was made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. These statements are not guarantees of future performance and are subject to risks, uncertainties, and other factors, some of which are beyond our control and difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements, including without limitation:

- our future operating results,
- our business prospects and the prospects of our portfolio companies,
- the impact of investments that we expect to make,
- our contractual arrangements and relationships with third parties,
- the dependence of our future success on the general economy and its impact on the industries in which we invest,
- the ability of our portfolio companies to achieve their objectives,
- difficulty in obtaining financing or raising capital, especially in the current credit and equity environment,
- the level and volatility of prevailing interest rates and credit spreads, magnified by the current turmoil in the credit markets,
- adverse developments in the availability of desirable loan and investment opportunities whether they are due to competition, regulation or otherwise,
- a compression of the yield on our investments and the cost of our liabilities, as well as the level of leverage available to us,
- our regulatory structure and tax treatment, including our ability to operate as a business development company and a regulated investment company,
- the adequacy of our cash resources and working capital,
- the timing of cash flows, if any, from the operations of our portfolio companies,
- the ability of our investment adviser to locate suitable investments for us and to monitor and administer our investments,
- authoritative generally accepted accounting principles or policy changes from such standard-setting bodies as the Financial Accounting Standards Board, the SEC, the Internal Revenue Service (the “IRS”), the NASDAQ Global Select Market, and other authorities that we are subject to, as well as their counterparts in any foreign jurisdictions where we might do business, and
- the risks, uncertainties and other factors we identify in “Risk Factors” and elsewhere in this prospectus supplement and the accompanying prospectus and in our filings with the SEC.

Although we believe that the assumptions on which these forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and as a result, the forward-looking statements based on those assumptions also could be inaccurate. Important assumptions include our ability to originate new loans and investments, ability to obtain certain margins and levels of profitability and the availability of additional capital. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this prospectus supplement and the accompanying prospectus, respectively, should not be regarded as a representation by us that our plans and objectives will be achieved. These risks and uncertainties include those described or identified in “Risk Factors” and elsewhere in this prospectus supplement and the accompanying prospectus, respectively. You should not

place undue reliance on these forward-looking statements, which apply

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only as of the date of this prospectus supplement or the accompanying prospectus, as applicable. These forward-looking statements do not meet the safe harbor for forward-looking statements pursuant to Section 27A of the Securities Act of 1933, as amended, or the “Securities Act.”

You should rely only on the information contained in this prospectus supplement and the accompanying prospectus. We have not, and the agent(s) or dealer(s) has not, authorized any other person to provide you with information that is different from that contained in this prospectus supplement or the accompanying prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the agents are not, making an offer of these securities in any jurisdiction where the offer is not permitted. You should assume that the information appearing in this prospectus supplement and the accompanying prospectus is accurate only as of their respective dates and we assume no obligation to update any such information. Our business, financial condition and results of operations may have changed since those dates. Although we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, you are advised to consult any additional disclosures that we may make directly to you or through reports that we have filed with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. This prospectus supplement supersedes the accompanying prospectus to the extent it contains information that is different from or in addition to the information in that prospectus.

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PROSPECTUS SUMMARY

This section summarizes the legal and financial terms of the Notes that are described in more detail in “Description of the Notes” beginning on page S-18. It does not contain all the information that may be important to an investor. For a more complete understanding of this offering, we encourage you to read the more detailed information appearing elsewhere in this prospectus supplement and the accompanying prospectus.

The terms “we,” “us,” “our” and “Company” refer to Prospect Capital Corporation; “Prospect Capital Management,” “Investment Adviser” and “PCM” refer to Prospect Capital Management L.P.; and “Prospect Administration” and the “Administrator” refer to Prospect Administration LLC.

Our \$101.6 million aggregate principal amount of 5.875% Senior Convertible Notes due 2019 are referred to as the “2019 Notes.” Our \$378.5 million aggregate principal amount of 4.75% Senior Convertible Notes due 2020 are referred to as the “2020 Notes.” Our \$328.5 million aggregate principal amount of 4.95% Convertible Notes due 2022 are referred to as the “2022 Notes” and, collectively with the 2019 Notes and the 2020 Notes, the “Convertible Notes.” Our \$320.0 million aggregate principal amount of 5.875% Senior Notes due 2023 are referred to as the “2023 Notes.” Our \$219.3 million aggregate principal amount of 6.250% Notes due 2024 are referred to as the “2024 Notes.” Our \$67.4 million aggregate principal amount of 6.250% Senior Notes due 2028 are referred to as the “2028 Notes.” Our \$50.0 million aggregate principal amount of 6.875% Notes due 2029 are referred to as the “2029 Notes.” Our \$100.0 million aggregate principal amount of 6.375% Notes due 2024 are referred to as the “6.375% 2024 Notes.” The 2023 Notes, 2024 Notes, 2028 Notes, 2029 Notes and the 6.375% 2024 Notes, are collectively referred to as the “Public Notes.” Any Prospect Capital InterNotes® issued pursuant to our medium term notes program are referred to as the “Prospect Capital InterNotes.” The Convertible Notes, the Public Notes and the Prospect Capital InterNotes are referred to as the “Unsecured Notes.”

The Company

Prospect Capital Corporation is a financial services company that primarily lends to and invests in middle market privately-held companies. We are a closed-end investment company incorporated in Maryland. We have elected to be regulated as a business development company (“BDC”) under the Investment Company Act of 1940 (the “1940 Act”). As a BDC, we have elected to be treated as a regulated investment company (“RIC”) under Subchapter M of the Internal Revenue Code of 1986 (the “Code”). We were organized on April 13, 2004 and were funded in an initial public offering completed on July 27, 2004. We are one of the largest BDCs with approximately \$6.0 billion of total assets as of December 31, 2018.

We are externally managed by our investment adviser, Prospect Capital Management. Prospect Administration provides administrative services and facilities necessary for us to operate.

On May 15, 2007, we formed a wholly-owned subsidiary Prospect Capital Funding LLC (“PCF”), a Delaware limited liability company and a bankruptcy remote special purpose entity, which holds certain of our portfolio loan investments that are used as collateral for the revolving credit facility at PCF. Our wholly-owned subsidiary Prospect Small Business Lending, LLC (“PSBL”) was formed on January 27, 2014 and purchases small business whole loans on a recurring basis from online small business loan originators, including On Deck Capital, Inc. (“OnDeck”). On September 30, 2014, we formed a wholly-owned subsidiary Prospect Yield Corporation, LLC (“PYC”) and effective October 23, 2014, PYC holds our investments in collateralized loan obligations (“CLOs”). Each of these subsidiaries have been consolidated since operations commenced.

We currently have nine strategies that guide our origination of investment opportunities: (1) lending to companies controlled by private equity sponsors, (2) lending to companies not controlled by private equity sponsors, (3) purchasing controlling equity positions and lending to operating companies, (4) purchasing controlling equity positions and lending to financial services companies, (5) purchasing controlling equity positions and lending to real estate companies, (6) purchasing controlling equity positions and lending to aircraft leasing companies, (7) investing in structured credit, (8) investing in syndicated debt and (9) investing in consumer and small business loans and asset-backed securitizations. We may also invest in other strategies and opportunities from time to time that we view as attractive. We continue to evaluate other origination strategies in the ordinary course of business with no specific top-down allocation to any single origination strategy.

Lending to Companies Controlled by Private Equity Sponsors - We make agented loans to companies which are controlled by private equity sponsors. This debt can take the form of first lien, second lien, unitranche or unsecured

loans. These loans typically have equity subordinate to our loan position. Historically, this strategy has comprised approximately 40%-60% of our portfolio.

Lending to Companies not Controlled by Private Equity Sponsors - We make loans to companies which are not controlled by private equity sponsors, such as companies that are controlled by the management team, the founder, a family or public shareholders. This origination strategy may have less competition to provide debt financing than the private-equity-sponsor origination strategy because such company financing needs are not easily addressed by banks and often require more diligence

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preparation. This origination strategy can result in investments with higher returns or lower leverage than the private-equity-sponsor origination strategy. Historically, this strategy has comprised up to approximately 15% of our portfolio.

Purchasing Controlling Equity Positions and Lending to Operating Companies - This strategy involves purchasing yield-producing debt and controlling equity positions in non-financial-services operating companies. We believe that we can provide enhanced certainty of closure and liquidity to sellers and we look for management to continue on in their current roles. This strategy has comprised approximately 5%-15% of our portfolio.

Purchasing Controlling Equity Positions and Lending to Financial Services Companies - This strategy involves purchasing yield-producing debt and controlling equity investments in financial services companies, including consumer direct lending, sub-prime auto lending and other strategies. These investments are often structured in tax-efficient partnerships, enhancing returns. This strategy has comprised approximately 5%-15% of our portfolio.

Purchasing Controlling Equity Positions and Lending to Real Estate Companies - We purchase debt and controlling equity positions in tax-efficient real estate investment trusts ("REIT" or "REITs"). National Property REIT Corp.'s ("NPRC"), an operating company and the surviving entity of the May 23, 2016 merger with American Property REIT Corp. ("APRC") and United Property REIT Corp. ("UPRC"), real estate investments are in various classes of developed and occupied real estate properties that generate current yields, including multi-family properties, student housing, and self-storage. NPRC seeks to identify properties that have historically significant occupancy rates and recurring cash flow generation. NPRC generally co-invests with established and experienced property management teams that manage such properties after acquisition. Additionally, NPRC purchases loans originated by certain consumer loan facilitators. It purchases each loan in its entirety (i.e., a "whole loan"). The borrowers are consumers, and the loans are typically serviced by the facilitators of the loans. This investment strategy has comprised approximately 10%-20% of our business.

Purchasing Controlling Equity Positions and Lending to Aircraft Leasing Companies - We invest in debt as well as equity in companies with aircraft assets subject to commercial leases to airlines across the globe. We believe that these investments can present attractive return opportunities due to cash flow consistency from long-term leases coupled with hard asset residual value. We believe that these investment companies seek to deliver risk-adjusted returns with strong downside protection by analyzing relative value characteristics across a variety of aircraft types and vintages. This strategy historically has comprised less than 5% of our portfolio.

Investing in Structured Credit - We make investments in CLOs, often taking a significant position in the subordinated interests (equity) and debt of the CLOs. The underlying portfolio of each CLO investment is diversified across approximately 100 to 200 broadly syndicated loans and does not have direct exposure to real estate, mortgages, or consumer-based credit assets. The CLOs in which we invest are managed by established collateral management teams with many years of experience in the industry. This strategy has comprised approximately 10%-20% of our portfolio.

Investing in Syndicated Debt - On a primary or secondary basis, we purchase primarily senior and secured loans and high yield bonds that have been sold to a club or syndicate of buyers. These investments are often purchased with a long term, buy-and-hold outlook, and we often look to provide significant input to the transaction by providing anchoring orders. This strategy has comprised approximately 5%-10% of our portfolio.

Investing in Consumer and Small Business Loans and Asset-Backed Securitizations - We purchase loans originated by certain consumer and small-and-medium-sized business ("SME") loan platforms. We generally purchase each loan in its entirety (i.e., a "whole loan") and we invest in asset-backed securitizations collateralized by consumer or small business loans. The borrowers are consumers and SMEs and the loans are typically serviced by the platforms of the loans. This investment strategy has comprised up to approximately 0% of our portfolio.

Typically, we concentrate on making investments in companies with annual revenues of less than \$750 million and enterprise values of less than \$1 billion. Our typical investment involves a secured loan of less than \$250 million. We also acquire controlling interests in companies in conjunction with making secured debt investments in such companies. In most cases, companies in which we invest are privately held at the time we invest in them. We refer to these companies as "target" or "middle market" companies and these investments as "middle market investments."

We seek to maximize total returns to our investors, including both current yield and equity upside, by applying rigorous credit analysis and asset-based and cash-flow based lending techniques to make and monitor our investments. We are constantly pursuing multiple investment opportunities, including purchases of portfolios from private and

public companies, as well as originations and secondary purchases of particular securities. We also regularly evaluate control investment opportunities in a range of industries, and some of these investments could be material to us. There can be no assurance that we will successfully consummate any investment opportunity we are currently pursuing. If any of these opportunities are consummated, there can be

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no assurance that investors will share our view of valuation or that any assets acquired will not be subject to future write downs, each of which could have an adverse effect on our stock price.

As of December 31, 2018, we had investments in 139 portfolio companies and CLOs. The aggregate fair value as of December 31, 2018 of investments in these portfolio companies held on that date is approximately \$5.8 billion. Our portfolio across all our performing interest-bearing investments had an annualized current yield of 13.1% as of December 31, 2018. Our annualized current yield was 10.7% as of December 31, 2018 across all investments.

Recent Developments

Investment Activity

During the period from January 23, 2019 to February 22, 2019, we sold \$46.0 million, or 16.96%, of the outstanding principal balance of the senior secured note investment in Broder Bros., Co.

Debt and Equity

During the period from January 1, 2019 through February 25, 2019 we issued \$29.2 million in aggregate principal amount of Prospect Capital InterNotes® for net proceeds of \$28.7 million.

During the period from January 1, 2019 through February 25, 2019, we issued \$5.0 million in aggregate principal amount of our 2024 Notes for net proceeds of \$4.9 million, issued \$0.4 million in aggregate principal amount of our 2028 Notes for net proceeds of \$0.4 million, and have issued \$3.9 million in aggregate principal amount of our 2029 Notes for net proceeds of \$3.9 million.

On January 4, 2019, we repurchased \$2.0 million in aggregate principal amount of our 2020 Notes at a price of 99.375, including commission.

On January 15, 2019, we repaid the remaining outstanding principal amount of \$101.6 million of the 2019 Notes, plus interest. No gain or loss was realized on the transaction.

Pursuant to notice to call provided on December 14, 2018, we redeemed \$24.0 million of our Prospect Capital InterNotes® at par maturing on July 15, 2020, with a weighted average rate of 4.71%. Settlement of the call occurred on January 15, 2019.

Dividends

On February 6, 2019, we announced the declaration of monthly dividends in the following amounts and with the following dates:

\$0.06 per share for February 2019 to holders of record on February 28, 2019 with a payment date of March 21, 2019.

\$0.06 per share for March 2019 to holders of record on March 29, 2019 with a payment date of April 18, 2019.

\$0.06 per share for April 2019 to holders of record on April 30, 2019 with a payment date of May 23, 2019.

| | |
|---|---|
| The Offering | |
| Issuer | Prospect Capital Corporation |
| Securities Offered | % Convertible Notes due 2025, which we refer to as Notes. |
| Initial aggregate principal amount | \$ million |
| Option to purchase additional Notes | The underwriters may also purchase from us up to an additional \$ aggregate principal amount of Notes solely to cover over-allotments within 13 days of the date of this prospectus supplement. |
| Price at Issuance | % |
| Maturity | March 1, 2025, unless earlier converted, repurchased or redeemed. |
| Interest Rate | % per year. Interest will be payable in cash on March 1, and September 1 of each year, beginning September 1, 2019. The Notes will be our general, unsecured obligations and will rank equal in right of payment with all of our existing and future senior, unsecured indebtedness (including the Unsecured Notes) and senior in right of payment to any of our subordinated indebtedness. As a result, the Notes will be effectively subordinated to our existing and future secured indebtedness to the extent of the value of the assets securing such indebtedness and structurally subordinated to any existing and future liabilities and other indebtedness of our consolidated subsidiaries. |
| Ranking | |
| Redemption During Final Three Month Term of the Notes | As of February 25, 2019, we and our subsidiaries had approximately \$2.2 billion of unsecured senior indebtedness outstanding and \$358.0 million of secured indebtedness outstanding. We may not redeem the Notes prior to December 1, 2024. On or after December 1, 2024, we may redeem the Notes for cash, in whole or from time to time in part, at our option at a redemption price equal to the sum of (i) 100% of the principal amount of the Notes to be redeemed, (ii) accrued and unpaid interest (including additional interest, if any) to, but excluding, the redemption date and (iii) the make whole premium. We will give notice of any redemption not less than 10 nor more than 30 calendar days before the redemption date by mail or electronic delivery to the trustee, the paying agent and each holder of Notes. See “Description of the Notes-Redemption During Final Three Month Term of the Notes.” No sinking fund will be provided for the Notes, which means that we are not required to redeem or retire the Notes periodically. You may convert your Notes into shares of our common stock at any time on or prior to the close of business on the business day immediately preceding the maturity date. |
| Conversion Rights | The Notes will be convertible at an initial conversion rate of shares of common stock per \$1,000 principal amount of the Notes (equivalent to an initial conversion price of approximately \$ per share). The conversion rate, and thus the conversion price, may be adjusted under certain circumstances as described under “Description of the Notes - Conversion Rights - Conversion Rate Adjustments.” |
| Limitation on Beneficial Ownership | Upon any conversion, unless you convert after a record date for an interest payment but prior to the corresponding interest payment date, you will receive a cash payment representing accrued and unpaid interest to, but not including, the conversion date. See “Description of the Notes - Conversion Rights.” Notwithstanding the foregoing, no holder of Notes will be entitled to receive shares of our common stock upon conversion to the extent (but only to the extent) that such receipt would cause such converting holder to become, directly or indirectly, a “beneficial owner” (within the meaning of Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder) of more than |

5.0% of the shares of our common stock outstanding at such time (the “Limitation”). Any purported delivery of shares of our common stock upon conversion of Notes shall be void and have no effect to the extent (but only to the extent) that such delivery would result in the converting holder becoming the beneficial owner of more than 5.0% of the shares of common stock outstanding at such time. If any delivery of shares of our common stock owed to a holder upon conversion of Notes is not made, in whole or in part, as a result of the Limitation, our obligation to make such delivery shall not be extinguished and we shall deliver such shares as promptly as practicable after any such converting holder gives notice to us that such delivery would not result in it being the beneficial owner of more than 5.0% of the shares of common stock outstanding at such time. The Limitation shall no longer apply following the effective date of any Fundamental Change, as defined in “Description of the Notes - Fundamental Change Put.”

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| | |
|---|--|
| <p>Adjustment to Conversion Rate Upon a Non Stock Change of Control</p> | <p>If and only to the extent holders elect to convert the Notes in connection with a transaction described under clause (1), (3) (without reference to the third bullet thereunder) or (4) of the definition of fundamental change as described in “Description of the Notes - Fundamental Change Put” pursuant to which 10% or more of the consideration for our common stock (other than cash payments for fractional shares and cash payments made in respect of dissenters’ appraisal rights) consists of cash or securities (or other property) that are not shares of common stock traded or scheduled to be traded immediately following such transaction on the New York Stock Exchange, the NASDAQ Global Market or the NASDAQ Global Select Market (or their respective successors), which we refer to as a “non stock change of control,” we will increase the conversion rate by a number of additional shares determined by reference to the table in “Description of the Notes - Conversion Rights - Adjustment to Conversion Rate Upon a Non Stock Change of Control,” based on the effective date and the price paid per share of our common stock in such non stock change of control. If the price paid per share of our common stock in a non stock change of control is less than \$ or more than \$ (subject to adjustment), there will be no such adjustment. If holders of our common stock receive only cash in the type of transaction described above, the price paid per share will be the cash amount paid per share. Otherwise, the stock price shall be the average of the last reported sale prices of our common stock over the five trading day period ending on, and including, the trading day immediately preceding the effective date of the non stock change of control.</p> |
| <p>Fundamental Change Repurchase Right of Holders</p> | <p>If we undergo a fundamental change (as defined in this prospectus supplement) prior to maturity, you will have the right, at your option, to require us to repurchase for cash some or all of your Notes at a repurchase price equal to 100% of the principal amount of the Notes being repurchased, plus accrued and unpaid interest to, but not including, the repurchase date. See “Description of the Notes - Fundamental Change Put.”</p> |
| <p>Events of Default</p> | <p>If an event of default on the Notes occurs, the principal amount of the Notes, plus accrued and unpaid interest (including additional interest, if any) may be declared immediately due and payable, subject to certain conditions set forth in the indenture (as defined in this prospectus supplement). These amounts automatically become due and payable in the case of certain types of bankruptcy or insolvency events of default involving the Company.</p> |
| <p>Absence of a Public Market for the Notes</p> | <p>The Notes will be a new issue of securities. We cannot assure you that any active or liquid market will develop for the Notes. See “Plan of Distribution.”</p> |
| <p>The NASDAQ Global Select Market Symbol for Our Common Stock</p> | <p>Our common stock is traded on the NASDAQ Global Select Market under the symbol “PSEC.”</p> |
| <p>Trustee, Paying Agent and Conversion Agent</p> | <p>U.S. Bank National Association</p> |
| <p>Use of Proceeds</p> | <p>We estimate that the net proceeds from this offering will be approximately \$ million (or approximately \$ million if the option to purchase up to an additional \$ million aggregate principal amount of Notes solely to cover over-allotments, if any, is exercised in full) after deducting fees and estimated offering expenses of approximately \$500,000 payable by us.</p> <p>We expect to use a portion of the net proceeds from the sale of the Notes to repurchase from time to time a portion of our 2020 Notes. We intend to use the remainder of the net proceeds of the offering to repay debt under our credit facility and to invest in high quality short term debt investments, and/or to make long term investments in accordance with our investment objective. See “Use of Proceeds.”</p> |

U.S. Federal
Income Tax
Considerations

You should consult your tax advisor with respect to the U.S. federal income tax consequences of the holding, disposition or conversion of the Notes and with respect to any tax consequences arising under the laws of any state, local, foreign or other taxing jurisdiction. See “Supplement to Material U.S. Federal Income Tax Considerations” and “Material U.S. Federal Income Tax Considerations” in this prospectus supplement and the accompanying prospectus.

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FEES AND EXPENSES

The following tables are intended to assist you in understanding the costs and expenses that an investor in this offering will bear directly or indirectly on an as converted basis. We caution you that some of the percentages indicated in the table below are estimates and may vary. In these tables, we assume that we have borrowed \$3.2 billion. Except where the context suggests otherwise, whenever this prospectus supplement or the accompanying prospectus contains a reference to fees or expenses paid by “you” or “us” or that “we” will pay fees or expenses, the Company will pay such fees and expenses out of our net assets and, consequently, you will indirectly bear such fees or expenses as an investor in the Company. However, you will not be required to deliver any money or otherwise bear personal liability or responsibility for such fees or expenses.

Stockholder transaction expenses:

| | |
|--|--------|
| Sales load (as a percentage of offering price) ⁽¹⁾ | % |
| Offering expenses borne by us (as a percentage of offering price) ⁽²⁾ | % |
| Dividend reinvestment plan expenses ⁽³⁾ | None |
| Total stockholder transaction expenses (as a percentage of offering price) | % |
| Annual expenses (as a percentage of net assets attributable to common stock) ⁽⁴⁾ : | |
| Management Fees ⁽⁵⁾ | 4.00 % |
| Incentive fees payable under Investment Advisory Agreement (20% of realized capital gains and 20% of pre incentive fee net investment income) ⁽⁶⁾ | 2.51 % |
| Total advisory fees | 6.51 % |
| Total interest expense (other than the Notes offered hereby) ⁽⁷⁾ | 5.50 % |
| Interest payments on the Notes offered hereby | % |
| Acquired Fund Fees and Expenses ⁽⁸⁾ | 0.88 % |
| Other expenses ⁽⁹⁾ | 1.15 % |
| Total annual expenses ⁽⁶⁾⁽⁹⁾ | % |

(1) Represents the commission with respect to our Notes being sold in this offering, which we will pay to the underwriters in connection with sales of Notes effected by the underwriters in this offering.

(2) The expenses of this offering are estimated to be approximately \$500,000.

(3) The expenses of the dividend reinvestment plan are included in “other expenses.”

(4) Net assets attributable to our common stock equal net assets (i.e., total assets less liabilities other than liabilities for money borrowed for investment purposes) at December 31, 2018. See “Capitalization” in this prospectus supplement.

(5) Our base management fee is 2% of our gross assets (which include any amount borrowed, i.e., total assets without deduction for any liabilities, including any borrowed amounts for non investment purposes, for which purpose we have not borrowed and have no intention of borrowing). Although we have no intent to borrow the entire amount available under our line of credit, assuming that we borrowed \$3.2 billion, the 2% management fee of gross assets equals approximately 4.00% of net assets. Based on our borrowings as of February 25, 2019 of \$2.6 billion, the 2% management fee of gross assets equals approximately 3.60% of net assets. See “Business - Management Services - Investment Advisory Agreement” in the accompanying prospectus and footnote 6 below.

(6) Based on an annualized incentive fee paid during our six months ended December 31, 2018, all of which consisted of an income incentive fee. The capital gain incentive fee is paid without regard to pre incentive fee income. For a more detailed discussion of the calculation of the two part incentive fee, see “Business - Management Services - Investment Advisory Agreement” in the accompanying prospectus.

(7) As of February 25, 2019, we have \$2.2 billion outstanding of our Unsecured Notes in various maturities, ranging from January 15, 2020 to October 15, 2043, and interest rates, ranging from 4.00% to 7.00%, some of which are convertible into shares of our common stock at various conversion rates. See “Business - Convertible Notes, Business - Public Notes,” “Business - Prospect Capital InterNotes” and “Risk Factors - Risks Related to Our Business” in the accompanying prospectus for more details on the Unsecured Notes.

Our stockholders indirectly bear the expenses of underlying investment companies in which we invest. This amount includes the fees and expenses of investment companies in which we are invested in as of December 31, 2018. When applicable, fees and expenses are based on historic fees and expenses for the investment companies and for those investment companies with little or no operating history, fees and expenses are based on expected fees and expenses stated in the investment companies' prospectus or other similar communication without giving effect to any performance. Future fees and expenses for certain investment companies may be substantially higher or lower because certain fees and expenses are based on the performance of the investment companies, which may fluctuate over time. The amount of our average net assets used in calculating this percentage was based on net assets of approximately \$3.3 billion as of December 31, 2018. Amount reflects the estimated annual asset management fees incurred indirectly by us in connection with our investment in CLOs during the next 12 months, (8) including asset management fees payable to the collateral managers of CLO equity tranches and incentive fees due to the collateral managers of CLO equity tranches. As a percent of the Company's net assets, the CLO acquired fund fees are 0.88%. The 0.88% is based on 3.29% of fees for the CLO equity portfolio. The 3.29% is composed of 3.25% of collateral manager fees and 0.04% of incentive fees. The 3.25% of collateral manager fees are determined by multiplying 0.3940% (collateral managers fees historically paid) by 8.2 (the average leverage in such CLOs). The 0.04% of incentive fees are determined by multiplying 0.04% (an estimate if the CLOs were redeemed in the next 12 months and the underlying portfolios were liquidated) by 100% (the assumed amount of total assets invested in equity tranches of CLOs). However, such amounts are uncertain and difficult to predict. Future fees and expenses may be substantially higher or lower because certain fees and expenses are based on the performance of the CLOs, which may fluctuate over time. As a result of such investments, our stockholders may be required to pay two levels of fees in connection with their investment in our shares, including fees payable under our Investment Advisory Agreement, and fees charged to us on such investments.

"Other expenses" are based on estimated amounts for the current fiscal year. The amount shown above represents annualized expenses during our six months ended December 31, 2018 representing all of our estimated recurring operating expenses (except fees and expenses reported in other items of this table) that are deducted from its operating income and reflected as expenses in our Statement of Operations. The estimate of our overhead (9) expenses, including payments under an administration agreement with Prospect Administration, or the "Administration Agreement," based on our projected allocable portion of overhead and other expenses incurred by Prospect Administration in performing its obligations under the Administration Agreement. "Other expenses" does not include non-recurring expenses. See "Business - Management Services - Administration Agreement" in the accompanying prospectus.

Example

The following table demonstrates the projected dollar amount of cumulative expenses we would pay out of net assets and that you would indirectly bear over various periods with respect to a hypothetical investment in our common stock. In calculating the following expense amounts, we have assumed we would have borrowed \$3.2 billion, that its annual operating expenses would remain at the levels set forth in the table above and that we would pay the costs shown in the table above. You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return:

| | 1 Years | 3 Years | 5 Years | 10 Years |
|--|---------|---------|---------|----------|
| You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return ⁽¹⁾ | \$ | \$ | \$ | \$ |
| You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return ⁽²⁾ | \$ | \$ | \$ | \$ |

(1) Assumes that we will not realize any capital gains computed net of all realized capital losses and unrealized capital depreciation

(2) Assumes no unrealized capital depreciation and 5% annual return resulting entirely from net realized capital gains (and therefore subject to the capital gains incentive fee).

The foregoing table is to assist you in understanding the various costs and expenses that an investor in our common stock will bear directly or indirectly. While the example assumes, as required by the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%. If we achieve sufficient returns on our investments, including through the realization of capital gains, to trigger an incentive fee of a material amount, our expenses, and returns to our investors, would be higher. In addition, while the example assumes reinvestment of all dividends and distributions at net asset value, if our board of directors authorizes and we declare a cash dividend, participants in our dividend reinvestment plan who

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have not otherwise elected to receive cash will receive a number of shares of our common stock, determined by dividing the total dollar amount of the dividend payable to a participant by the market price per share of our common stock at the close of trading on the valuation date for the dividend. See “Dividend Reinvestment and Direct Stock Purchase Plan” in the accompanying prospectus for additional information regarding our dividend reinvestment plan. This example and the expenses in the table above should not be considered a representation of our future expenses. Actual expenses (including the cost of debt, if any, and other expenses) may be greater or less than those shown.

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SELECTED CONDENSED FINANCIAL DATA

You should read the condensed consolidated financial information below with the Consolidated Financial Statements and notes thereto included in this prospectus supplement and the accompanying prospectus. Financial information below for the years ended June 30, 2018, 2017, 2016, 2015, and 2014 has been derived from the financial statements that were audited by our independent registered public accounting firm. The selected consolidated financial data at and for the three and six months ended December 31, 2018 and 2017 has been derived from unaudited financial data. Interim results for the three and six months ended December 31, 2018 are not necessarily indicative of the results that may be expected for the year ending June 30, 2019. Certain reclassifications have been made to the prior period financial information to conform to the current period presentation. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations” starting on page S-37 of this prospectus supplement for more information.

| | For the Three Months Ended December 31, 2018 | | For the Six Months Ended December 31, 2018 | | For the Year Ended June 30, | | | 2014 |
|--|---|-----------|---|------------|-----------------------------|------------|------------|------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2016 | |
| (in thousands except data relating to shares, per share and number of portfolio companies) | | | | | | | | |
| Performance Data: | | | | | | | | |
| Total interest income | \$157,994 | \$153,382 | \$317,436 | \$301,467 | \$607,012 | \$668,717 | \$731,618 | \$731,618 |
| Total dividend income | 13,266 | 326 | 28,193 | 870 | 13,046 | 5,679 | 26,501 | 7,000 |
| Total other income | 16,623 | 8,692 | 22,676 | 18,642 | 37,787 | 26,650 | 33,854 | 34,000 |
| Total Investment Income | 187,883 | 162,400 | 368,305 | 320,979 | 657,845 | 701,046 | 791,973 | 799,618 |
| Interest and credit facility expenses | (40,656) | (39,347) | (78,564) | (80,382) | (155,039) | (164,848) | (167,719) | (167,719) |
| Investment advisory expense | (53,390) | (47,857) | (104,637) | (93,953) | (189,759) | (199,394) | (219,305) | (219,305) |
| Other expenses | (13,026) | (2,004) | (19,134) | (9,720) | (26,197) | (30,722) | (33,821) | (33,821) |
| Total Operating Expenses | (107,072) | (89,208) | (202,335) | (184,055) | (370,995) | (394,964) | (420,845) | (420,845) |
| Net Investment Income | 80,811 | 73,192 | 165,970 | 136,924 | 286,850 | 306,082 | 371,128 | 369,773 |
| Net realized and change in unrealized gains (losses) | (148,200) | 48,535 | (149,564) | (3,224) | 13,013 | (53,176) | (267,766) | (167,719) |
| Net increase in Net Assets from Operations | \$(67,389) | \$121,727 | \$16,406 | \$133,700 | \$299,863 | \$252,906 | \$103,362 | \$302,054 |
| Per Share Data: | | | | | | | | |
| Net Increase in Net Assets from | \$(0.18) | \$0.34 | \$0.04 | \$0.37 | \$0.83 | \$0.70 | \$0.29 | \$0.30 |

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| | | | | | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Operations(1) | | | | | | | | | |
| Dividends declared per share | \$(0.18) | \$(0.18) | \$(0.36) | \$(0.41) | \$(0.77) | \$(1.00) | \$(1.00) | \$(1.00) | \$(1.00) |
| Weighted average shares of common stock outstanding | 365,591,722 | 360,473,705 | 365,187,429 | 360,322,770 | 361,456,075 | 358,841,714 | 356,134,297 | 356,134,297 | 356,134,297 |
| Assets and Liabilities Data: | | | | | | | | | |
| Investments at Fair Value | \$5,842,570 | \$5,421,132 | \$5,842,570 | \$5,421,132 | 5,727,279 | \$5,838,305 | \$5,897,708 | \$6,000,000 | \$6,000,000 |
| Other Assets(4) | 127,297 | 496,381 | 127,297 | 496,381 | 111,541 | 334,484 | 338,473 | 14,000 | 14,000 |
| Total Assets(4) | 5,969,867 | 5,917,513 | 5,969,867 | 5,917,513 | 5,838,820 | 6,172,789 | 6,236,181 | 6,700,000 | 6,700,000 |
| Revolving Credit Facility | 297,000 | — | 297,000 | — | 37,000 | — | — | 36,000 | 36,000 |
| Convertible notes(4) | 798,011 | 889,233 | 798,011 | 889,233 | 809,073 | 937,641 | 1,074,361 | 1,200,000 | 1,200,000 |
| Public notes (4) | 742,762 | 739,318 | 742,762 | 739,318 | 716,810 | 738,300 | 699,368 | 54,000 | 54,000 |
| Prospect Capital | 714,018 | 824,383 | 714,018 | 824,383 | 748,926 | 966,254 | 893,210 | 81,000 | 81,000 |
| InterNotes®(4) | | | | | | | | | |
| Due to Prospect Administration and Prospect Capital Management | 53,086 | 49,564 | 53,086 | 49,564 | 51,257 | 50,159 | 55,914 | 6,700 | 6,700 |
| Other liabilities | 61,815 | 66,603 | 61,815 | 66,603 | 68,707 | 125,483 | 77,411 | 10,000 | 10,000 |
| Total Liabilities(4) | 2,666,692 | 2,569,101 | 2,666,692 | 2,569,101 | 2,431,773 | 2,817,837 | 2,800,264 | 3,000,000 | 3,000,000 |
| Net Assets | \$3,303,175 | \$3,348,412 | \$3,303,175 | \$3,348,412 | \$3,407,047 | \$3,354,952 | \$3,435,917 | \$3,700,000 | \$3,700,000 |
| Investment Activity Data: | | | | | | | | | |
| No. of portfolio companies at period end | 139 | 122 | 139 | 122 | 135 | 121 | 125 | 130 | 130 |
| Acquisitions | \$226,252 | \$738,737 | \$480,894 | \$960,888 | \$1,730,657 | \$1,489,470 | \$979,102 | \$1,000,000 | \$1,000,000 |
| Sales, repayments, and other disposals | \$163,502 | \$1,042,269 | \$220,110 | \$1,353,163 | \$1,831,286 | \$1,413,882 | \$1,338,875 | \$1,000,000 | \$1,000,000 |
| Total return based on market value(2) | (11.54)% | 3.01 % | (0.90)% | (11.82)% | (7.42)% | 16.80 % | 21.84 % | (20.00)% | (20.00)% |
| Total return based on net asset value(2) | (1.29)% | 4.51 % | 1.67 % | 5.78 % | 12.39 % | 8.98 % | 7.15 % | 11.00 % | 11.00 % |
| Weighted average yield on debt | 13.1 % | 12.5 % | 13.1 % | 12.5 % | 13.0 % | 12.2 % | 13.2 % | 12.00 % | 12.00 % |

portfolio at
period end(3)
Weighted
average yield
on total
portfolio at
period end

| | | | | | | | |
|------|--------|--------|--------|--------|--------|--------|------|
| 10.7 | % 10.3 | % 10.7 | % 10.3 | % 10.5 | % 10.4 | % 12.0 | % 11 |
|------|--------|--------|--------|--------|--------|--------|------|

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- (1) Per share data is based on the weighted average number of common shares outstanding for the year/period presented (except for dividends to shareholders which is based on actual rate per share).
Total return based on market value is based on the change in market price per share between the opening and ending market prices per share in each year/period and assumes that dividends are reinvested in accordance with our dividend reinvestment plan. Total return based on net asset value is based upon the change in net asset value per share between the opening and ending net asset values per share in each year/period and assumes that dividends are reinvested in accordance with our dividend reinvestment plan. For a period less than a year, the return is not annualized.
- (2) Excludes equity investments and non-performing loans.
We have changed our method of presentation relating to debt issuance costs in accordance with ASU 2015-03, Interest - Imputation of Interest (Subtopic 835-30). Unamortized deferred financing costs of \$40,526, \$44,140, and \$57,010 previously reported as an asset on the Consolidated Statements of Assets and Liabilities as of June 30, 2016, 2015, and 2014, respectively, have been reclassified as a direct deduction to the respective Unsecured Notes. See Critical Accounting Policies and Estimates for further discussion.
- (3) Excludes equity investments and non-performing loans.
- (4) Includes equity investments and non-performing loans.

RISK FACTORS

Investing in our Notes involves a high degree of risk. You should carefully consider the risks described below, together with all of the other information included in this prospectus supplement and the accompanying prospectus, before you decide whether to make an investment in the Notes. If any of the adverse events or conditions described below or in the accompanying prospectus occur, our business, financial condition and results of operations could be materially adversely affected. In such case, our net asset value, or NAV, and the value of the Notes and the trading price of our common stock could decline, and you may lose all or part of your investment.

Risks Relating to the Notes

Our amount of debt outstanding will increase as a result of this offering. Our current indebtedness could adversely affect our business, financial condition and results of operations and our ability to meet our payment obligations under the Notes and our other debt.

As of February 25, 2019, we and our subsidiaries had approximately \$2.2 billion of unsecured senior indebtedness outstanding and \$358.0 million of secured indebtedness outstanding.

The use of debt could have significant consequences on our future operations, including:

- making it more difficult for us to meet our payment and other obligations under the Notes and our other outstanding debt;
- resulting in an event of default if we fail to comply with the financial and other restrictive covenants contained in our debt agreements, which event of default could result in substantially all of our debt becoming immediately due and payable;
- reducing the availability of our cash flow to fund investments, acquisitions and other general corporate purposes, and limiting our ability to obtain additional financing for these purposes;
- subjecting us to the risk of increased sensitivity to interest rate increases on our indebtedness with variable interest rates, including borrowings under our credit facility; and
- limiting our flexibility in planning for, or reacting to, and increasing our vulnerability to, changes in our business, the industry in which we operate and the general economy.

Any of the above listed factors could have an adverse effect on our business, financial condition and results of operations and our ability to meet our payment obligations under the Notes and our other debt.

Our ability to meet our payment and other obligations under our debt instruments depends on our ability to generate significant cash flow in the future. This, to some extent, is subject to general economic, financial, competitive, legislative and regulatory factors as well as other factors that are beyond our control. We cannot assure you that our business will generate cash flow from operations, or that future borrowings will be available to us under our credit facility or otherwise, in an amount sufficient to enable us to meet our payment obligations under the Notes and our other debt and to fund other liquidity needs. If we are not able to generate sufficient cash flow to service our debt obligations, we may need to refinance or restructure our debt, including the Notes, sell assets, reduce or delay capital investments, or seek to raise additional capital. If we are unable to implement one or more of these alternatives, we may not be able to meet our payment obligations under the Notes and our other debt.

An increase in market interest rates could result in a decrease in the market value of the Notes.

The condition of the financial markets and prevailing interest rates have fluctuated in the past and are likely to fluctuate in the future, which could have an adverse effect on the market prices of the Notes. In general, as market interest rates rise, debt securities bearing interest at fixed rates of interest decline in value. Consequently, if you purchase notes bearing interest at fixed rates of interest and market interest rates increase, the market values of those notes may decline. We cannot predict the future level of market interest rates.

The Notes will be effectively subordinated to any existing and future secured indebtedness and structurally subordinated to existing and future liabilities and other indebtedness of our subsidiaries, and are due after certain of our other outstanding notes.

The Notes will be our general, unsecured obligations and will rank equally in right of payment with all of our existing and future unsubordinated, unsecured senior indebtedness, including without limitation, the Unsecured Notes. As a result, the Notes will be effectively subordinated to our existing and future secured indebtedness (including indebtedness that is initially unsecured to which we subsequently grant security) to the extent of the value of the assets securing such indebtedness and structurally subordinated to any existing and future liabilities and other indebtedness of our subsidiaries. Effective subordination means that in any liquidation, dissolution, bankruptcy or other similar proceeding, the holders of any of our existing or future secured indebtedness and the secured indebtedness of our subsidiaries may assert rights against the assets pledged to secure that indebtedness in order to receive full payment of their indebtedness before the assets may be used to pay other creditors. Structural subordination means that creditors of a parent entity are subordinate to creditors of a subsidiary entity with respect to the subsidiary's assets. These liabilities may include indebtedness, trade payables, guarantees, lease obligations and letter of credit obligations. The Notes do not restrict us or our subsidiaries from incurring indebtedness, including senior secured indebtedness in the future, nor do they limit the amount of indebtedness we can issue that is equal in right of payment to the Notes. As of February 25, 2019, we had \$358.0 million outstanding borrowings under our credit facility. Our credit facility is secured by certain of our assets and the indebtedness thereunder is therefore effectively senior to the Notes to the extent of the value of such assets.

Certain of our Unsecured Notes will be due prior to the maturity of the Notes. We do not currently know whether we will be able to replace any such notes upon their respective maturities, or if we do, whether we will be able to do so on terms that are as favorable as such notes. In the event that we are not able to replace such notes at the time of their respective maturities, this could have a material adverse effect on our liquidity and ability to fund new investments, our ability to make distributions to our stockholders, our ability to repay the Notes and our ability to qualify as a regulated investment company, or "RIC."

The indenture governing the Notes will not contain restrictive covenants and will provide only limited protection, in the event of a change of control.

The base indenture and supplemental indenture (collectively, the "indenture") under which the Notes will be issued will not contain any financial or operating covenants or any other restrictive covenants that would limit our ability to engage in certain transactions that may adversely affect you. In particular, the indenture will not contain covenants that limit our ability to pay dividends or make distributions on or redeem our capital stock or that limit our ability to incur additional indebtedness, including in a highly leveraged transaction or other similar transaction. We will only be required to offer to repurchase the Notes upon a change of control in the case of the transactions specified in the definition of a "fundamental change" under "Description of the Notes - Fundamental Change Put." Similarly, we will only be required to adjust the conversion rate upon the occurrence of a "non stock change of control" in circumstances where a Note is converted in connection with such a transaction as set forth under "Description of the Notes - Conversion Rights - Adjustment to Conversion Rate Upon a Non Stock Change of Control."

Accordingly, subject to restrictions contained in our other debt agreements, we will be permitted to engage in certain transactions, such as acquisitions, refinancings or recapitalizations, that could affect our capital structure and the value of the Notes and our common stock but would not constitute a fundamental change or a non stock change of control under the Notes.

The conversion rate of the Notes may not be adjusted for all dilutive events that may adversely affect the trading price of the Notes or the common stock issuable upon conversion of the Notes.

The conversion rate of the Notes is subject to adjustment upon certain events, including the issuance of certain stock dividends on our common stock, certain issuance of rights or warrants, subdivisions, combinations, certain distributions of capital stock, indebtedness or assets, certain cash dividends and certain issuer tender or exchange offers as described under "Description of the Notes - Conversion Rights - Conversion Rate Adjustments." The conversion rate will not be adjusted for certain other events, including cash dividends below the dividend threshold amount (as defined clause (4) of "Description of the Notes - Conversion Rights - Conversion Rate Adjustments"), that may adversely affect the trading price of the Notes or the common stock issuable upon conversion of the Notes.

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We may be unable to repurchase the Notes following a fundamental change.

Holders of the Notes have the right to require us to repurchase their Notes prior to their maturity upon the occurrence of a fundamental change as described under “Description of the Notes - Fundamental Change Put.” Any of our future debt agreements may contain similar provisions. We may not have sufficient funds or the ability to arrange necessary financing on acceptable terms at the time we are required to make repurchases of tendered Notes. In addition, our ability to repurchase the Notes may be limited by law or the terms of other agreements relating to our debt outstanding at the time, including our credit facility. If we fail to repurchase the Notes as required by the indenture, it would constitute an event of default under the indenture governing the Notes, which, in turn, would constitute an event of default under our credit facility.

Some significant restructuring transactions may not constitute a fundamental change, in which case we would not be obligated to offer to repurchase the Notes.

Upon the occurrence of a fundamental change, you have the right to require us to offer to repurchase the Notes.

However, the fundamental change provisions will not afford protection to holders of the Notes in the event of certain transactions. For example, transactions such as leveraged recapitalizations, refinancings, restructurings or acquisitions initiated by us would not constitute a fundamental change event which may require us to repurchase the Notes. In the event of any such transaction, the holders would not have the right to require us to repurchase the Notes, even though each of these transactions could increase the amount of our indebtedness, or otherwise adversely affect our capital structure or any credit ratings, thereby adversely affecting the holders of the Notes.

Provisions of the Notes could discourage an acquisition of us by a third party.

Certain provisions of the Notes could make it more difficult or more expensive for a third party to acquire us. Upon the occurrence of certain transactions constituting a fundamental change, holders of the Notes will have the right, at their option, to require us to repurchase all of their Notes or any portion of the principal amount of such Notes in integral multiples of \$1,000. We may also be required to increase the conversion rate or provide for conversion into the acquirer’s capital stock in the event of certain fundamental changes constituting a non stock change of control. These provisions could discourage an acquisition of us by a third party.

The adjustment to the conversion rate upon the occurrence of certain types of fundamental changes may not adequately compensate you for the lost option time value of your Notes as a result of such fundamental change.

If certain types of fundamental changes constituting a non stock change of control occur on or prior to the maturity date of the Notes, we may increase the conversion rate by an additional number of shares for holders that elect to convert their Notes in connection with the non stock change of control. The number of additional shares to be added to the conversion rate will be determined based on the date on which a non stock change of control becomes effective and the price paid per share of our common stock in the non stock change of control as described under “Description of the Notes - Conversion Rights - Adjustment to Conversion Rate Upon a Non Stock Change of Control.” Although this adjustment is designed to compensate you for the lost option value of your Notes as a result of a non stock change of control, the adjustment is only an approximation of such lost value based upon assumptions made on the date of this prospectus supplement and may not adequately compensate you for such loss. In addition, if the price paid per share of our common stock in the non stock change of control is less than \$ or more than \$ (subject to adjustment), there will be no such adjustment.

There is currently no public market for the Notes, and an active trading market may not develop for the Notes. The failure of a market to develop for the Notes could adversely affect the liquidity and value of your Notes.

The Notes are a new issue of securities, and there is no existing market for the Notes. We do not intend to apply for listing of the Notes on any securities exchange or for quotation of the Notes on any automated dealer quotation system. We have been advised by the underwriters that following the completion of the offering, the underwriters currently intend to make a market in the Notes. However, the underwriters are not obligated to do so, and any market making activities with respect to the Notes may be discontinued by them at any time without notice. In addition, any market making activity will be subject to limits imposed by law. A market may not develop for the Notes, and there can be no assurance as to the liquidity of any market that may develop for the Notes. If an active, liquid market does not develop for the Notes, the market price and liquidity of the Notes may be adversely affected. If any of the Notes are traded after their initial issuance, they may trade at a discount from their initial discounted offering price.

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The liquidity of the trading market, if any, and the future trading prices of the Notes will depend on many factors, including, among other things, the market price of our common stock, prevailing interest rates, our operating results, financial performance and prospects, the market for similar securities and the overall securities market, and may be adversely affected by unfavorable changes in these factors. Historically, the market for convertible debt has been subject to disruptions that have caused volatility in prices. It is possible that the market for the Notes will be subject to disruptions which may have a negative effect on the holders of the Notes, regardless of our operating results, financial performance or prospects.

Regulatory actions and the inability of investors in the Notes to borrow our common stock may adversely affect the trading price and liquidity of the Notes.

We expect that many investors in, and potential purchasers of, the Notes will employ, or seek to employ, a convertible arbitrage strategy with respect to the Notes. Investors would typically implement this strategy by selling short the common stock underlying the Notes and dynamically adjusting their short position while they hold the Notes.

Investors may also implement this strategy by entering into swaps on our common stock in lieu of or in addition to short selling the common stock.

The SEC and other regulatory and self-regulatory authorities have implemented various rules and may adopt additional rules in the future that may impact those engaging in short selling activity involving equity securities (including our common stock), including Rule 201 of SEC regulation SHO, the Financial Industry Regulatory Authority, Inc.'s "Limit Up Limit Down" program, market-wide circuit breaker systems that halt trading of securities for certain periods following specific market declines, and rules stemming from the implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Past regulatory actions, including emergency actions or regulations have had a significant impact on the trading prices and liquidity of equity-linked instruments. Any governmental action that similarly restricts the ability of investors in, or potential purchasers of, the Notes to effect short sales of our common stock or enter into swaps on our common stock could similarly adversely affect the trading price and the liquidity of the Notes.

In addition, if investors and potential purchasers seeking to employ a convertible arbitrage strategy are unable to borrow or enter into swaps on our common stock, in each case on commercially reasonable terms, the trading price and liquidity of the Notes may be adversely effected.

The accounting for convertible debt securities is subject to uncertainty.

The accounting for convertible debt securities is subject to frequent scrutiny by the accounting regulatory bodies and is subject to change. We cannot predict if or when any such change could be made and any such change could have an adverse impact on our reported or future financial results. Any such impacts could adversely affect the market price of our common stock and in turn negatively impact the trading price of the Notes.

The price of our common stock and of the Notes may fluctuate significantly, and this may make it difficult for you to resell the Notes or common stock issuable upon conversion of the Notes when you want or at prices you find attractive.

The price of our common stock on The NASDAQ Global Select Market constantly changes. We expect that the market price of our common stock will continue to fluctuate. In addition, because the Notes are convertible into our common stock, volatility or depressed prices for our common stock could have a similar effect on the trading price of the Notes.

Our stock price may fluctuate as a result of a variety of factors, many of which are beyond our control. These factors include:

- quarterly variations in our investment results;
- operating results that vary from the expectations of management, securities analysts and investors;
- changes in expectations as to our future financial performance;
- the operating and securities price performance of other companies that investors believe are comparable to us;
- future sales of our equity or equity-related securities;
- changes in general conditions in our industry and in the economy and the financial markets; and

Departures of key personnel.

In addition, in recent years, the stock market in general has experienced extreme price and volume fluctuations. This volatility has had a significant effect on the market price of securities issued by many companies for reasons often unrelated to their operating performance. These broad market fluctuations may adversely affect our stock price, regardless of our operating results.

Future sales of our common stock in the public market or the issuance of securities senior to our common stock could adversely affect the trading price of our common stock and the value of the Notes and our ability to raise funds in new stock offerings.

Future sales of substantial amounts of our common stock or equity related securities in the public market, or the perception that such sales could occur, could adversely affect prevailing trading prices of our common stock and the value of the Notes and could impair our ability to raise capital through future offerings of equity or equity related securities. Upon completion of this offering, we may not, unless otherwise agreed to by the underwriters, commence any sales of shares of our common stock until 30 days following the date of this prospectus supplement. No prediction can be made as to the effect, if any, that future sales of shares of common stock or the availability of shares of common stock for future sale, will have on the trading price of our common stock or the value of the Notes.

Holder of the Notes will not be entitled to any rights with respect to our common stock, but will be subject to all changes made with respect to our common stock.

Holder of the Notes will not be entitled to any rights with respect to our common stock (including, without limitation, voting rights or rights to receive any dividends or other distributions on our common stock), but will be subject to all changes affecting our common stock. Holder will only be entitled to rights in respect of our common stock if and when we deliver shares of our common stock upon conversion for their Notes and, to a limited extent, under the conversion rate adjustments applicable to the Notes. For example, in the event that an amendment is proposed to our certificate of incorporation or bylaws requiring stockholder approval and the record date for determining the stockholders of record entitled to vote on the amendment occurs prior to a holder's conversion of Notes, the holder will not be entitled to vote on the amendment, although the holder will nevertheless be subject to any changes in the powers, preferences or rights of our common stock that result from such amendment.

The Notes may be issued with original issue discount for U.S. federal income tax purposes.

The Notes will be issued with original issue discount ("OID") for U.S. federal income tax purposes if the difference between their stated principal amount and their "issue price" (the first price at which a substantial amount of the Notes is sold for cash, other than to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers) exceeds a statutorily defined de minimis threshold. If the Notes are issued with OID, a U.S. Holder (as defined in "Supplement to Material U.S. Federal Income Tax Considerations"), as well as a Non U.S. Holder (as defined in "Supplement to Material U.S. Federal Income Tax Considerations") that is subject to U.S. federal income taxation on a net basis, generally will be required to include the OID in gross income as ordinary interest income in advance of the receipt of cash attributable to that income and regardless of such holder's regular method of tax accounting. See "Supplement to Material U.S. Federal Income Tax Considerations."

You may be deemed to receive a taxable distribution without the receipt of any cash or property.

The conversion rate of the Notes will be adjusted in certain circumstances. See the discussion under the headings "Description of the Notes - Conversion Rights - Conversion Rate Adjustments" and "- Adjustment to Conversion Rate Upon a Non Stock Change of Control." Adjustments to the conversion rate of the Notes that have the effect of increasing your proportionate interest in our assets or earnings may in some circumstances result in a taxable constructive distribution to you for U.S. federal income tax purposes, notwithstanding the fact that you do not receive an actual distribution of cash or property. In addition, if you are a Non U.S. Holder, you may be subject to U.S. federal withholding taxes in connection with such a constructive distribution. If we pay withholding taxes on your behalf as a result of an adjustment to the conversion rate of the Notes, we may, at our option, set off such payments against payments of cash and common stock on the Notes. You are urged to consult your tax advisors with respect to the U.S. federal income tax consequences resulting from an adjustment to the conversion rate of the Notes. See the discussions under the headings "Supplement to Material U.S. Federal Income Tax Considerations - The Notes - Consequences to U.S. Holders - Constructive distributions" and "- Consequences to Non U.S. Holders - Constructive distributions."

A downgrade, suspension or withdrawal of the rating assigned by a rating agency to us or the Notes, if any, could cause the liquidity or market value of the Notes to decline significantly.

Our credit ratings are an assessment by rating agencies of our ability to pay our debts when due. Consequently, real or anticipated changes in our credit ratings will generally affect the market value of the Notes. These credit ratings may not reflect the potential impact of risks relating to the structure or marketing of the Notes. Credit ratings are not a recommendation to buy, sell or hold any security, and may be revised or withdrawn at any time by the issuing organization in its sole discretion. We do not undertake any obligation to maintain our rating, if any, or to advise holders of Notes of any changes in ratings.

The Notes will be rated by Standard & Poor's Ratings Services, or "S&P," Moody's Investors Service, or "Moody's," and Kroll Bond Rating Agency, Inc., or "Kroll." There can be no assurance that their rating will remain for any given period of time or that such rating will not be lowered or withdrawn entirely by S&P, Moody's or Kroll if in their respective judgment future circumstances relating to the basis of the rating, such as adverse changes in our company, so warrant.

We may be subject to certain corporate level taxes, which could adversely affect our cash flow and consequently adversely affect our ability to make payments on the Notes.

We may be subject to certain corporate level taxes regardless of whether we continue to qualify as a regulated investment company, or RIC. Additionally, should we fail to qualify as a RIC, we would be subject to corporate level taxes on all of our taxable income. The imposition of corporate level taxes could adversely affect our cash flow and consequently adversely affect our ability to make payments on the Notes.

The indenture under which the Notes will be issued will contain limited protection for holders of the Notes.

The indenture under which the Notes will be issued will offer limited protection to holders of the Notes. The terms of the indenture and the Notes do not restrict our or our consolidated subsidiaries' ability to engage in, or otherwise be a party to, a variety of corporate transactions, circumstances or events that could have an adverse impact on your investment in the Notes. In particular, the terms of the indenture and the Notes will not place any restrictions on our or our consolidated subsidiaries' ability to:

issue securities or otherwise incur additional indebtedness or other obligations, including (1) any indebtedness or other obligations that would be equal in right of payment to the Notes, (2) any indebtedness or other obligations that would be secured and therefore rank effectively senior in right of payment to the Notes to the extent of the values of the assets securing such debt, (3) indebtedness of ours that is guaranteed by one or more of our subsidiaries and which therefore is structurally senior to the Notes and (4) securities, indebtedness or obligations issued or incurred by our subsidiaries that would be senior to our equity interests in our subsidiaries and therefore rank structurally senior to the Notes with respect to the assets of our subsidiaries, in each case other than an incurrence of indebtedness or other obligation that would cause a violation of Section 18(a)(1)(A) as modified by Section 61(a) of the 1940 Act or any successor provisions;

pay dividends on, or purchase or redeem or make any payments in respect of, capital stock or other securities ranking junior in right of payment to the Notes;

sell assets (other than certain limited restrictions on our ability to consolidate, merge or sell all or substantially all of our assets);

enter into transactions with affiliates;

create liens (including liens on the shares of our subsidiaries) or enter into sale and leaseback transactions;

make investments; or

create restrictions on the payment of dividends or other amounts to us from our consolidated subsidiaries.

Furthermore, the terms of the indenture and the Notes do not protect holders of the Notes in the event that we experience changes (including significant adverse changes) in our financial condition, results of operations or credit ratings, as they do not require that we or our subsidiaries adhere to any financial tests or ratios or specified levels of net worth, revenues,

income, cash flow, or liquidity other than certain limited restrictions on dividends and certain board structures or default provisions mandated by the 1940 Act.

Our ability to recapitalize, incur additional debt and take a number of other actions that are not limited by the terms of the Notes may have important consequences for you as a holder of the Notes, including making it more difficult for us to satisfy our obligations with respect to the Notes or negatively affecting the trading value of the Notes.

Certain of our current debt instruments include more protections for their holders than the indenture and the Notes. In addition, other debt we issue or incur in the future could contain more protections for its holders than the indenture and the Notes, including additional covenants and events of default. The issuance or incurrence of any such debt with incremental protections could affect the market for and trading levels and prices of the Notes.

Our most recent NAV was calculated on December 31, 2018 and our NAV when calculated effective March 31, 2019 and thereafter may be higher or lower.

Our NAV per share is \$9.02 as of December 31, 2018. NAV per share as of March 31, 2019 may be higher or lower than \$9.02 based on potential changes in valuations, issuances of securities, repurchases of securities, dividends paid and earnings for the quarter then ended. Our Board of Directors has not yet determined the fair value of portfolio investments at any date subsequent to December 31, 2018. Our Board of Directors determines the fair value of our portfolio investments on a quarterly basis in connection with the preparation of quarterly financial statements and based on input from independent valuation firms, the Investment Adviser, the Administrator and the Audit Committee of our Board of Directors.

DESCRIPTION OF THE NOTES

The Notes will be issued under an indenture, dated as of February 16, 2012, between the Company and U.S. Bank National Association, as trustee (the “trustee”), as amended by that certain Agreement of Resignation, Appointment and Acceptance, dated March 12, 2012, by and among the Company, the trustee, and American Stock Transfer & Trust Company, LLC (so amended, the “base indenture”), as supplemented by a supplemental indenture establishing the terms of the Notes, to be dated as of _____, 2019 (the “supplemental indenture” and, together with the base indenture, the “indenture”). The terms of the Notes include those expressly set forth in the indenture and those made part of the indenture by reference to the Trust Indenture Act of 1939, as amended (the “Trust Indenture Act”).

The following description is only a summary of the material provisions of the Notes and the indenture. We urge you to read the indenture in its entirety because it, and not this description, defines your rights as a holder of the Notes. You may request copies of these documents as set forth under the caption “Available Information”. Our other senior unsecured indebtedness are described under the headings “Business - Convertible Notes, Business - Public Notes and Business - Prospect Capital InterNotes®.”

When we refer to “Prospect Capital Corporation,” the “Company,” “we,” “our” or “us” in this section, we refer only to Prospect Capital Corporation and not its consolidated subsidiaries. In addition, all references to interest in this prospectus supplement include additional interest, if any, payable as the sole remedy relating to the failure to comply with our reporting obligations pursuant to the provisions set forth below under the heading “- Events of Default; Notice and Waiver.”

Brief Description of the Notes

The Notes will:

initially be limited to \$ _____ million aggregate principal amount (\$ _____ million if the option to purchase up to an additional \$ _____ million aggregate principal amount of Notes solely to cover over-allotments, if any, is exercised in full);

bear interest at a rate of % per year, payable semi annually in arrears, on March 1 and September 1 of each year, commencing on September 1, 2019;

- be our general unsecured obligations, ranking equally with all of our other unsecured senior indebtedness (including the Unsecured Notes) and senior in right of payment to any of our subordinated indebtedness, effectively subordinated in right of payment to our existing and future secured indebtedness and structurally subordinated to all existing and future debt of our subsidiaries;

be convertible by you at any time on or prior to 5:00 p.m., New York City time, on the business day immediately preceding the maturity date, into shares of our common stock (together with cash in lieu of fractional shares) initially at a conversion rate of shares of our common stock per \$1,000 principal amount of Notes (subject to adjustment as set forth in this prospectus supplement), which represents an initial conversion price of approximately \$ per share. In the event of a non stock change of control, we will, in certain circumstances, increase the conversion rate as described herein;

be subject to redemption at our option, in whole or from time to time in part, on or after December 1, 2024 at a redemption price equal to the sum of (i) 100% of the principal amount of the Notes to be redeemed, (ii) accrued and unpaid interest (including additional interest, if any) to, but not including, the redemption date and (iii) the make whole premium;

be subject to repurchase by us at your option if a fundamental change occurs, at a cash repurchase price equal to 100% of the principal amount of the Notes, plus accrued and unpaid interest (including additional interest, if any) to, but not including, the repurchase date; and

be due on March 1, 2025, unless earlier converted, repurchased or redeemed.

Neither we nor any of our subsidiaries will be subject to any financial covenants under the indenture. In addition, neither we nor our consolidated subsidiaries will be restricted under the indenture from paying dividends, incurring debt or issuing or repurchasing our securities. You are not afforded protection under the indenture in the event of a highly leveraged

transaction or a change in control of us, except to the extent described below under “- Adjustment to Conversion Rate Upon a Non Stock Change of Control” and “- Fundamental Change Put.”

No sinking fund is provided for the Notes, and the Notes will not be subject to defeasance.

The Notes initially will be issued in book entry form only in denominations of \$1,000 principal amount and integral multiples thereof. Beneficial interests in the Notes will be shown on, and transfers of beneficial interests in the Notes will be effected only through, records maintained by The Depository Trust Company, or DTC, or its nominee, and any such interests may not be exchanged for certificated Notes except in limited circumstances. For information regarding conversion, registration of transfer and exchange of global Notes held in DTC, see “- Form, Denomination and Registration - Global Notes Book Entry Form.”

If certificated Notes are issued, you may present them for conversion, registration of transfer and exchange, without service charge, at our office or agency in New York City, which will initially be the office or agency of the trustee in New York City.

Additional Notes

We may, without the consent of the holders of the Notes, increase the principal amount of the Notes by issuing additional Notes in the future on the same terms and conditions, except for any differences in the issue price and interest accrued prior to the issue date of the additional Notes; provided that such differences do not cause the additional Notes to constitute a different class of securities than the Notes for U.S. federal income tax purposes. The Notes offered by this prospectus supplement and any additional Notes would rank equally and ratably and would be treated as a single class for all purposes under the indenture. No additional Notes may be issued if any event of default has occurred with respect to the Notes.

Payment at Maturity

On the maturity date, each holder will be entitled to receive on such date \$1,000 in cash for each \$1,000 in principal amount of Notes, together with accrued and unpaid interest (including additional interest, if any) to, but not including, the maturity date. With respect to global Notes, principal and interest (including additional interest, if any) will be paid to DTC in immediately available funds. With respect to any certificated Notes, principal and interest (including additional interest, if any) will be payable at our office or agency in New York City, which initially will be the office or agency of the trustee in New York City.

Interest

The Notes will bear interest at a rate of % per year. Interest will accrue from the date of original issuance of the Notes or from the most recent date to which interest has been paid or duly provided for. We will pay interest (including additional interest, if any) semi annually, in arrears on March 1 and September 1 of each year, commencing on September 1, 2019, to holders of record at 5:00 p.m., New York City time, on the preceding February 15 and August 15, respectively. However, there are two exceptions to the preceding sentence:

holders will be entitled to a cash payment representing accrued and unpaid interest to, but not including, the conversion date on any Notes unless the Notes are converted after a record date for an interest payment but prior to the corresponding interest payment date, as described under “- Conversion Rights;” and

on the maturity date, we will pay accrued and unpaid interest to the person to whom we pay the principal amount.

We will pay interest on:

global Notes to DTC in immediately available funds;

any certificated Notes having a principal amount of less than \$2,000,000, by check mailed to the holders of those Notes; provided, however, at maturity, interest will be payable as described under “- Payment at Maturity;” and

any certificated Notes having a principal amount of \$2,000,000 or more, by wire transfer in immediately available funds at the election of the holders of these Notes duly delivered to the trustee at least five business days prior to

the relevant interest payment date; provided, however, at maturity, interest will be payable as described under “- Payment at Maturity.”

Interest will be calculated on the basis of a 360 day year consisting of twelve 30 day months. If a payment date is not a business day, payment will be made on the next succeeding business day, and no additional interest will accrue thereon. The term “business day” means any day other than a Saturday, a Sunday or a day on which the Federal Reserve Bank of New York is authorized or required by law or executive order to close or be closed.

To the extent lawful, payments of principal or interest (including additional interest, if any) on the Notes that are not made when due will accrue interest at the annual rate of 1% above the then applicable interest rate from the required payment date.

Redemption During Final Three Month Term of the Notes

We may not redeem the Notes prior to December 1, 2024. On or after December 1, 2024, we may redeem the Notes for cash, in whole or from time to time in part, at our option at a redemption price equal to the sum of (i) 100% of the principal amount of the Notes to be redeemed, (ii) accrued and unpaid interest thereon to, but excluding, the redemption date and (iii) an amount equal to the present value of the interest that would accrue on such Notes from, and including, the redemption date until the maturity date, with such present value computed using a discount rate equal to the yield to maturity of United States Treasury securities with three months of remaining maturity (as determined in a commercially reasonable manner by us prior to providing the applicable notice of redemption) plus 50 basis points (such present value, the “make whole premium”); provided, however, that if the redemption date falls after a record date and on or prior to the interest payment date to which such record date relates, we will instead pay the full amount of accrued and unpaid interest to the holder of record on such record date and the redemption price will be equal to 100% of the principal amount of the Notes to be redeemed. In the case of any such redemption, we will provide not less than 10 nor more than 30 calendar days’ notice before the redemption date to each holder of the Notes. The redemption date must be a business day. If we call the Notes for redemption, a holder of the Notes may convert all or any portion of its Notes called for redemption only until 5:00 p.m., New York City time, on the business day immediately preceding the redemption date and, if the conversion date falls after December 1, 2024 and prior to the next record date, such holder shall receive, in addition to any accrued and unpaid interest to, but excluding the conversion date, the make whole premium.

If we decide to redeem fewer than all of the outstanding Notes, the Notes shall be selected to be redeemed (in principal amounts of \$1,000 or multiples thereof) in accordance with the applicable procedures of DTC, in the case of global Notes, and by lot, in the case of certificated Notes.

If a portion of your Note is selected for partial redemption and you convert a portion of the same Note, the converted portion will be deemed to be from the portion selected for redemption.

In the event of any redemption in part, we will not be required to register the transfer of or exchange of any Notes so selected for redemption, in whole or in part, except the unredeemed portion of any Note being redeemed in part.

No Notes may be redeemed if the principal amount of the Notes has been accelerated, and such acceleration has not been rescinded, on or prior to the redemption date (except in the case of an acceleration resulting from a default by us in the payment of the redemption price with respect to such Notes).

Conversion Rights

Holder may convert their Notes prior to 5:00 p.m., New York City time, on the business day preceding the maturity date at an initial conversion rate of shares of common stock per \$1,000 principal amount of Notes (equivalent to an initial conversion price of approximately \$ per share). The conversion rate will be subject to adjustment as described below. You will have the right to convert any portion of the principal amount of any Notes that is an integral multiple of \$1,000 at any time on or prior to the close of business on the business day immediately preceding the maturity date. Upon conversion, unless you convert after a record date for an interest payment but prior to the corresponding interest payment date, you will receive a separate cash payment representing accrued and unpaid interest to, but not including the conversion date. Any such payment will be made on the settlement date applicable to the relevant conversion on the Notes.

If we call the Notes for redemption, a holder of the Notes may convert all or any portion of its Notes called for redemption only until 5:00 p.m., New York City time, on the business day immediately preceding the redemption date and, if the conversion date falls after December 1, 2024, and prior to the next record date, such holder shall receive, in addition to any accrued and unpaid interest to, but excluding the conversion date, the make whole premium.

Except as described under “- Conversion Rate Adjustments,” we will not make any payment or other adjustment for dividends on any common stock issued upon conversion of the Notes.

Conversion Procedures

Procedures to be Followed by a Holder

If you hold a beneficial interest in a global Note, to convert you must deliver to DTC the appropriate instruction form for conversion pursuant to DTC’s conversion program and, if required, pay all taxes or duties, if any.

If you hold a certificated Note, to convert you must:

- complete and manually sign the conversion notice on the back of the Notes or a facsimile of the conversion notice;
- deliver the completed conversion notice and the Notes to be converted to the conversion agent;
- if required, furnish appropriate endorsements and transfer documents; and
- if required, pay all transfer or similar taxes, if any.

The conversion date will be the date on which you have satisfied all of the foregoing requirements. The Notes will be deemed to have been converted immediately prior to 5:00 p.m., New York City time, on the conversion date. In connection with any conversion, we will deliver shares of our common stock, together with cash for any fractional shares, on the second business day following the relevant conversion date.

You will not be required to pay any taxes or duties relating to the issuance or delivery of our common stock if you exercise your conversion rights, but you will be required to pay any tax or duty that may be payable relating to any transfer involved in the issuance or delivery of the common stock in a name other than your own. Certificates representing common stock will be issued and delivered only after all applicable taxes and duties, if any, payable by you have been paid in full.

We will not issue fractional shares of our common stock upon conversion of the Notes. Instead, we will pay cash in lieu of fractional shares based on the closing sale price of our common stock on the conversion date.

Limitation on Beneficial Ownership

Notwithstanding the foregoing, no holder of Notes will be entitled to receive shares of our common stock upon conversion to the extent (but only to the extent) that such receipt would cause such converting holder to become, directly or indirectly, a “beneficial owner” (within the meaning of Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder) of more than 5.0% of the shares of our common stock outstanding at such time (the “Limitation”). Any purported delivery of shares of our common stock upon conversion of Notes shall be void and have no effect to the extent (but only to the extent) that such delivery would result in the converting holder becoming the beneficial owner of more than the Limitation. If any delivery of shares of our common stock owed to a holder upon conversion of Notes is not made, in whole or in part, as a result of the Limitation, our obligation to make such delivery shall not be extinguished and we shall deliver such shares as promptly as practicable after any such converting holder gives notice to us that such delivery would not result in it being the beneficial owner of more than 5.0% of the shares of common stock outstanding at such time. The Limitation shall no longer apply following the effective date of any Fundamental Change, as defined in “- Fundamental Change Put.”

Conversion Rate Adjustments

We will adjust the conversion rate for the following events:

(1) If we issue shares of our common stock as a dividend or distribution on shares of our common stock, or if we effect a share split or share combination of our common stock, the conversion rate will be adjusted based on the following formula:

where,

CR_1 = the conversion rate in effect immediately prior to the open of business on the record date for such dividend or distribution or the effective date of such share split or combination, as the case may be;

CR_0 = the conversion rate in effect at 5:00 p.m., New York City time, on the trading day immediately preceding the record date for such dividend or distribution or the effective date of such share split or combination, as the case may be;

OS_0 = the number of shares of our common stock outstanding at 5:00 p.m., New York City time, on the trading day immediately preceding the record date for such dividend or distribution or the effective date of such share split or combination; and

OS_1 = the number of shares of our common stock that would be outstanding immediately after, and solely as a result of, such dividend, distribution, share split or combination, as the case may be.

(2) If we distribute to all or substantially all holders of our common stock any rights or warrants (other than rights issued pursuant to a stockholders' right plan) entitling them for a period of not more than 60 days from the issuance date for such distribution to subscribe for or purchase shares of our common stock, at a price per share less than the last reported sale price of our common stock on the trading day immediately preceding the declaration date of such distribution, the conversion rate will be increased based on the following formula; provided that the conversion rate will be readjusted to the extent that such rights or warrants are not exercised prior to their expiration:

where,

CR_1 = the conversion rate in effect immediately prior to the open of business on the record date for such distribution;

CR_0 = the conversion rate in effect at 5:00 p.m., New York City time, on the trading day immediately preceding the record date for such distribution;

OS_0 = the number of shares of our common stock outstanding at 5:00 p.m. New York City time, on the trading day immediately preceding the record date for such distribution;

X = the total number of shares of our common stock issuable pursuant to such rights or warrants; and

Y = the number of shares of our common stock equal to the aggregate price payable to exercise such rights or warrants, divided by the average of the last reported sale prices of our common stock over the 10 consecutive trading day period ending on the trading day immediately preceding the record date for such distribution.

(3)(a) If we distribute shares of our capital stock, evidences of our indebtedness or other of our assets or property to all or substantially all holders of our common stock, excluding:

dividends or distributions as to which adjustment is required to be effected in clause (1) or (2) above;

dividends or distributions paid exclusively in cash; and

spin offs described below in clause (3)(b),

then the conversion rate will be increased based on the following formula:

where,

CR_1 = the conversion rate in effect immediately prior to the open of business on the record date for such distribution;

CR_0 = the conversion rate in effect at 5:00 p.m., New York City time, on the trading day immediately preceding the record date for such distribution;

SP_0 = the average of the last reported sale prices of our common stock over the 10 consecutive trading day period ending on the trading day immediately preceding the record date for such distribution; and

FMV = the fair market value (as determined by our board of directors or a committee thereof) of the shares of capital stock, evidences of indebtedness, assets or property distributed, with respect to each outstanding share of our common stock as of the open of business on the record date for such distribution.

(b) With respect to an adjustment pursuant to this clause (3) where there has been a payment of a dividend or other distribution on our common stock in shares of capital stock of any class or series, or similar equity interest, of or relating to a subsidiary or other business unit of ours that are listed on a national or regional securities exchange, which is referred to in this prospectus supplement as a “spin off,” the conversion rate will be increased based on the following formula:

where,

CR_1 = the conversion rate in effect immediately prior to the open of business on the record date for the spin off;

CR_0 = the conversion rate in effect at 5:00 p.m., New York City time, on the trading day immediately preceding the record date for the spin off;

FMV = the average of the last reported sale prices of the capital stock or similar equity interest distributed to holders of our common stock applicable to one share of our common stock over the first 10 consecutive trading day period immediately following, and including, the third trading day after the record date for such spin off (such period, the “valuation period”); and

MP_0 = the average of the last reported sale prices of our common stock over the valuation period.

Any adjustment to the conversion rate under this clause (3)(b) will be made immediately after the open of business on the day after the last day of the valuation period, but will be given effect as of the open of business on the record date for the spin off. Because we will make the adjustment to the conversion rate at the end of the valuation period with retroactive effect, we will delay the settlement of any Notes where the conversion date occurs during the valuation period. In such event, we will deliver shares of our common stock, if any, and any cash in lieu thereof (based on the adjusted conversion rate as described above) on the second business day immediately following the last day of the valuation period.

(4) If we pay any cash dividends or make distributions paid exclusively in cash to all or substantially all holders of our common stock (other than dividends or distributions made in connection with our liquidation, dissolution or winding up or upon a merger, consolidation or sale, lease, transfer, conveyance or other disposition resulting in a change in the conversion consideration as described under “- Change in the Conversion Rights upon Certain Reclassification, Business Combinations, Asset Sales and Corporate Events”), the conversion rate will be increased based on the following formula:

where,

CR_1 = the conversion rate in effect immediately prior to the open of business on the record date for such dividend or distribution;
 CR_0 = the conversion rate in effect at 5:00 p.m., New York City time, on the trading day immediately preceding the record date for such distribution;
 SP_0 = the average of the last reported sale prices of our common stock over the 10 consecutive trading day period ending on the trading day immediately preceding the record date for such distribution;
 DTA = the dividend threshold amount, which will initially equal \$0.06 per share in any month; provided that if there is not a record date for a dividend in any month, the DTA may be carried forward by us to the next subsequent month and to the extent the aggregate amount of any dividends with record dates in such subsequent month is less than \$0.06 such difference may be carried forward to the second subsequent month, subject to a maximum DTA at any time of \$0.18; and

C = the amount in cash per share we distribute to holders of our common stock in any dividend
 The dividend threshold amount is subject to adjustment on an inversely proportional basis whenever the conversion rate is adjusted other than adjustments made pursuant to this clause (4). If an adjustment is required to be made as set forth in this clause (4) as a result of a distribution that is not a regular monthly or quarterly dividend, the dividend threshold amount will be deemed to be zero. For the avoidance of doubt, a distribution that relates to a prior monthly or quarterly period during which the record date for a regular distribution did not occur (such distribution, a “delayed distribution”) shall constitute a regular monthly or quarterly dividend (whether paid separately or together with the regular monthly or quarterly distribution with respect to the period in which such delayed distribution occurs), notwithstanding the fact that the record date for such delayed distribution occurs after the monthly or quarterly period to which the delayed distribution relates.

If “ C ” (as defined above) is equal to or greater than “ SP ” (as defined above), or if the difference between “ SP ” and “ C ” is less than \$0.01, in lieu of the foregoing increase, each holder of a Note shall receive, in respect of each \$1,000 principal amount thereof, at the same time and upon the same terms as holders of shares of our common stock, the amount of cash that such holder would have received as if such holder owned a number of shares of our common stock equal to the conversion rate on the record date for such cash dividend or distribution.

(5) If we or any of our subsidiaries makes a payment in respect of a tender offer or exchange offer for our common stock, to the extent that the cash and value of any other consideration included in the payment per share of our common stock exceeds the last reported sale price of our common stock on the trading day next succeeding the last date on which tenders or exchanges may be made pursuant to such tender or exchange offer, the conversion rate will be increased based on the following formula:

where,

CR_1 = the conversion rate in effect at 5:00 p.m. on the day such tender offer or exchange offer expires;
 CR_0 = the conversion rate in effect immediately prior to the open of business on the trading day next succeeding the date such tender offer or exchange offer expires;
 AC = the aggregate value of all cash and any other consideration (as determined by our board of directors or a committee thereof) paid or payable for shares purchased in such tender or exchange offer;
 SP_1 = the average of the last reported sale prices of our common stock over the 10 consecutive trading day period commencing on, and including, the trading day next succeeding the date such tender or exchange offer expires (the “averaging period”);
 OS_1 = the number of shares of our common stock outstanding immediately after the close of business on the date such tender or exchange offer expires (after giving effect to such tender offer or exchange offer); and
 OS_0 = the number of shares of our common stock outstanding immediately prior to the date such tender or exchange offer expires (prior to giving effect to such tender offer or exchange offer).

Any adjustment to the conversion rate under this clause (5) will be made immediately prior to the open of business on the day following the last day of the averaging period, but will be given effect as of the open of business on the trading day next succeeding the date such tender offer or exchange offer expires. Because we will make the adjustment to the conversion rate at

the end of the averaging period with retroactive effect, we will delay the settlement of any Notes where the conversion date occurs during the averaging period. In such event, we will deliver shares of our common stock, if any, and any cash in lieu thereof (based on the adjusted conversion rate as described above) on the second business day immediately following the last day of the averaging period.

To the extent that any future stockholders' rights plan adopted by us is in effect upon conversion of the Notes into common stock, you will receive, in addition to the common stock, the rights under the applicable rights agreement unless the rights have separated from our common stock at the time of conversion of the Notes, in which case, the conversion rate will be adjusted as if we distributed to all holders of our common stock shares of our capital stock, evidences of indebtedness or assets as described above in clause (3), subject to readjustment in the event of the expiration, termination or redemption of such rights.

We will not make any adjustment if holders may participate in the transaction or in certain other cases. Except with respect to a spin off, in cases where the fair market value of assets, debt securities or certain rights, warrants or options to purchase our securities, applicable to one share of common stock, distributed to stockholders:

- equals or exceeds the average closing price of the common stock over the 10 consecutive trading day period ending on the record date for such distribution, or
- such average closing price exceeds the fair market value of such assets, debt securities or rights, warrants or options so distributed by less than \$0.01,

rather than being entitled to an adjustment in the conversion price, the holder of Notes will be entitled to receive upon conversion, in addition to the shares of common stock, the kind and amount of assets, debt securities or rights, warrants or options comprising the distribution that such holder would have received if such holder had converted such Notes immediately prior to the record date for determining the stockholders entitled to receive the distribution. To the extent that we are required to make an adjustment pursuant to a distribution that qualifies under two or more of the clauses above, we will adjust the conversion rate pursuant to clause (3)(a) above.

Except as stated above, we will not adjust the conversion rate for the issuance of our common stock or any securities convertible into or exchangeable for our common stock or carrying the right to purchase any of the foregoing.

If a taxable distribution to holders of our common stock or other transaction occurs that results in any adjustment of the conversion rate (including an adjustment at our option), you may, in certain circumstances, be deemed to have received a distribution subject to U.S. federal income tax as a dividend. In certain other circumstances, the absence of an adjustment may result in a taxable dividend to the holders of our common stock. See "Supplement to Material U.S. Federal Income Tax Considerations."

We will not be required to make an adjustment in the conversion rate unless the adjustment would require a change of at least 1% in the conversion rate. However, we will carry forward any adjustment that is less than 1% of the conversion rate, take such carried forward adjustments into account in any subsequent adjustment, and make such carried forward adjustments, regardless of whether the aggregate adjustment is less than 1%, (a) annually on the anniversary of the first date of issue of the Notes and otherwise (b)(1) 10 business days prior to the maturity date of the Notes or (2) 10 business days prior to any repurchase date or redemption date, unless such adjustment has already been made.

Without limiting the foregoing, no adjustment to the conversion rate need be made:

- (i) upon the issuance of any shares of common stock pursuant to any present or future plan providing for the reinvestment of dividends or interest payable on our securities and the investment of additional optional amounts in shares of common stock under any plan;
- (ii) upon the issuance of any shares of common stock or options or rights to purchase shares of common stock pursuant to any present or future employee, director or consultant benefit plan or program or employee stock purchase plan of, or assumed by, us or any of our subsidiaries;
- (iii) upon the issuance of any shares of common stock pursuant to any option, warrant, right, or exercisable, exchangeable or convertible security not described in clause (ii) above and outstanding as of the issue date;

- (iv) for a change in the par value of the common stock; or
- (v) for accrued and unpaid interest (including any additional interest, if applicable).

Change in the Conversion Rights upon Certain Reclassifications, Business Combinations, Asset Sales and Corporate Events

If we:

reclassify or change our common stock (other than changes resulting from a subdivision or combination), or

- consolidate or merge with or into any person or sell, lease, transfer, convey or otherwise dispose of all or substantially all of our assets and those of our subsidiaries taken as a whole to another person,

and in either case holders of our common stock receive stock, other securities or other property or assets (including cash or any combination thereof) with respect to or in exchange for their common stock, then from and after the effective date of such transaction, each outstanding Note will, without the consent of any holders of the Notes, upon the occurrence of such transaction, become convertible in accordance with the procedures described in “- Conversion Procedures,” into the consideration the holders of our common stock received in such reclassification, change, consolidation, merger, sale, lease, transfer, conveyance or other disposition (such consideration, the “reference property”). If the transaction causes our common stock to be converted into the right to receive more than a single type of consideration (determined based in part upon any form of stockholder election), the reference property into which the Notes will become convertible will be deemed to be the kind and amount of consideration elected to be received by a majority of our common stock voted for such an election (if electing between two types of consideration) or a plurality of our common stock voted for such an election (if electing between more than two types of consideration), as the case may be. We may not become a party to any such transaction unless its terms are consistent with the foregoing in all material respects.

Adjustment to Conversion Rate Upon a Non Stock Change of Control

If and only to the extent you elect to convert your Notes in connection with a transaction described under clause (1), (3) (without reference to the third bullet thereunder) or (4) under the definition of a fundamental change described below under “- Fundamental Change Put” pursuant to which 10% or more of the consideration for our common stock (other than cash payments for fractional shares and cash payments made in respect of dissenters’ appraisal rights) in such fundamental change transaction consists of cash or securities (or other property) that are not shares of common stock traded or scheduled to be traded immediately following such transaction on the New York Stock Exchange, the NASDAQ Global Market or the NASDAQ Global Select Market (or any of their respective successors), which we refer to as a “non stock change of control” we will increase the conversion rate as described below (subject to the limitations described below). The number of additional shares by which the conversion is increased (the “additional shares”) will be determined by reference to the table below, based on the date on which the non stock change of control becomes effective (the “effective date”) and the price (the “stock price”) paid per share for our common stock in such non stock change of control. If holders of our common stock receive only cash in such transaction, the price paid per share will be the cash amount paid per share. Otherwise, the stock price shall be the average of the last reported sale prices of our common stock over the five trading day period ending on, and including, the trading day immediately preceding the effective date of the non stock change of control. We will notify you of the effective date of any fundamental change no later than such time that the fundamental change occurs.

A conversion of the Notes by a holder will be deemed for these purposes to be “in connection with” a non stock change of control if the conversion notice is received by the conversion agent following the effective date of the non stock change of control but before the close of business on the business day immediately preceding the related repurchase date (as specified in the repurchase notice described under “- Fundamental Change Put”).

The number of additional shares will be adjusted in the same manner as and as of any date on which the conversion rate of the Notes is adjusted as described above under “- Conversion Rate Adjustments.” The stock prices set forth in the first row of the table below (i.e., the column headers) will be simultaneously adjusted to equal the stock prices immediately prior to such adjustment, multiplied by a fraction, the numerator of which is the conversion rate immediately prior to the adjustment and the denominator of which is the conversion rate as so adjusted.

The following table sets forth the number of additional shares by which the conversion rate shall be increased:

| Effective Date | Stock Price |
|----------------|--------------------------|
| | \$\$\$\$\$\$\$\$\$\$\$\$ |
| , 2019 | |
| March 1, 2020 | |
| March 1, 2021 | |
| March 1, 2022 | |
| March 1, 2023 | |
| March 1, 2024 | |
| March 1, 2025 | |

The exact stock price and effective dates may not be set forth on the table, in which case, if the stock price is: between two stock price amounts on the table or the effective date is between two dates on the table, the number of additional shares will be determined by straight line interpolation between the number of additional shares set forth for the higher and lower stock price amounts and the two dates, as applicable, based on a 360 day year;

- in excess of \$ per share (subject to adjustment), no additional shares will be issued upon conversion;
- and
- less than \$ per share (subject to adjustment), no additional shares will be issued upon conversion.

Notwithstanding the foregoing, in no event will the total number of shares of common stock issuable upon conversion exceed per \$1,000 principal amount of the Notes, subject to the same adjustments as the conversion rate as set forth above under “- Conversion Rate Adjustments.”

Additional shares deliverable as described in this section “- Adjustment to Conversion Rate Upon a Non Stock Change of Control,” will be delivered on the settlement date applicable to the relevant conversion.

Fundamental Change Put

If a fundamental change (as defined below) occurs at any time prior to the maturity of the Notes, you will have the right to require us to repurchase, at the repurchase price described below, all or part of your Notes for which you have properly delivered and not withdrawn a written repurchase notice. The Notes submitted for repurchase must be \$1,000 in principal amount or integral multiples thereof.

The repurchase price will be payable in cash and will equal 100% of the principal amount of the Notes being repurchased, plus accrued and unpaid interest (including additional interest, if any) to, but excluding, the repurchase date. However, if the repurchase date is after a record date and on or prior to the corresponding interest payment date, the interest (including additional interest, if any) will be paid on the repurchase date to the holder of record on the record date.

We may be unable to repurchase your Notes in cash upon a fundamental change. Our ability to repurchase the Notes in cash in the future may be limited by the terms of our then existing borrowing agreements. In addition, the occurrence of a fundamental change could cause an event of default under the terms of our then existing borrowing agreements. We cannot assure you that we would have the financial resources, or would be able to arrange financing, to pay the repurchase price in cash.

A “fundamental change” will be deemed to have occurred when any of the following has occurred:

1. the consummation of any transaction (including, without limitation, any merger or consolidation other than those excluded under clause (3) below) the result of which is that any “person” becomes the “beneficial owner” (as these terms are defined in Rule 13d-3 and Rule 13d-5 under the Exchange Act), directly or indirectly, of

more than 50% of our capital stock that is at the time entitled to vote by the holder thereof in the election of our board of directors (or comparable body); or

2. the adoption of a plan relating to our liquidation or dissolution; or

3. the consolidation or merger of us with or into any other person, or the sale, lease, transfer, conveyance or other disposition, in one or a series of related transactions, of all or substantially all of our assets and those of our subsidiaries taken as a whole to any "person" (as this term is used in Section 13(d)(3) of the Exchange Act), other than: any transaction that does not result in any reclassification, conversion, exchange or cancellation of all or substantially all of the outstanding shares of our capital stock;

any changes resulting from a subdivision or combination or a change solely in par value;

any transaction pursuant to which the holders of 50% or more of the total voting power of all shares of our capital stock entitled to vote generally in elections of directors immediately prior to such transaction have the right to exercise, directly or indirectly, 50% or more of the total voting power of all shares of capital stock of the continuing or surviving person immediately after giving effect to such transaction entitled to vote generally in elections of directors; or

any merger primarily for the purpose of changing our jurisdiction of incorporation and resulting in a reclassification, conversion or exchange of outstanding shares of common stock solely into shares of common stock of the surviving entity; or

4. the termination of trading of our common stock, which will be deemed to have occurred if our common stock or other common stock into which the Notes are convertible is neither listed for trading on the New York Stock Exchange, the NASDAQ Global Market or the NASDAQ Global Select Market (or any of their respective successors).

Notwithstanding the foregoing, any transaction or event described above also will not constitute a fundamental change if, in connection with such transaction or event, or as a result therefrom, a transaction described in clauses (1) or

(3) above occurs (without regard to any exclusion to such clause described in the bullets thereunder) and at least 90% of the consideration paid for our common stock (excluding cash payments for fractional shares, cash payments made pursuant to dissenters' appraisal rights and cash dividends) consists of shares of common stock (or depositary receipts in respect thereof) traded on the New York Stock Exchange, the NASDAQ Global Market or the NASDAQ Global

Select Market (or any of their respective successors) (or will be so traded or quoted immediately following the completion of the merger or consolidation or such other transaction) and, as a result of such transaction, the Notes become convertible into the reference property as described under "- Conversion Rate Adjustments - Change in the Conversion Rights upon Certain Reclassifications, Business Combinations, Asset Sales and Corporate Events" above.

The definition of "fundamental change" includes a phrase relating to the sale, lease, transfer, conveyance or other disposition, in one or a series of related transactions, of all or substantially all of our assets and those of our subsidiaries taken as a whole. Although there is a developing body of case law interpreting the phrase "substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a holder of Notes to require us to repurchase the Notes as a result of a sale, lease, transfer, conveyance or other disposition of less than all of our assets and those of our subsidiaries taken as a whole to another person or group may be uncertain.

On or before the fifth calendar day after the occurrence of a fundamental change, we will provide to all record holders of the Notes on the date of the fundamental change at their addresses shown in the register of the registrar and to beneficial owners to the extent required by applicable law, the trustee and the paying agent, a written notice of the occurrence of the fundamental change and the resulting repurchase right. Such notice shall state, among other things, the event causing the fundamental change and the procedures you must follow to require us to repurchase your Notes. The repurchase date will be a date specified by us in the notice of a fundamental change that is not less than 20 nor more than 35 calendar days after the date of the notice of a fundamental change.

To exercise your repurchase right, you must deliver, prior to 5:00 p.m., New York City time, on the repurchase date, a written notice to the paying agent of your exercise of your repurchase right (together with the Notes to be repurchased, if certificated Notes have been issued). The repurchase notice must state:

- if you hold a beneficial interest in a global Note, your repurchase notice must comply with appropriate DTC procedures; if you hold certificated Notes, the Notes certificate numbers;
- the portion of the principal amount of the Notes to be repurchased, which must be \$1,000 or integral multiples thereof; and

- that the Notes are to be repurchased by us pursuant to the applicable provisions of the Notes and the indenture.

You may withdraw your repurchase notice at any time prior to 5:00 p.m., New York City time, on the repurchase date by delivering a written notice of withdrawal to the paying agent. If a repurchase notice is given and withdrawn during that period, we will not be obligated to repurchase the Notes listed in the repurchase notice. The withdrawal notice must state:

- if you hold a beneficial interest in a global Note, your withdrawal notice must comply with appropriate DTC procedures; if you hold certificated Notes, the certificate numbers of the withdrawn Notes;

- the principal amount of the withdrawn Notes; and

- the principal amount, if any, which remains subject to the repurchase notice.

Payment of the repurchase price for Notes for which a repurchase notice has been delivered and not withdrawn is conditioned upon book entry transfer or delivery of the Notes, together with necessary endorsements, to the paying agent, as the case may be. Payment of the repurchase price for the Notes will be made promptly following the later of the repurchase date and the time of book entry transfer or delivery of the Notes, as the case may be.

If the paying agent holds on the business day immediately following the repurchase date cash sufficient to pay the repurchase price of the Notes that holders have elected to require us to repurchase, then, as of the repurchase date: the Notes will cease to be outstanding and interest (including additional interest, if any) will cease to accrue, whether or not book entry transfer of the Notes has been made or the Notes have been delivered to the paying agent, as the case may be; and

- all other rights of the holders of Notes will terminate, other than the right to receive the repurchase price upon delivery or transfer of the Notes.

In connection with any repurchase, we will, to the extent applicable:

- comply with the provisions of Rule 13e-4 and any other tender offer rules under the Exchange Act that may be applicable at the time of the offer to repurchase the Notes;

- file a Schedule TO or any other schedule required in connection with any offer by us to repurchase the Notes; and

- comply with all other federal and state securities laws in connection with any offer by us to repurchase the Notes.

This fundamental change repurchase right could discourage a potential acquirer of the Company. However, this fundamental change repurchase feature is not the result of management's knowledge of any specific effort to obtain control of us by means of a merger, tender offer, solicitation or otherwise, or part of a plan by management to adopt a series of anti-takeover provisions.

Our obligation to repurchase the Notes upon a fundamental change would not necessarily afford you protection in the event of a highly leveraged or other transaction involving us that may adversely affect holders. We also could, in the future, enter into certain transactions, including certain recapitalizations, that would not constitute a fundamental change but would increase the amount of our (or our subsidiaries') outstanding debt. The incurrence of significant amounts of additional debt could adversely affect our ability to service our then existing debt, including the Notes.

Consolidation, Merger and Sale of Assets by the Company

The indenture will provide that we may not, in a single transaction or a series of related transactions, consolidate with or merge with or into any other person or sell, convey, transfer or lease our property and assets substantially as an entirety to another person, unless:

either (a) we are the continuing corporation or (b) the resulting, surviving or transferee person (if other than us) is a corporation or limited liability company organized and existing under the laws of the United States, any state thereof or the District of Columbia and such person assumes, by a supplemental indenture in a form reasonably satisfactory to the trustee, all of our obligations under the Notes and the indenture;

immediately after giving effect to such transaction, no default or event of default has occurred and is continuing; and we have delivered to the trustee certain certificates and opinions of counsel if so requested by the trustee.

In the event of any transaction described in and complying with the conditions listed in the immediately preceding paragraph in which the Company is not the continuing corporation, the successor person formed or remaining shall succeed, and be substituted for, and may exercise every right and power of, the Company, and the Company shall be discharged from its obligations, under the Notes and the indenture.

This covenant includes a phrase relating to the sale, conveyance, transfer and lease of the property and assets of the Company "substantially as an entirety". There is no precise, established definition of the phrase "substantially as an entirety" under New York law, which governs the indenture and the Notes, or under the laws of Maryland, the Company's state of incorporation. Accordingly, the ability of a holder of the Notes to require us to repurchase the Notes as a result of a sale, conveyance, transfer or lease of less than all of the property and assets of the Company may be uncertain.

An assumption by any person of the Company's obligations under the Notes and the indenture might be deemed for U.S. federal income tax purposes to be an exchange of the Notes for new Notes by the holders thereof, resulting in recognition of gain or loss for such purposes and possibly other adverse tax consequences to the holders. Holders should consult their own tax advisors regarding the tax consequences of such an assumption.

Events of Default; Notice and Waiver

The following will be events of default under the indenture:

we fail to pay any interest (including additional interest, if any) on the Notes when due and such failure continues for a period of 30 calendar days;

we fail to pay principal of the Notes when due at maturity, or we fail to pay the repurchase price or redemption price payable, in respect of any Notes when due;

we fail to deliver shares of common stock upon the conversion of any Notes and such failure continues for five business days following the scheduled settlement date for such conversion;

we fail to provide notice of the effective date or actual effective date of a fundamental change on a timely basis as required in the indenture;

we fail to perform or observe any other term, covenant or agreement in the Notes or the indenture for a period of 60 calendar days after written notice of such failure is given to us by the trustee or to us and the trustee by the holders of at least 25% in aggregate principal amount of the Notes then outstanding;

a failure to pay principal when due (whether at stated maturity or otherwise) or an uncured default that results in the acceleration of maturity, of any indebtedness for borrowed money of the Company or any of our "significant subsidiaries", which term shall have the meaning specified in Rule 1-02(w) of Regulation S-X, other than subsidiaries that are non-recourse or limited recourse subsidiaries, bankruptcy remote special purpose vehicles and any subsidiaries that are not consolidated with us for GAAP purposes, in an aggregate amount in excess of \$50,000,000 (or its foreign currency equivalent), unless such indebtedness is discharged, or such acceleration is

rescinded, stayed or annulled, within a period of 30 calendar days after written notice of such failure is given to us by the trustee or to us and the trustee by the holders of at least 25% in aggregate principal amount of the Notes then outstanding; or

- certain events involving our bankruptcy, insolvency or reorganization of the Company or any of our “significant subsidiaries”, which term shall have the meaning specified in Rule 1-02(w) of Regulation S-X), other than subsidiaries that are non-recourse or limited recourse subsidiaries, bankruptcy remote special purpose vehicles and any subsidiaries that are not consolidated with us for GAAP purposes.

We are required to notify the trustee promptly upon becoming aware of the occurrence of any default under the indenture known to us. The trustee is then required within 90 calendar days of being notified by us of the occurrence of any default to give to the registered holders of the Notes notice of all uncured defaults known to it. However, the trustee may withhold notice to the holders of the Notes of any default, except defaults in payment of principal or interest (including additional interest, if any) on the Notes, if the trustee, in good faith, determines that the withholding of such notice is in the interests of the holders. We are also required to deliver to the trustee, on or before a date not more than 120 calendar days after the end of each fiscal year, a written statement as to compliance with the indenture, including whether or not any default has occurred.

If an event of default specified in the last bullet point listed above occurs and continues, the principal amount of the Notes and accrued and unpaid interest (including additional interest, if any) on the outstanding Notes will automatically become due and payable. If any other event of default occurs and is continuing, the trustee or the holders of at least 25% in aggregate principal amount of the outstanding Notes may declare the principal amount of the Notes and accrued and unpaid interest (including additional interest, if any) on the outstanding Notes to be due and payable. Thereupon, the trustee may, in its discretion, proceed to protect and enforce the rights of the holders of the Notes by appropriate judicial proceedings.

After a declaration of acceleration, but before a judgment or decree for payment of the money due has been obtained by the trustee, the holders of a majority in aggregate principal amount of the Notes outstanding, by written notice to us and the trustee, may rescind and annul such declaration if:

we have paid (or deposited with the trustee a sum sufficient to pay) (1) all overdue interest (including additional interest, if any) on all Notes; (2) the principal amount of any Notes that have become due otherwise than by such declaration of acceleration; (3) to the extent that payment of such interest is lawful, interest upon overdue interest (including additional interest, if any); and (4) all sums paid or advanced by the trustee under the indenture and the reasonable compensation, expenses, disbursements and advances of the trustee, its agents and counsel; and all events of default, other than the non-payment of the principal amount and any accrued and unpaid interest (including additional interest, if any) that have become due solely by such declaration of acceleration, have been cured or waived.

The holders of a majority in aggregate principal amount of the outstanding Notes will have the right to direct the time, method and place of any proceedings for any remedy available to the trustee, subject to limitations specified in the indenture.

No holder of the Notes may pursue any remedy under the indenture, except in the case of a default in the payment of principal or interest (including additional interest, if any) on the Notes, unless:

- the holder has given the trustee written notice of an event of default;

- the holders of at least 25% in aggregate principal amount of the outstanding Notes make a written request to the trustee to pursue the remedy, and offer reasonable security or indemnity against any costs, liability or expense of the trustee;

- the trustee fails to comply with the request within 60 calendar days after receipt of the request and offer of indemnity; and

- the trustee does not receive an inconsistent direction from the holders of a majority in aggregate principal amount of the outstanding Notes.

Notwithstanding the foregoing, the indenture will provide, if we so elect, that the sole remedy for an event of default relating to the failure to comply with the reporting obligations in the indenture, which are described below under the caption “- Reports,” and for any failure to comply with the requirements of Section 314(a)(1) of the Trust Indenture Act (which also relate to the provision of reports), will, at our option, for the 365 days after the occurrence of such an event of default consist exclusively of the right to receive additional interest on the Notes at an annual rate equal to 0.50% of the principal amount of the Notes. In the event we do not elect to pay the additional interest upon an event of default in accordance with this paragraph, the Notes will be subject to acceleration as provided above. This additional interest will be payable in arrears on each interest payment date in the same manner as regular interest on the Notes. The additional interest will accrue on all outstanding Notes from and including the date on which an event of default relating to a failure to comply with the reporting obligations in the indenture first occurs to but not including the 365th day thereafter (or such earlier date on which the event of default relating to the reporting obligations shall have been cured or waived). On such 365th day (or earlier, if the event of default relating to the reporting obligations is cured or waived prior to such 365th day), such additional interest will cease to accrue and the Notes will be subject to acceleration as provided above if the event of default is continuing. The provisions of the indenture described in this paragraph will not affect the rights of holders of Notes in the event of the occurrence of any other event of default.

Waiver

The holders of a majority in aggregate principal amount of the Notes outstanding may, on behalf of the holders of all the Notes, waive any past default or event of default under the indenture and its consequences, except:

- our failure to pay principal of or interest (including additional interest, if any) on any Notes when due;
- our failure to convert any Notes into common stock as required by the indenture;
- our failure to pay the repurchase price on the repurchase date in connection with a holder exercising its repurchase rights; or
- our failure to comply with any of the provisions of the indenture that would require the consent of the holder of each outstanding Notes affected.

Modification

Changes Requiring Approval of Each Affected Holder

The indenture (including the terms and conditions of the Notes) may not be modified or amended without the written consent or the affirmative vote of the holder of each Note affected by such change to:

- change the maturity of any Notes;
- reduce the rate or extend the time for payment of interest (including additional interest, if any) on any Notes;
- reduce the principal amount of any Notes;
- reduce any amount payable upon repurchase or redemption of any Notes;
- impair the right of a holder to receive payment with respect to any Notes or to institute suit for payment of any Notes;
- change the currency in which any Notes is payable;
- change our obligation to repurchase any Notes upon a fundamental change in a manner adverse to the rights of the holders;
- affect the right of a holder to convert any Notes into shares of our common stock or reduce the number of shares of our common stock or any other property, receivable upon conversion pursuant to the terms of the indenture;
- change our obligation to maintain an office or agency in New York City;

subject to specified exceptions, modify certain provisions of the indenture relating to modification of the indenture or waiver under the indenture; or

reduce the percentage of the Notes required for consent to any modification of the indenture that does not require the consent of each affected holder.

Changes Requiring Majority Approval

The indenture (including the terms and conditions of the Notes) may be modified or amended, except as described above, with the written consent or affirmative vote of the holders of a majority in aggregate principal amount of the Notes then outstanding.

Changes Requiring No Approval

The indenture (including the terms and conditions of the Notes) may be modified or amended by us and the trustee, without the consent of the holder of any Notes, to, among other things:

provide for conversion rights of holders of the Notes and our repurchase obligations in connection with a fundamental change in the event of any reclassification of our common stock, merger or consolidation, or sale, conveyance, transfer or lease of our property and assets substantially as an entity;

secure the Notes;

- provide for the assumption of our obligations to the holders of the Notes in the event of a merger or consolidation, or sale, conveyance, transfer or lease of our property and assets substantially as an entirety;

surrender any right or power conferred upon us;

add to our covenants for the benefit of the holders of the Notes;

remove any ambiguity or correct or supplement any inconsistent or otherwise defective provision contained in the indenture;

conform the provisions of the indenture to the description of the Notes contained in the preliminary prospectus supplement, as supplemented by the relating pricing term sheet;

make any provision with respect to matters or questions arising under the indenture that we may deem necessary or desirable and that shall not be inconsistent with provisions of the indenture; provided that such change or modification does not, in the good faith opinion of our board of directors, adversely affect the interests of the holders of the Notes in any material respect;

increase the conversion rate; provided, that the increase will not adversely affect the interests of the holders of the Notes;

adding guarantees of obligations under the Notes;

comply with any requirement of the SEC in connection with the qualification of the indenture under the Trust Indenture Act;

make such changes as may be necessary or desirable to allow us to issue additional Notes as described under “-

Additional Notes” provided, that any such change will not materially adversely affect the interests of the holders of the Notes; and

provide for a successor trustee.

Other

The consent of the holders of Notes is not necessary under the indenture to approve the particular form of any proposed modification or amendment. It is sufficient if such consent approves the substance of the proposed modification or amendment. After a modification or amendment under the indenture becomes effective, we are required to mail to the holders a notice briefly describing such modification or amendment. However, the failure to give such notice to all the holders, or any defect in the notice, will not impair or affect the validity of the modification or amendment.

Notes Not Entitled to Consent

Any Notes held by us or by any person directly or indirectly controlling or controlled by or under direct or indirect common control with us shall be disregarded (from both the numerator and the denominator) for purposes of determining whether the holders of the requisite aggregate principal amount of the outstanding Notes have consented to a modification, amendment or waiver of the terms of the indenture.

Repurchase and Cancellation

We may, to the extent permitted by law, repurchase any Notes in the open market or by tender offer at any price or by private agreement. Any Notes repurchased by us may, at our option, be surrendered to the trustee for cancellation, but may not be reissued or resold by us. Any Notes surrendered for cancellation may not be reissued or resold and will be promptly cancelled.

Reports

We shall deliver to the trustee, within 15 days after filing with the SEC, copies of the annual reports and of the information, documents and other reports (or copies of such portions of any of the foregoing as the SEC may by rules and regulations prescribe) that we are required to file with the SEC pursuant to Section 13 or 15(d) of the Exchange Act.

Information Concerning the Trustee and Common Stock Transfer Agent and Registrar

We have appointed U.S. Bank National Association, the trustee under the indenture, as paying agent, conversion agent, Notes registrar and custodian for the Notes. The trustee or its affiliates may also provide other services to us in the ordinary course of their business. The indenture contains certain limitations on the rights of the trustee, if it or any of its affiliates is then our creditor, to obtain payment of claims in certain cases or to realize on certain property received on any claim as security or otherwise. The trustee and its affiliates will be permitted to engage in other transactions with us. However, if the trustee or any affiliate continues to have any conflicting interest and a default occurs with respect to the Notes, the trustee must eliminate such conflict or resign.

American Stock Transfer & Trust Company, LLC is the transfer agent and registrar for our common stock.

Governing Law

The Notes and the indenture shall be governed by, and construed in accordance with, the laws of the State of New York.

Calculations in Respect of the Notes

Except as otherwise provided herein, we will be responsible for making all calculations called for under the Notes. These calculations include, but are not limited to, determinations of the sale price of our common stock, accrued interest payable on the Notes and the conversion rate and conversion price. We or our agents will make all these calculations in good faith and, absent manifest error, such calculations will be final and binding on holders of the Notes. We will provide a schedule of these calculations to each of the trustee and the conversion agent, and each of the trustee and conversion agent is entitled to rely upon the accuracy of our calculations without independent verification. The trustee will forward these calculations to any holder of the Notes upon the request of that holder.

Form, Denomination and Registration

The Notes will be issued:

- in fully registered form;
- without interest coupons; and
- in denominations of \$1,000 principal amount and integral multiples of \$1,000.

Global Notes, Book Entry Form

The Notes will be evidenced by one or more global Notes. We will deposit the global Notes with DTC and register the global Notes in the name of Cede & Co. as DTC's nominee. Except as set forth below, a global Note may be transferred, in whole or in part, only to another nominee of DTC or to a successor of DTC or its nominee.

Beneficial interests in a global Note may be held through organizations that are participants in DTC (called "participants"). Transfers between participants will be effected in the ordinary way in accordance with DTC rules and will be settled in clearing house funds. The laws of some states require that certain persons take physical delivery of securities in definitive form. As a result, the ability to transfer beneficial interests in the global Notes to such persons may be limited.

Beneficial interests in a global Note held by DTC may be held only through participants, or certain banks, brokers, dealers, trust companies and other parties that clear through or maintain a custodial relationship with a participant, either directly or indirectly (called "indirect participants"). So long as Cede & Co., as the nominee of DTC, is the registered owner of a global Notes, Cede & Co. for all purposes will be considered the sole holder of such global Notes. Except as provided below, owners of beneficial interests in a global Note will:

- not be entitled to have certificates registered in their names;
- not receive physical delivery of certificates in definitive registered form; and
- not be considered holders of the global Notes.

We will pay principal of and interest (including additional interest, if any) on, and the repurchase price or redemption price of, a global Note to Cede & Co., as the registered owner of the global Notes, by wire transfer of immediately available funds on the maturity date, each interest payment date, redemption date or repurchase date, as the case may be. Neither we, the trustee nor any paying agent will be responsible or liable:

- for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in a global Note; or
- for maintaining, supervising or reviewing any records relating to the beneficial ownership interests.

DTC has advised us that it will take any action permitted to be taken by a holder of the Notes, including the presentation of the Notes for conversion, only at the direction of one or more participants to whose account with DTC interests in the global Notes are credited, and only in respect of the principal amount of the Notes represented by the global Notes as to which the participant or participants has or have given such direction.

DTC has advised us that it is:

• a limited purpose trust company organized under the laws of the State of New York, and a member of the Federal Reserve System;

- a "clearing corporation" within the meaning of the Uniform Commercial Code; and
- a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act.

DTC was created to hold securities for its participants and to facilitate the clearance and settlement of securities transactions between participants through electronic book entry changes to the accounts of its participants. Participants include securities brokers, dealers, banks, trust companies and clearing corporations and other organizations. Some of the participants or their representatives, together with other entities, own DTC. Indirect access to the DTC system is available to others such as

banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly.

DTC has agreed to the foregoing procedures to facilitate transfers of interests in a global Note among participants. However, DTC is under no obligation to perform or continue to perform these procedures, and may discontinue these procedures at any time. We will issue the Notes in definitive certificated form if DTC notifies us that it is unwilling or unable to continue as depository or DTC ceases to be a clearing agency registered under the Exchange Act and a successor depository is not appointed by us within 90 days. In addition, beneficial interests in a global Note may be exchanged for definitive certificated notes upon request by or on behalf of DTC in accordance with customary procedures following the request of a beneficial owner seeking to enforce its rights under such Notes or the indenture. The indenture permits us to determine at any time and in our sole discretion that Notes shall no longer be represented by global Notes. DTC has advised us that, under its current practices, it would notify its participants of our request, but will only withdraw beneficial interests from the global note at the request of each DTC participant. We would issue definitive certificates in exchange for any such beneficial interests withdrawn.

Neither we, the trustee, registrar, paying agent nor conversion agent will have any responsibility or liability for the performance by DTC or its participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(All figures in this item are in thousands except share, per share and other data.)

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this prospectus supplement and accompanying prospectus. Historical results set forth are not necessarily indicative of our future financial position and results of operations.

Overview

The terms "Prospect," "the Company," "we," "us" and "our" mean Prospect Capital Corporation and its subsidiaries unless the context specifically requires otherwise.

Prospect is a financial services company that primarily lends to and invests in middle market privately-held companies. We are a closed-end investment company incorporated in Maryland. We have elected to be regulated as a business development company ("BDC") under the Investment Company Act of 1940 (the "1940 Act"). As a BDC, we have elected to be treated as a regulated investment company ("RIC"), under Subchapter M of the Internal Revenue Code of 1986 (the "Code"). We were organized on April 13, 2004 and were funded in an initial public offering completed on July 27, 2004.

On May 15, 2007, we formed a wholly-owned subsidiary Prospect Capital Funding LLC ("PCF"), a Delaware limited liability company and a bankruptcy remote special purpose entity, which holds certain of our portfolio loan investments that are used as collateral for the revolving credit facility at PCF. Our wholly-owned subsidiary Prospect Small Business Lending, LLC ("PSBL") was formed on January 27, 2014 and purchases small business whole loans on a recurring basis from online small business loan originators, including On Deck Capital, Inc. ("OnDeck"). On September 30, 2014, we formed a wholly-owned subsidiary Prospect Yield Corporation, LLC ("PYC") and effective October 23, 2014, PYC holds our investments in collateralized loan obligations ("CLOs"). Each of these subsidiaries have been consolidated since operations commenced.

We consolidate certain of our wholly-owned and substantially wholly-owned holding companies formed by us in order to facilitate our investment strategy. The following companies are included in our consolidated financial statements and are collectively referred to as the "Consolidated Holding Companies": APH Property Holdings, LLC ("APH"); Arctic Oilfield Equipment USA, Inc. ("Arctic Equipment"); CCPI Holdings Inc.; CP Holdings of Delaware LLC ("CP Holdings"); Credit Central Holdings of Delaware, LLC; Energy Solutions Holdings Inc.; First Tower Holdings of Delaware LLC ("First Tower Delaware"); MITY Holdings of Delaware Inc.; Nationwide Acceptance Holdings LLC; NMMB Holdings, Inc. ("NMMB Holdings"); NPH Property Holdings, LLC ("NPH"); STI Holding, Inc.; UPH Property Holdings, LLC ("UPH"); UTP Holdings Group Inc. (f/k/a Harbortouch Holdings of Delaware Inc.); Valley Electric Holdings I, Inc.; Valley Electric Holdings II, Inc.; and Wolf Energy Holdings Inc. ("Wolf Energy Holdings"). On October 10, 2014, concurrent with the sale of the operating company, our ownership increased to 100% of the outstanding equity of ARRM Services, Inc., which was renamed SB Forging Company, Inc. ("SB Forging"). As such, we began consolidating SB Forging on October 11, 2014. Effective May 23, 2016, in connection with the merger of American Property REIT Corp. ("APRC") and United Property REIT Corp. ("UPRC") with and into National Property REIT Corp. ("NPRC"), APH and UPH merged with and into NPH, and were dissolved. Effective April 6, 2018, Arctic Equipment merged with and into CP Energy Services, Inc. ("CP Energy"), a substantially wholly-owned subsidiary of CP Holdings, with CP Energy continuing as the surviving entity.

We are externally managed by our investment adviser, Prospect Capital Management L.P. ("Prospect Capital Management" or the "Investment Adviser"). Prospect Administration LLC ("Prospect Administration"), a wholly-owned subsidiary of the Investment Adviser, provides administrative services and facilities necessary for us to operate. Our investment objective is to generate both current income and long-term capital appreciation through debt and equity investments. We invest primarily in senior and subordinated debt and equity of private companies in need of capital for acquisitions, divestitures, growth, development, recapitalizations and other purposes. We work with the management teams or financial sponsors to seek investments with historical cash flows, asset collateral or contracted pro-forma cash flows.

We currently have nine strategies that guide our origination of investment opportunities: (1) lending to companies controlled by private equity sponsors, (2) lending to companies not controlled by private equity sponsors, (3) purchasing controlling equity positions and lending to operating companies, (4) purchasing controlling equity positions and lending to financial services companies, (5) purchasing controlling equity positions and lending to real estate companies, (6) purchasing controlling equity positions and lending to aircraft leasing companies (7) investing in structured credit (8) investing in syndicated debt and (9) investing in consumer and small business loans and asset-backed securitizations. We may also invest in other strategies and

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opportunities from time to time that we view as attractive. We continue to evaluate other origination strategies in the ordinary course of business with no specific top-down allocation to any single origination strategy.

Lending to Companies Controlled by Private Equity Sponsors - We make agented loans to companies which are controlled by private equity sponsors. This debt can take the form of first lien, second lien, unitranche or unsecured loans. These loans typically have equity subordinate to our loan position. Historically, this strategy has comprised approximately 40%-60% of our portfolio.

Lending to Companies not Controlled by Private Equity Sponsors - We make loans to companies which are not controlled by private equity sponsors, such as companies that are controlled by the management team, the founder, a family or public shareholders. This origination strategy may have less competition to provide debt financing than the private-equity-sponsor origination strategy because such company financing needs are not easily addressed by banks and often require more diligence preparation. This origination strategy can result in investments with higher returns or lower leverage than the private-equity-sponsor origination strategy. Historically, this strategy has comprised up to approximately 15% of our portfolio.

Purchasing Controlling Equity Positions and Lending to Operating Companies - This strategy involves purchasing yield-producing debt and controlling equity positions in non-financial-services operating companies. We believe that we can provide enhanced certainty of closure and liquidity to sellers and we look for management to continue on in their current roles. This strategy has comprised approximately 5%-15% of our portfolio.

Purchasing Controlling Equity Positions and Lending to Financial Services Companies - This strategy involves purchasing yield-producing debt and control equity investments in financial services companies, including consumer direct lending, sub-prime auto lending and other strategies. These investments are often structured in tax-efficient partnerships, enhancing returns. This strategy has comprised approximately 5%-15% of our portfolio.

Purchasing Controlling Equity Positions and Lending to Real Estate Companies - We purchase debt and controlling equity positions in tax-efficient real estate investment trusts (“REIT” or “REITs”). NPRC’s, an operating company and the surviving entity of the May 23, 2016 merger with APRC and UPRC, real estate investments are in various classes of developed and occupied real estate properties that generate current yields, including multi-family properties, student housing, and self-storage. NPRC seeks to identify properties that have historically significant occupancy rates and recurring cash flow generation. NPRC generally co-invests with established and experienced property management teams that manage such properties after acquisition. Additionally, NPRC purchases loans originated by certain consumer loan facilitators. It purchases each loan in its entirety (i.e., a “whole loan”). The borrowers are consumers, and the loans are typically serviced by the facilitators of the loans. This investment strategy has comprised approximately 10%-20% of our business.

Purchasing Controlling Equity Positions and Lending to Aircraft Leasing Companies - We invest in debt as well as equity in companies with aircraft assets subject to commercial leases to airlines across the globe. We believe that these investments can present attractive return opportunities due to cash flow consistency from long-term leases coupled with hard asset residual value. We believe that these investment companies seek to deliver risk-adjusted returns with strong downside protection by analyzing relative value characteristics across a variety of aircraft types and vintages. This strategy historically has comprised less than 5% of our portfolio.

Investing in Structured Credit - We make investments in CLOs, often taking a significant position in the subordinated interests (equity) and debt of the CLOs. The underlying portfolio of each CLO investment is diversified across approximately 100 to 200 broadly syndicated loans and does not have direct exposure to real estate, mortgages, or consumer-based credit assets. The CLOs in which we invest are managed by established collateral management teams with many years of experience in the industry. This strategy has comprised approximately 10%-20% of our portfolio.

Investing in Syndicated Debt - On a primary or secondary basis, we purchase primarily senior and secured loans and high yield bonds that have been sold to a club or syndicate of buyers. These investments are often purchased with a long term, buy-and-hold outlook, and we often look to provide significant input to the transaction by providing anchoring orders. This strategy has comprised approximately 5%-10% of our portfolio.

Investing in Consumer and Small Business Loans and Asset-Backed Securitizations - We purchase loans originated by certain consumer and small-and-medium-sized business (“SME”) loan platforms. We generally purchase each loan in its entirety (i.e., a “whole loan”) and we invest in asset-backed securitizations collateralized by consumer or small business loans. The borrowers are consumers and SMEs and the loans are typically serviced by the platforms of the loans. This

investment strategy has comprised up to approximately 0% of our portfolio.

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We invest primarily in first and second lien secured loans and unsecured debt, which in some cases includes an equity component. First and second lien secured loans generally are senior debt instruments that rank ahead of unsecured debt of a given portfolio company. These loans also have the benefit of security interests on the assets of the portfolio company, which may rank ahead of or be junior to other security interests. Our investments in CLOs are subordinated to senior loans and are generally unsecured. We invest in debt and equity positions of CLOs which are a form of securitization in which the cash flows of a portfolio of loans are pooled and passed on to different classes of owners in various tranches. Our CLO investments are derived from portfolios of corporate debt securities which are generally risk rated from BB to B.

We hold many of our control investments in a two-tier structure consisting of a holding company and one or more related operating companies for tax purposes. These holding companies serve various business purposes including concentration of management teams, optimization of third party borrowing costs, improvement of supplier, customer, and insurance terms, and enhancement of co-investments by the management teams. In these cases, our investment, which is generally equity in the holding company, the holding company's equity investment in the operating company and any debt from us directly to the operating company structure represents our total exposure for the investment. As of December 31, 2018, as shown in our Consolidated Schedule of Investments, the cost basis and fair value of our investments in controlled companies was \$2,381,352 and \$2,432,766, respectively. This structure gives rise to several of the risks described in our public documents and highlighted elsewhere in this prospectus supplement and the accompanying prospectus. We consolidate all wholly-owned and substantially wholly-owned holding companies formed by us for the purpose of holding our controlled investments in operating companies. There is no significant effect of consolidating these holding companies as they hold minimal assets other than their investments in the controlled operating companies. Investment company accounting prohibits the consolidation of any operating companies.

Second Quarter Highlights

Investment Transactions

We seek to be a long-term investor with our portfolio companies. During the three months ended December 31, 2018, we acquired \$164,114 of new investments, completed follow-on investments in existing portfolio companies totaling approximately \$45,590, funded \$6,567 of revolver advances, and recorded paid in kind ("PIK") interest of \$9,981, resulting in gross investment originations of \$226,252. During the three months ended December 31, 2018, we received full repayments on 3 investments and received several partial prepayments and amortization payments totaling \$163,502.

Debt Issuances and Redemptions

During the three months ended December 31, 2018, we increased total commitments to our revolving credit facility (the "Revolving Credit Facility") for PCF by \$225,000 to \$1,020,000 in the aggregate.

During the three months ended December 31, 2018, we redeemed \$70,072 aggregate principal amount of Prospect Capital InterNotes® at par with a weighted average interest rate of 4.86% in order to replace shorter maturity debt with longer-term debt, and repaid \$2,985 aggregate principal amount of Prospect Capital InterNotes® at par in accordance with the Survivor's Option, as defined in the InterNotes® Offering prospectus. As a result of these transactions, we recorded a loss in the amount of the unamortized debt issuance costs. The net loss on the extinguishment of Prospect Capital InterNotes® for the three months ended December 31, 2018 was \$456.

During the three months ended December 31, 2018, we issued \$29,829 aggregate principal amount of Prospect Capital InterNotes® with a stated and weighted average interest rate of 5.86%, to extend our borrowing base. The newly issued notes mature between October 15, 2023 and November 15, 2028 and generated net proceeds of \$29,346.

On November 28, 2018, we issued \$50,000 aggregate principal amount of unsecured notes that mature on June 15, 2029 (the "2029 Notes"). The 2029 Notes bear interest at a rate of 6.875% per year, payable quarterly on March 15, June 15, September 15, and December 15 of each year, beginning March 15, 2019. Total proceeds from the issuance of the 2029 Notes, net of underwriting discounts and offering costs, were \$48,057.

Equity Issuances

On October 18, 2018, November 21, 2018, and December 20, 2018, we issued 255,850, 263,350, and 311,627 shares of our common stock in connection with the dividend reinvestment plan, respectively.

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Investment Holdings

As of December 31, 2018, we continue to pursue our investment strategy. At December 31, 2018, we have \$5,842,570, or 176.9%, of our net assets invested in 139 long-term portfolio investments and CLOs.

During the six months ended December 31, 2018, we originated \$480,894 of new investments, primarily composed of \$419,326 of debt and equity financing to non-controlled portfolio investments and \$61,568 of debt and equity financing to controlled investments. Our origination efforts are focused primarily on secured lending to non-control investments to reduce the risk in the portfolio by investing primarily in first lien loans, though we also continue to close select junior debt and equity investments. Our annualized current yield was 13.1% and 13.0% as of December 31, 2018 and June 30, 2018, respectively, across all performing interest bearing investments, excluding equity investments and non-accrual loans. Our annualized current yield was 10.7% and 10.5% as of December 31, 2018 and June 30, 2018, respectively, across all investments. Monetization of equity positions that we hold and loans on non-accrual status are not included in this yield calculation. In many of our portfolio companies we hold equity positions, ranging from minority interests to majority stakes, which we expect over time to contribute to our investment returns. Some of these equity positions include features such as contractual minimum internal rates of returns, preferred distributions, flip structures and other features expected to generate additional investment returns, as well as contractual protections and preferences over junior equity, in addition to the yield and security offered by our cash flow and collateral debt protections.

We are a non-diversified company within the meaning of the 1940 Act. As required by the 1940 Act, we classify our investments by level of control. As defined in the 1940 Act, "Control Investments" are those where there is the ability or power to exercise a controlling influence over the management or policies of a company. Control is generally deemed to exist when a company or individual possesses or has the right to acquire within 60 days or less, a beneficial ownership of 25% or more of the voting securities of an investee company. Under the 1940 Act, "Affiliate Investments" are defined by a lesser degree of influence and are deemed to exist through the possession outright or via the right to acquire within 60 days or less, beneficial ownership of 5% or more of the outstanding voting securities of another person. "Non-Control/Non-Affiliate Investments" are those that are neither Control Investments nor Affiliate Investments. As of December 31, 2018, we own controlling interests in the following portfolio companies: CCPI Inc. ("CCPI"); CP Energy Services Inc. ("CP Energy"); Credit Central Loan Company, LLC ("Credit Central"); Echelon Transportation, LLC ("Echelon"); First Tower Finance Company LLC ("First Tower Finance"); Freedom Marine Solutions, LLC ("Freedom Marine"); InterDent, Inc. ("InterDent"); MITY, Inc. ("MITY"); NPRC; Nationwide Loan Company LLC (f/k/a Nationwide Acceptance LLC) ("Nationwide"); NMMB, Inc. ("NMMB"); Pacific World Corporation ("Pacific World"); R-V Industries, Inc.; SB Forging Company II, Inc. (f/k/a Gulf Coast Machine & Supply Company) ("Gulfco"); Universal Turbine Parts, LLC ("UTP"); USES Corp. ("USES"); Valley Electric Company, Inc. ("Valley Electric") and Wolf Energy, LLC ("Wolf Energy"). As of December 31, 2018, we also own affiliated interests in Nixon, Inc. ("Nixon"), Targus Cayman HoldCo Limited ("Targus"), Edmentum Ultimate Holdings, LLC ("Edmentum") and United Sporting Companies, Inc. ("USC").

The following shows the composition of our investment portfolio by level of control as of December 31, 2018 and June 30, 2018:

| Level of Control | December 31, 2018 | | | | June 30, 2018 | | | |
|---------------------------------------|-------------------|----------------|-------------|----------------|---------------|----------------|-------------|----------------|
| | Cost | % of Portfolio | Fair Value | % of Portfolio | Cost | % of Portfolio | Fair Value | % of Portfolio |
| Control Investments | \$2,381,352 | 39.1 % | \$2,432,766 | 41.6 % | \$2,300,526 | 39.5 % | \$2,404,326 | 42.0 % |
| Affiliate Investments | 176,997 | 2.9 % | 91,861 | 1.6 % | 55,637 | 0.9 % | 58,436 | 1.0 % |
| Non-Control/Non-Affiliate Investments | 3,538,047 | 58.0 % | 3,317,943 | 56.8 % | 3,475,295 | 59.6 % | 3,264,517 | 57.0 % |
| Total Investments | \$6,096,396 | 100.0 % | \$5,842,570 | 100.0 % | \$5,831,458 | 100.0 % | \$5,727,279 | 100.0 % |

The following shows the composition of our investment portfolio by type of investment as of December 31, 2018 and June 30, 2018:

| Type of Investment | December 31, 2018 | | | | June 30, 2018 | | | | |
|-----------------------------|-------------------|----------------|---------------|----------------|---------------|----------------|---------------|----------------|---|
| | Cost | % of Portfolio | Fair Value | % of Portfolio | Cost | % of Portfolio | Fair Value | % of Portfolio | |
| Revolving Line of Credit | \$28,597 | 0.5 | % \$28,508 | 0.5 | % \$38,659 | 0.7 | % \$38,559 | 0.7 | % |
| Senior Secured Debt | 2,860,986 | 47.0 | % 2,670,438 | 45.7 | % 2,602,018 | 44.6 | % 2,481,353 | 43.3 | % |
| Subordinated Secured Debt | 1,437,437 | 23.6 | % 1,347,359 | 23.1 | % 1,318,028 | 22.6 | % 1,260,525 | 22.0 | % |
| Subordinated Unsecured Debt | 38,879 | 0.6 | % 26,033 | 0.4 | % 38,548 | 0.7 | % 32,945 | 0.6 | % |
| Small Business Loans | — | — | % — | — | % 30 | — | % 17 | — | % |
| CLO Debt | 44,783 | 0.7 | % 47,636 | 0.8 | % 6,159 | 0.1 | % 6,159 | 0.1 | % |
| CLO Residual Interest | 1,097,830 | 18.0 | % 889,491 | 15.2 | % 1,096,768 | 18.8 | % 954,035 | 16.7 | % |
| Preferred Stock | 92,346 | 1.5 | % 80,525 | 1.4 | % 92,346 | 1.6 | % 75,986 | 1.3 | % |
| Common Stock | 301,596 | 4.9 | % 401,165 | 6.9 | % 445,364 | 7.6 | % 517,858 | 9.0 | % |
| Membership Interest | 193,942 | 3.2 | % 251,923 | 4.3 | % 193,538 | 3.3 | % 257,799 | 4.5 | % |
| Participating Interest(1) | — | — | % 98,541 | 1.7 | % — | — | % 101,126 | 1.8 | % |
| Escrow Receivable | — | — | % 951 | — | % — | — | % 917 | — | % |
| Total Investments | \$6,096,396 | 100.0 | % \$5,842,570 | 100.0 | % \$5,831,458 | 100.0 | % \$5,727,279 | 100.0 | % |

(1) Participating Interest includes our participating equity investments, such as net profits interests, net operating income interests, net revenue interests, and overriding royalty interests.

The following shows our investments in interest bearing securities by type of investment as of December 31, 2018 and June 30, 2018:

| Type of Investment | December 31, 2018 | | | | June 30, 2018 | | | | |
|------------------------------------|-------------------|-------|---------------|-------|---------------|-------|---------------|-------|---|
| | Cost | % | Fair Value | % | Cost | % | Fair Value | % | |
| First Lien | \$2,887,811 | 52.5 | % \$2,697,174 | 53.8 | % \$2,632,843 | 51.6 | % \$2,512,078 | 52.6 | % |
| Second Lien | 1,439,209 | 26.1 | % 1,349,131 | 26.9 | % 1,325,862 | 26.0 | % 1,268,359 | 26.6 | % |
| Unsecured | 38,879 | 0.7 | % 26,033 | 0.5 | % 38,548 | 0.8 | % 32,945 | 0.7 | % |
| Small Business Loans | — | — | % — | — | % 30 | — | % 17 | — | % |
| CLO Debt | 44,783 | 0.8 | % 47,636 | 1.0 | % 6,159 | 0.1 | % 6,159 | 0.1 | % |
| CLO Residual Interest | 1,097,830 | 19.9 | % 889,491 | 17.8 | % 1,096,768 | 21.5 | % 954,035 | 20.0 | % |
| Total Interest Bearing Investments | \$5,508,512 | 100.0 | % \$5,009,465 | 100.0 | % \$5,100,210 | 100.0 | % \$4,773,593 | 100.0 | % |

The following shows the composition of our investment portfolio by geographic location as of December 31, 2018 and June 30, 2018:

| Geographic Location | December 31, 2018 | | | | June 30, 2018 | | | |
|---------------------|-------------------|----------------|-------------|----------------|---------------|----------------|-------------|----------------|
| | Cost | % of Portfolio | Fair Value | % of Portfolio | Cost | % of Portfolio | Fair Value | % of Portfolio |
| Canada | \$5,974 | 0.1 % | \$5,957 | 0.1 % | \$16,809 | 0.3 % | \$17,816 | 0.3 % |
| Cayman Islands | 1,142,613 | 18.7 % | 937,127 | 16.0 % | 1,102,927 | 18.9 % | 960,194 | 16.8 % |
| France | 12,654 | 0.2 % | 12,654 | 0.2 % | 12,490 | 0.2 % | 12,334 | 0.2 % |
| MidAtlantic US | 552,002 | 9.1 % | 550,624 | 9.4 % | 410,644 | 7.0 % | 410,644 | 7.2 % |
| Midwest US | 412,820 | 6.8 % | 496,882 | 8.5 % | 395,622 | 6.8 % | 413,758 | 7.2 % |
| Northeast US | 716,996 | 11.8 % | 773,472 | 13.2 % | 677,204 | 11.6 % | 701,851 | 12.3 % |
| Northwest US | 108,317 | 1.8 % | 128,560 | 2.2 % | 103,906 | 1.8 % | 90,288 | 1.6 % |
| Puerto Rico | 81,306 | 1.3 % | 79,496 | 1.4 % | 84,713 | 1.5 % | 83,507 | 1.5 % |
| Southeast US | 1,233,827 | 20.2 % | 1,353,239 | 23.2 % | 1,243,430 | 21.3 % | 1,524,379 | 26.6 % |
| Southwest US | 718,372 | 11.8 % | 595,323 | 10.2 % | 723,038 | 12.4 % | 599,914 | 10.4 % |
| Western US | 1,111,515 | 18.2 % | 909,236 | 15.6 % | 1,060,675 | 18.2 % | 912,594 | 15.9 % |
| Total Investments | \$6,096,396 | 100.0 % | \$5,842,570 | 100.0 % | \$5,831,458 | 100.0 % | \$5,727,279 | 100.0 % |

The following shows the composition of our investment portfolio by industry as of December 31, 2018 and June 30, 2018:

| Industry | December 31, 2018 | | | | June 30, 2018 | | | |
|--|-------------------|----------------|------------|----------------|---------------|----------------|------------|----------------|
| | Cost | % of Portfolio | Fair Value | % of Portfolio | Cost | % of Portfolio | Fair Value | % of Portfolio |
| Aerospace & Defense | \$73,561 | 1.2 % | \$91,820 | 1.6 % | \$69,837 | 1.2 % | \$82,278 | 1.4 % |
| Air Freight & Logistics | 12,316 | 0.2 % | 12,316 | 0.2 % | — | — % | — | — % |
| Auto Components | 25,409 | 0.4 % | 25,409 | 0.4 % | 12,681 | 0.2 % | 12,887 | 0.2 % |
| Building Products | 19,830 | 0.3 % | 19,249 | 0.3 % | 9,905 | 0.2 % | 10,000 | 0.2 % |
| Capital Markets | 21,534 | 0.4 % | 21,673 | 0.4 % | 19,799 | 0.3 % | 20,000 | 0.3 % |
| Commercial Services & Supplies | 363,530 | 6.0 % | 295,991 | 5.2 % | 386,187 | 6.6 % | 330,024 | 5.8 % |
| Communications Equipment | 47,877 | 0.8 % | 47,171 | 0.8 % | 39,860 | 0.7 % | 40,000 | 0.7 % |
| Construction & Engineering | 69,515 | 1.1 % | 89,758 | 1.5 % | 64,415 | 1.1 % | 50,797 | 0.9 % |
| Consumer Finance | 474,805 | 7.8 % | 561,200 | 9.6 % | 485,381 | 8.3 % | 586,978 | 10.2 % |
| Distributors | 300,824 | 4.9 % | 215,541 | 3.7 % | 470,750 | 8.1 % | 402,465 | 7.0 % |
| Diversified Consumer Services | 149,218 | 2.4 % | 136,544 | 2.4 % | 173,695 | 3.0 % | 163,152 | 2.8 % |
| Diversified Telecommunication Services | 24,567 | 0.4 % | 24,567 | 0.4 % | — | — % | — | — % |
| Electronic Equipment, Instruments & Components | 39,776 | 0.8 % | 53,936 | 1.0 % | 54,805 | 0.9 % | 62,964 | 1.1 % |
| Energy Equipment & Services | 261,397 | 4.3 % | 174,014 | 3.0 % | 257,371 | 4.4 % | 170,574 | 3.0 % |
| Entertainment | 43,267 | 0.7 % | 43,314 | 0.7 % | — | — % | — | — % |
| Equity Real Estate Investment Trusts (REITs) | 496,440 | 8.1 % | 805,752 | 13.8 % | 499,858 | 8.6 % | 811,915 | 14.2 % |
| Food Products | 34,709 | 0.7 % | 34,478 | 0.7 % | 9,884 | 0.2 % | 9,886 | 0.2 % |
| Health Care Equipment & Supplies | 42,412 | 0.7 % | 40,926 | 0.7 % | 43,279 | 0.7 % | 43,279 | 0.8 % |
| Health Care Providers & Services | 475,938 | 7.8 % | 453,888 | 7.8 % | 421,198 | 7.2 % | 404,130 | 7.1 % |
| Hotels & Personal Products | — | — % | — | — % | 24,938 | 0.4 % | 24,938 | 0.4 % |
| Hotels, Restaurants & Leisure | 36,921 | 0.6 % | 36,857 | 0.6 % | 37,295 | 0.6 % | 37,295 | 0.6 % |
| Household Products | 24,813 | 0.4 % | 24,813 | 0.4 % | — | — % | — | — % |
| Household Durables | 38,660 | 0.6 % | 36,656 | 0.6 % | 42,539 | 0.7 % | 41,623 | 0.7 % |
| Insurance | 2,987 | — % | 2,899 | — % | 2,986 | 0.1 % | 2,986 | 0.1 % |
| Interactive Media & Services | 48,449 | 0.8 % | 48,449 | 0.8 % | — | — % | — | — % |
| Internet & Direct Marketing Retail | — | — % | — | — % | 39,813 | 0.7 % | 39,813 | 0.7 % |
| Internet Software & Services | — | — % | — | — % | 229,717 | 4.0 % | 229,791 | 4.0 % |

| | | | | | | | | |
|-------------|---------|-------|---------|-------|---------|-------|---------|-------|
| IT Services | 304,435 | 5.0 % | 304,169 | 5.2 % | 182,183 | 3.1 % | 182,578 | 3.2 % |
|-------------|---------|-------|---------|-------|---------|-------|---------|-------|

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| Industry | December 31, 2018 | | | | June 30, 2018 | | | | |
|--|-------------------|----------------|---------------|----------------|---------------|----------------|---------------|----------------|---|
| | Cost | % of Portfolio | Fair Value | % of Portfolio | Cost | % of Portfolio | Fair Value | % of Portfolio | |
| Leisure Products | 40,454 | 0.7 | % 40,537 | 0.7 | % 45,531 | 0.8 | % 45,626 | 0.8 | % |
| Machinery | 35,488 | 0.6 | % 24,670 | 0.4 | % 35,488 | 0.6 | % 31,886 | 0.6 | % |
| Media | 154,078 | 2.5 | % 152,574 | 2.6 | % 143,063 | 2.5 | % 140,365 | 2.4 | % |
| Online Lending | 305,949 | 5.0 | % 210,707 | 3.6 | % 327,159 | 5.6 | % 243,078 | 4.2 | % |
| Paper & Forest Products | 11,345 | 0.2 | % 11,345 | 0.2 | % 11,328 | 0.2 | % 11,226 | 0.2 | % |
| Personal Products | 228,325 | 3.7 | % 132,530 | 2.3 | % 228,575 | 3.9 | % 165,020 | 2.9 | % |
| Pharmaceuticals | 11,883 | 0.2 | % 12,000 | 0.2 | % 11,882 | 0.2 | % 12,000 | 0.2 | % |
| Professional Services | 186,666 | 3.1 | % 188,783 | 3.2 | % 74,272 | 1.3 | % 76,991 | 1.3 | % |
| Real Estate Management & Development | 41,370 | 0.7 | % 41,370 | 0.7 | % 41,860 | 0.7 | % 41,860 | 0.7 | % |
| Software | 69,455 | 1.1 | % 69,302 | 1.2 | % 66,435 | 1.1 | % 67,265 | 1.2 | % |
| Technology Hardware, Storage & Peripherals | 12,392 | 0.2 | % 12,114 | 0.2 | % 12,384 | 0.2 | % 12,500 | 0.2 | % |
| Textiles, Apparel & Luxury Goods | 317,709 | 5.2 | % 329,764 | 5.6 | % 46,429 | 0.8 | % 60,220 | 1.1 | % |
| Tobacco | 14,405 | 0.2 | % 14,405 | 0.2 | % 14,392 | 0.3 | % 14,392 | 0.3 | % |
| Trading Companies & Distributors | 63,538 | 1.0 | % 36,832 | 0.6 | % 63,863 | 1.1 | % 56,199 | 1.0 | % |
| Transportation Infrastructure | 27,536 | 0.5 | % 27,120 | 0.5 | % 27,494 | 0.5 | % 28,104 | 0.5 | % |
| Subtotal | \$4,953,783 | 81.3 | % \$4,905,443 | 84.0 | % \$4,728,531 | 81.1 | % \$4,767,085 | 83.2 | % |
| Structured Finance(1) | \$1,142,613 | 18.7 | % \$937,127 | 16.0 | % \$1,102,927 | 18.9 | % \$960,194 | 16.8 | % |
| Total Investments | \$6,096,396 | 100.0 | % \$5,842,570 | 100.0 | % \$5,831,458 | 100.0 | % \$5,727,279 | 100.0 | % |

(1) Our CLO investments do not have industry concentrations and as such have been separated in the table above.

Portfolio Investment Activity

During the six months ended December 31, 2018, we acquired \$209,041 of new investments, completed follow-on investments in existing portfolio companies totaling approximately \$245,980, funded \$6,567 of revolver advances, and recorded PIK interest of \$19,306, resulting in gross investment originations of \$480,894. The more significant of these transactions are briefly described below.

During the period from July 13, 2018 to July 16, 2018, we made follow-on first lien term loan investments of \$105,000 in Town & Country Holdings, Inc. to support acquisitions. The first lien term loan bears interest at the greater of 10.00% or LIBOR plus 8.50% and has a final maturity of January 26, 2023.

On August 1, 2018, we purchased from a third party \$14,000 of First Lien Senior Secured Term Loan A/B issued by InterDent, Inc. at par. On September 19, 2018, we made a \$5,000 Senior Secured Term Loan D follow-on investment. The First Lien Senior Secured Term Loan A/B bears interest at the greater of 1.00% or LIBOR plus 0.25% and has a final maturity of September 5, 2020. The Senior Secured Term Loan D bears interest at 1.00% PIK interest and has a final maturity of September 5, 2020.

On August 6, 2018, we made a \$17,500 senior secured investment in Halyard MD OPCO, LLC, a healthcare IT and advertising technology business that enables targeted advertising campaigns to healthcare providers and patients. Our investment is comprised of a \$12,000 first lien term loan, a \$2,000 unfunded revolving credit facility, and a \$3,500 unfunded delayed draw investment. The first lien term loan bears interest at the greater of 10.00% or LIBOR plus 8.00% and has a final maturity of August 6, 2023. The unfunded revolving credit facility and delayed draw bear interest at the greater of 10.00% or LIBOR plus 8.00% and has a final maturity of August 6, 2019.

During the period from July 19, 2018 through December 31, 2018, we provided \$10,205 of equity financing to NPRC for the acquisition of real estate properties and \$1,377 of equity financing to NPRC to fund capital expenditures for existing real estate properties.

During the period from August 3, 2018 to September 6, 2018, we made follow-on second lien term loan investments of \$10,000 in Janus International Group, LLC. The senior lien term loan bears interest at the greater of 8.75% or

LIBOR plus 7.75% and has a final maturity of February 12, 2026.

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During the period from August 14, 2018 to September 24, 2018, we made follow-on second lien term loan investments of \$13,000 in K&N Parent, Inc. The second lien term loan bears interest at the greater of 9.75% or LIBOR plus 8.75% and has a final maturity of October 21, 2024.

On September 14, 2018, we made a \$10,100 Senior Secured Term Loan A and a \$10,100 Senior Secured Term Loan B debt investment in Centerfield Media Holding Company, a provider of customer acquisition and conversion services, to fund an acquisition. The Senior Secured Term Loan A bears interest at the greater of 9.00% or LIBOR plus 7.00% and has a final maturity of January 17, 2022. The Senior Secured Term Loan B bears interest at the greater of 14.50% or LIBOR plus 12.50% and has a final maturity of January 17, 2022.

On October 10, 2018, we made a \$25,000 Second Lien Term Loan investment in 8th Avenue Food & Provisions, Inc., a private food brands provider and manufacturer of peanut and other nut butters, pasta and healthy snacks. The second lien term loan bears interest at LIBOR plus 7.75% and has a final maturity of October 1, 2026.

On October 12, 2018, we made a \$35,000 Second Lien Term Loan investment in CCS-CMGC Holdings, Inc., a leading provider of outsourced correctional healthcare and behavioral healthcare solutions for government customers. The second lien term loan bears interest at LIBOR plus 9.0% and has a final maturity of October 1, 2026.

On October 25, 2018, we made a \$12,500 Second Lien Term Loan investment in GlobalTranz Enterprises, Inc., a technology-enabled third-party logistics provider of transportation services, including full truckload, less-than-truckload, expedited (air), and intermodal services, along with logistics services and supply chain management solutions. The second lien term loan bears interest at LIBOR plus 8.00% and has a final maturity of October 16, 2026.

On December 4, 2018, we made a \$25.0 million Second Lien Term Loan investment in Global Tel*Link Corporation, a leading provider of integrated technology solutions used by inmates, investigators, and administrators in the U.S. corrections industry. The Second Lien Term Loan bears interest at LIBOR plus 8.25% and has a final maturity of November 29, 2026.

On December 7, 2018, we made a new \$50,000 Second Lien Term Loan investment in Rocket Software, Inc., a global provider of infrastructure software with over 16,000 global corporate customers across a variety of industries in over 80 countries. The Second Lien Term Loan bears interest at LIBOR plus 8.25% and has a final maturity of November 27, 2026.

On December 7, 2018, we made additional \$12,000 of Senior Secured Term Loan A and \$12,000 of Senior Secured Term Loan B investments in MRP Holdco, Inc. to support an acquisition.

On December 7, 2018, we made an investment of \$2,655 to refinance and extend our 90.54% ownership of the subordinated notes in Symphony CLO XV, Ltd. In addition to the equity injection, we made an investment of \$11,400 to purchase the single-B rated debt tranche of Symphony CLO XV, Ltd.

On December 10, 2018, Prospect purchased all of the voting stock of Universal Turbine Parts, LLC (“UTP”) and appointed a new Board of Directors to UTP, including three Prospect employees. As a result of the purchase, Prospect’s investment in UTP is classified as a control investment.

During the six months ended December 31, 2018, we received full repayments on six investments and received several partial prepayments and amortization payments totaling \$220,110, which resulted in net realized gains totaling \$4,034. The more significant of these transactions are briefly described below.

On September 7, 2018, CURO Financial Technologies Corp. fully repaid the \$10,896 Senior Secured Note receivable to us.

On October 1, 2018, Fleetwash, Inc. fully repaid the \$21,544 Senior Secured Term Loan B receivable to us.

On October 18, 2018, ATS Consolidated, Inc. fully repaid the \$15,000 Second Lien Term Loan receivable to us.

On November 28, 2018, Rocket Software, Inc. fully repaid the \$50,000 Second Lien Term Loan receivable to us.

The following table provides a summary of our investment activity for each quarter within the three years ending June 30, 2019:

| Quarter Ended | Acquisitions(1) | Dispositions(2) |
|--------------------|-----------------|-----------------|
| September 30, 2016 | 347,150 | 114,331 |
| December 31, 2016 | 469,537 | 644,995 |
| March 31, 2017 | 449,607 | 302,513 |
| June 30, 2017 | 223,176 | 352,043 |
| September 30, 2017 | 222,151 | 310,894 |
| December 31, 2017 | 738,737 | 1,041,126 |
| March 31, 2018 | 429,928 | 116,978 |
| June 30, 2018 | 339,841 | 362,287 |
| September 30, 2018 | 254,642 | 56,608 |
| December 31, 2018 | 226,252 | 163,502 |

(1) Includes investments in new portfolio companies, follow-on investments in existing portfolio companies, refinancings and PIK interest.

(2) Includes sales, scheduled principal payments, prepayments and refinancings.

Investment Valuation

In determining the range of values for debt instruments, except CLOs and debt investments in controlling portfolio companies, management and the independent valuation firm estimated corporate and security credit ratings and identified corresponding yields to maturity for each loan from relevant market data. A discounted cash flow technique was then prepared using the appropriate yield to maturity as the discount rate, to determine a range of values. In determining the range of values for debt investments of controlled companies and equity investments, the enterprise value was determined by applying earnings before interest, income tax, depreciation and amortization (“EBITDA”) multiples, the discounted cash flow technique, net income and/or book value multiples for similar guideline public companies and/or similar recent investment transactions. For stressed debt and equity investments, a liquidation analysis was prepared.

In determining the range of values for our investments in CLOs, the independent valuation firm uses a discounted multi-path cash flow model. The valuations were accomplished through the analysis of the CLO deal structures to identify the risk exposures from the modeling point of view as well as to determine an appropriate call date (i.e., expected maturity). These risk factors are sensitized in the multi-path cash flow model using Monte Carlo simulations, which is a simulation used to model the probability of different outcomes, to generate probability-weighted (i.e., multi-path) cash flows for the underlying assets and liabilities. These cash flows are discounted using appropriate market discount rates, and relevant data in the CLO market and certain benchmark credit indices are considered, to determine the value of each CLO investment. In addition, we generate a single-path cash flow utilizing our best estimate of expected cash receipts, and assess the reasonableness of the implied discount rate that would be effective for the value derived from the corresponding multi-path cash flow model.

With respect to our online consumer and SME lending initiative, we invest primarily in marketplace loans through marketplace lending platforms. We do not conduct loan origination activities ourselves. Therefore, our ability to purchase consumer and SME loans, and our ability to grow our portfolio of consumer and SME loans, are directly influenced by the business performance and competitiveness of the marketplace loan origination business of the marketplace lending platforms from which we purchase consumer and SME loans. In addition, our ability to analyze the risk-return profile of consumer and SME loans is significantly dependent on the marketplace platforms’ ability to effectively evaluate a borrower’s credit profile and likelihood of default. If we are unable to effectively evaluate borrowers’ credit profiles or the credit decisioning and scoring models implemented by each platform, we may incur unanticipated losses which could adversely impact our operating results.

The Board of Directors looked at several factors in determining where within the range to value the asset including: recent operating and financial trends for the asset, independent ratings obtained from third parties, comparable multiples for recent sales of companies within the industry and discounted cash flow models for our investments in CLOs. The composite of all these various valuation techniques, applied to each investment, was a total valuation of \$5,842,570.

Our portfolio companies are generally lower middle market companies, outside of the financial sector, with less than \$100,000 of annual EBITDA. We believe our investment portfolio has experienced less volatility than others because we believe there are more buy and hold investors who own these less liquid investments.

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Control investments offer increased risk and reward over straight debt investments. Operating results and changes in market multiples can result in dramatic changes in values from quarter to quarter. Significant downturns in operations can further result in our looking to recoveries on sales of assets rather than the enterprise value of the investment. Equity positions in our portfolio are susceptible to potentially significant changes in value, both increases as well as decreases, due to changes in operating results and market multiples. Several of our controlled companies discussed below experienced such changes and we recorded corresponding fluctuations in valuations during the six months ended December 31, 2018.

Credit Central Loan Company, LLC

Prospect owns 100% of the equity of Credit Central Holdings of Delaware, LLC (“Credit Central Delaware”), a Consolidated Holding Company. Credit Central Delaware owns 98.26% of Credit Central Loan Company, LLC (f/k/a Credit Central Holdings, LLC (“Credit Central”)) as of December 31, 2018 and June 30, 2018, with entities owned by Credit Central management owning the remaining 1.74% of the equity. Credit Central is a branch-based provider of installment loans.

The fair value of our investment in Credit Central decreased to \$68,861 as of December 31, 2018, representing a premium of \$4,950 to its amortized cost basis, compared to a fair value of \$76,677 as of June 30, 2018, representing a premium of \$15,450 to its amortized cost basis. The decrease in fair value was driven by a decline in comparable public company trading multiples and in Credit Central’s financial performance.

National Property REIT Corp.

NPRC is a Maryland corporation and a qualified REIT for federal income tax purposes. NPRC is held for purposes of investing, operating, financing, leasing, managing and selling a portfolio of real estate assets and engages in any and all other activities that may be necessary, incidental, or convenient to perform the foregoing. NPRC acquires real estate assets, including, but not limited to, industrial, commercial, and multi-family properties. NPRC may acquire real estate assets directly or through joint ventures by making a majority equity investment in a property-owning entity. Additionally, through its wholly-owned subsidiaries, NPRC invests in online consumer loans. Effective May 23, 2016, APRC and UPRC merged with and into NPRC, to consolidate all of our real estate holdings, with NPRC as the surviving entity. As of December 31, 2018, we own 100% of the fully-diluted common equity of NPRC.

During the six months ended December 31, 2018, we provided \$10,205 of equity financing to NPRC for the acquisition of real estate properties and \$1,377 of equity financing to NPRC to fund capital expenditures for existing real estate properties. In addition, we received partial repayments of \$21,181 of our loans previously outstanding with NPRC and its wholly owned subsidiary and \$15,000 as a return of capital on our equity investment in NPRC.

The online consumer loan investments held by certain of NPRC’s wholly-owned subsidiaries are unsecured obligations of individual borrowers that are issued in amounts ranging from \$1 to \$50, with fixed terms ranging from 24 to 84 months. As of December 31, 2018, the outstanding investment in online consumer loans by certain of NPRC’s wholly-owned subsidiaries was comprised of 42,206 individual loans and residual interest in four securitizations, and had an aggregate fair value of \$244,239. The average outstanding individual loan balance is approximately \$5 and the loans mature on dates ranging from January 1, 2019 to April 19, 2025 with a weighted-average outstanding term of 25 months as of December 31, 2018. Fixed interest rates range from 4.0% to 36.0% with a weighted-average current interest rate of 23.8%. As of December 31, 2018, our investment in NPRC and its wholly-owned subsidiaries relating to online consumer lending had a fair value of \$210,707.

As of December 31, 2018, based on outstanding principal balance, 7.5% of the portfolio was invested in super prime loans (borrowers with a Fair Isaac Corporation (“FICO”) score, of 720 or greater), 20.7% of the portfolio in prime loans (borrowers with a FICO score of 660 to 719) and 71.8% of the portfolio in near prime loans (borrowers with a FICO score of 580 to 659).

| Loan Type | Outstanding Principal Balance | Fair Value | Interest Rate Range | Weighted Average Interest Rate* |
|-------------|-------------------------------|------------|---------------------|---------------------------------|
| Super Prime | \$ 14,681 | \$ 14,254 | 4.0% - 24.1% | 12.5% |
| Prime | 40,595 | 38,015 | 4.0% - 36.0% | 17.2% |
| Near Prime | 140,988 | 128,809 | 6.0% - 36.0% | 26.8% |

*Weighted by outstanding principal balance of the online consumer loans.

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As of December 31, 2018, our investment in NPRC and its wholly-owned subsidiaries had an amortized cost of \$802,389 and a fair value of \$1,016,459, including our investment in online consumer lending as discussed above. As of December 31, 2018, our investment in NPRC and its wholly-owned subsidiaries relating to the real estate portfolio had a fair value of \$805,752. This portfolio was comprised of forty-three multi-families properties, twelve self-storage units, eight student housing properties and three commercial properties. The following table shows the location, acquisition date, purchase price, and mortgage outstanding due to other parties for each of the properties held by NPRC as of December 31, 2018.

| No. | Property Name | City | Acquisition Date | Purchase Price | Mortgage Outstanding |
|-----|--|----------------------|------------------|----------------|----------------------|
| 1 | Filet of Chicken | Forest Park, GA | 10/24/2012 | \$ 7,400 | \$ — |
| 2 | Lofton Place, LLC | Tampa, FL | 4/30/2013 | 26,000 | 20,102 |
| 3 | Arlington Park Marietta, LLC | Marietta, GA | 5/8/2013 | 14,850 | 9,570 |
| 4 | NPRC Carroll Resort, LLC | Pembroke Pines, FL | 6/24/2013 | 225,000 | 174,302 |
| 5 | Cordova Regency, LLC | Pensacola, FL | 11/15/2013 | 13,750 | 11,375 |
| 6 | Crestview at Oakleigh, LLC | Pensacola, FL | 11/15/2013 | 17,500 | 13,845 |
| 7 | Inverness Lakes, LLC | Mobile, AL | 11/15/2013 | 29,600 | 24,700 |
| 8 | Kings Mill Pensacola, LLC | Pensacola, FL | 11/15/2013 | 20,750 | 17,550 |
| 9 | Plantations at Pine Lake, LLC | Tallahassee, FL | 11/15/2013 | 18,000 | 14,092 |
| 10 | Verandas at Rocky Ridge, LLC | Birmingham, AL | 11/15/2013 | 15,600 | 10,205 |
| 11 | Vinings Corner II, LLC | Smyrna, GA | 11/19/2013 | 35,691 | 32,395 |
| 12 | Atlanta Eastwood Village LLC | Stockbridge, GA | 12/12/2013 | 25,957 | 22,361 |
| 13 | Atlanta Monterey Village LLC | Jonesboro, GA | 12/12/2013 | 11,501 | 10,879 |
| 14 | Atlanta Hidden Creek LLC | Morrow, GA | 12/12/2013 | 5,098 | 4,658 |
| 15 | Atlanta Meadow Springs LLC | College Park, GA | 12/12/2013 | 13,116 | 12,808 |
| 16 | Atlanta Meadow View LLC | College Park, GA | 12/12/2013 | 14,354 | 12,862 |
| 17 | Atlanta Peachtree Landing LLC | Fairburn, GA | 12/12/2013 | 17,224 | 15,235 |
| 18 | NPH Carroll Bartram Park, LLC | Jacksonville, FL | 12/31/2013 | 38,000 | 26,909 |
| 19 | Crestview at Cordova, LLC | Pensacola, FL | 1/17/2014 | 8,500 | 7,695 |
| 20 | Taco Bell, OK | Yukon, OK | 6/4/2014 | 1,719 | — |
| 21 | Taco Bell, MO | Marshall, MO | 6/4/2014 | 1,405 | — |
| 22 | 23 Mile Road Self Storage, LLC | Chesterfield, MI | 8/19/2014 | 5,804 | 4,350 |
| 23 | 36th Street Self Storage, LLC | Wyoming, MI | 8/19/2014 | 4,800 | 3,600 |
| 24 | Ball Avenue Self Storage, LLC | Grand Rapids, MI | 8/19/2014 | 7,281 | 5,460 |
| 25 | Ford Road Self Storage, LLC | Westland, MI | 8/29/2014 | 4,642 | 3,480 |
| 26 | Ann Arbor Kalamazoo Self Storage, LLC | Ann Arbor, MI | 8/29/2014 | 4,458 | 3,345 |
| 27 | Ann Arbor Kalamazoo Self Storage, LLC | Ann Arbor, MI | 8/29/2014 | 8,927 | 6,695 |
| 28 | Ann Arbor Kalamazoo Self Storage, LLC | Kalamazoo, MI | 8/29/2014 | 2,363 | 1,775 |
| 29 | Canterbury Green Apartments Holdings LLC | Fort Wayne, IN | 9/29/2014 | 85,500 | 86,580 |
| 30 | Abbie Lakes OH Partners, LLC | Canal Winchester, OH | 9/30/2014 | 12,600 | 14,233 |
| 31 | Kengary Way OH Partners, LLC | Reynoldsburg, OH | 9/30/2014 | 11,500 | 15,935 |
| 32 | Lakeview Trail OH Partners, LLC | Canal Winchester, OH | 9/30/2014 | 26,500 | 28,969 |
| 33 | Lakepoint OH Partners, LLC | Pickerington, OH | 9/30/2014 | 11,000 | 14,480 |
| 34 | Sunbury OH Partners, LLC | Columbus, OH | 9/30/2014 | 13,000 | 15,359 |
| 35 | Heatherbridge OH Partners, LLC | Blacklick, OH | 9/30/2014 | 18,416 | 18,328 |
| 36 | Jefferson Chase OH Partners, LLC | Blacklick, OH | 9/30/2014 | 13,551 | 19,493 |
| 37 | Goldenstrand OH Partners, LLC | Hilliard, OH | 10/29/2014 | 7,810 | 11,893 |
| 38 | Jolly Road Self Storage, LLC | Okemos, MI | 1/16/2015 | 7,492 | 5,620 |

| No. | Property Name | City | Acquisition Date | Purchase Price | Mortgage Outstanding |
|-----|-------------------------------------|---------------------|------------------|----------------|----------------------|
| 39 | Eaton Rapids Road Self Storage, LLC | Lansing West, MI | 1/16/2015 | 1,741 | 1,305 |
| 40 | Haggerty Road Self Storage, LLC | Novi, MI | 1/16/2015 | 6,700 | 5,025 |
| 41 | Waldon Road Self Storage, LLC | Lake Orion, MI | 1/16/2015 | 6,965 | 5,225 |
| 42 | Tyler Road Self Storage, LLC | Ypsilanti, MI | 1/16/2015 | 3,507 | 2,630 |
| 43 | SSIL I, LLC | Aurora, IL | 11/5/2015 | 34,500 | 26,450 |
| 44 | Vesper Tuscaloosa, LLC | Tuscaloosa, AL | 9/28/2016 | 54,500 | 43,109 |
| 45 | Vesper Iowa City, LLC | Iowa City, IA | 9/28/2016 | 32,750 | 24,825 |
| 46 | Vesper Corpus Christi, LLC | Corpus Christi, TX | 9/28/2016 | 14,250 | 10,800 |
| 47 | Vesper Campus Quarters, LLC | Corpus Christi, TX | 9/28/2016 | 18,350 | 14,175 |
| 48 | Vesper College Station, LLC | College Station, TX | 9/28/2016 | 41,500 | 32,058 |
| 49 | Vesper Kennesaw, LLC | Kennesaw, GA | 9/28/2016 | 57,900 | 48,647 |
| 50 | Vesper Statesboro, LLC | Statesboro, GA | 9/28/2016 | 7,500 | 7,480 |
| 51 | Vesper Manhattan KS, LLC | Manhattan, KS | 9/28/2016 | 23,250 | 15,415 |
| 52 | JSIP Union Place, LLC | Franklin, MA | 12/7/2016 | 64,750 | 51,800 |
| 53 | 9220 Old Lantern Way, LLC | Laurel, MD | 1/30/2017 | 187,250 | 153,580 |
| 54 | 7915 Baymeadows Circle Owner, LLC | Jacksonville, FL | 10/31/2017 | 95,700 | 76,560 |
| 55 | 8025 Baymeadows Circle Owner, LLC | Jacksonville, FL | 10/31/2017 | 15,300 | 12,240 |
| 56 | 23275 Riverside Drive Owner, LLC | Southfield, MI | 11/8/2017 | 52,000 | 44,044 |
| 57 | 23741 Pond Road Owner, LLC | Southfield, MI | 11/8/2017 | 16,500 | 14,185 |
| 58 | 150 Steeplechase Way Owner, LLC | Largo, MD | 1/10/2018 | 44,500 | 36,668 |
| 59 | Laurel Pointe Holdings, LLC | Forest Park, GA | 5/9/2018 | 33,005 | 26,400 |
| 60 | Bradford Ridge Holdings, LLC | Forest Park, GA | 5/9/2018 | 12,500 | 10,000 |
| 61 | Olentangy Commons Owner LLC | Columbus, OH | 6/1/2018 | 113,000 | 92,876 |
| 62 | Villages of Wildwood Holdings LLC | Fairfield, OH | 7/20/2018 | 46,500 | 39,525 |
| 63 | Falling Creek Holdings LLC | Richmond, VA | 8/8/2018 | 25,000 | 19,335 |
| 64 | Crown Pointe Passthrough LLC | Danbury, CT | 8/30/2018 | 108,500 | 89,400 |
| 65 | Ashwood Ridge Holdings LLC | Jonesboro, GA | 9/21/2018 | 9,600 | 7,300 |
| 66 | Lorring Owner LLC | Forestville, MD | 10/30/2018 | 58,521 | 47,680 |
| | | | | \$1,992,698 | \$1,659,875 |

The fair value of our investment in NPRC decreased to \$1,016,459 as of December 31, 2018, representing a premium of \$214,070 to its amortized cost basis, compared to a fair value of \$1,054,976 as of June 30, 2018, representing a premium of \$227,989. This decrease is primarily attributable to structuring fees and dividend distributions to PSEC, partially offset by a modest increase in property values driven by lower capitalization rates.

Pacific World Corporation

On May 29, 2018, Prospect exercised its rights and remedies under its loan documents to exercise the shareholder voting rights in respect of the stock of Pacific World Corporation (“Pacific World”) and to appoint a new Board of Directors of Pacific World. As a result, as of June 30, 2018, Prospect’s investment in Pacific World is classified as a control investment. Pacific World Corporation supplies nail and beauty care products to food, drug, mass, and value retail channels worldwide.

The fair value of our investment in Pacific World decreased to \$132,530 as of December 31, 2018, representing a discount of \$95,795 to its amortized cost basis, compared to a fair value of \$165,020 as of June 30, 2018, representing a discount of \$63,555 to its amortized cost basis. The decrease in fair value was driven by a deterioration in financial performance.

Universal Turbine Parts, LLC

On December 10, 2018, Prospect purchased all of the voting stock of Universal Turbine Parts, LLC (“UTP”) and appointed a new Board of Directors to UTP, including three Prospect employees. As a result of the purchase, Prospect’s investment in UTP is classified as a control investment.

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The fair value of our investment in UTP decreased to \$36,832 as of December 31, 2018, a discount of \$26,706 from its amortized cost, compared to a fair value of \$56,199 as of June 30, 2018, representing a discount of \$7,664 to its amortized cost. The decrease in fair value was driven by a deterioration in financial performance resulting in credit impairment.

Valley Electric Company, Inc.

Prospect owns 100% of the common stock of Valley Electric Holdings I, Inc. (“Valley Holdings I”), a Consolidated Holding

Company. Valley Holdings I owns 100% of Valley Electric Holdings II, Inc. (“Valley Holdings II”), a Consolidated Holding

Company. Valley Holdings II owns 94.99% of Valley Electric Company, Inc. (“Valley Electric”), with Valley Electric management owning the remaining 5.01% of the equity. Valley Electric owns 100% of the equity of VE Company, Inc., which owns 100% of the equity of Valley Electric Co. of Mt. Vernon, Inc. (“Valley”), a leading provider of specialty electrical services in the state of Washington and among the top electrical contractors in the United States. Due to increased demand for specialty electrical services, the fair value of our investment in Valley Electric increased to \$89,758 as of December 31, 2018, a premium of \$20,243 from its amortized cost, compared to a fair value of \$50,797 as of June 30, 2018, representing a \$13,618 discount to its amortized cost.

Our controlled investments, other than those discussed above, are valued at \$65,348 below cost and did not experience significant changes in operating performance or value. Overall, combined with those portfolio companies discussed above, our controlled investments at December 31, 2018 are valued at \$51,414 above their amortized cost.

We hold four affiliate investments at December 31, 2018, which are valued at \$85,136 below their amortized cost.

This discount is primarily driven by our affiliate investment in USC, which is valued at a discount to amortized cost of \$84,121.

With the non-control/non-affiliate investments, generally, there is less volatility related to our total investments because our equity positions tend to be smaller than with our control/affiliate investments, and debt investments are generally not as susceptible to large swings in value as equity investments. For debt investments, the fair value is generally limited on the high side to each loan’s par value, plus any prepayment premium that could be imposed. As of December 31, 2018, our CLO investment portfolio is valued at a \$205,486 discount to amortized cost. Excluding the CLO investment portfolio, non-control/non-affiliate investments at December 31, 2018 are valued at \$14,618 below their amortized cost and did not experience significant changes in operating performance or value.

Capitalization

Our investment activities are capital intensive and the availability and cost of capital is a critical component of our business. We capitalize our business with a combination of debt and equity. Our debt as of December 31, 2018 consists of: a Revolving Credit Facility availing us of the ability to borrow debt subject to borrowing base determinations; Convertible Notes which we issued in December 2012, April 2014 and April 2017 (with a follow-on issuance in May 2018); Public Notes which we issued in March 2013, December 2015 (and from time to time through our 2024 Notes Follow-on Program), June 2018 (and from time to time through our 2028 Notes Follow-on Program), September 2018, and November 2018; and Prospect Capital InterNotes® which we issue from time to time. Our equity capital is comprised entirely of common equity.

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The following table shows our outstanding debt as of December 31, 2018:

| | Principal Outstanding | Unamortized Debt Issuance Costs | Net Carrying Value | Fair Value (1) | Effective Interest Rate | |
|------------------------------|-----------------------|---------------------------------|--------------------|----------------|-------------------------|-------|
| Revolving Credit Facility(2) | \$ 297,000 | \$ 8,493 | \$ 297,000 | (3)\$ 297,000 | 1ML+2.20% | (6) |
| 2019 Notes | 101,647 | 25 | 101,622 | 101,549 | (4)6.51 | % (7) |
| 2020 Notes | 378,500 | 2,998 | 375,502 | 375,964 | (4)5.52 | % (7) |
| 2022 Notes | 328,500 | 7,613 | 320,887 | 319,171 | (4)5.71 | % (7) |
| Convertible Notes | 808,647 | | 798,011 | 796,684 | | |
| 2023 Notes | 320,000 | 3,683 | 316,317 | 324,326 | (4)6.09 | % (7) |
| 2024 Notes | 219,297 | 4,846 | 214,451 | 214,560 | (4)6.76 | % (7) |
| 2028 Notes | 67,411 | 2,255 | 65,156 | 61,641 | (4)6.77 | % (7) |
| 6.375% 2024 Notes | 100,000 | 1,230 | 98,770 | 101,981 | (4)6.62 | % (7) |
| 2029 Notes | 50,000 | 1,932 | 48,068 | 46,220 | (4)7.39 | % (7) |
| Public Notes | 756,708 | | 742,762 | 748,728 | | |
| Prospect Capital InterNotes® | 725,659 | 11,641 | 714,018 | 681,652 | (5)5.91 | % (8) |
| Total | \$ 2,588,014 | | \$ 2,551,791 | \$ 2,524,064 | | |

As permitted by ASC 825-10-25, we have not elected to value our Revolving Credit Facility, Convertible Notes, (1)Public Notes and Prospect Capital InterNotes® at fair value. The fair value of these debt obligations are categorized as Level 2 under ASC 820 as of December 31, 2018.

(2)The maximum draw amount of the Revolving Credit facility as of December 31, 2018 is \$1,020,000.

(3)Net Carrying Value excludes deferred financing costs associated with the Revolving Credit Facility. See Critical Accounting Policies and Estimates for accounting policy details.

(4)We use available market quotes to estimate the fair value of the Convertible Notes and Public Notes.

(5)The fair value of Prospect Capital InterNotes® is estimated by discounting remaining payments using current Treasury rates plus spread based on observable market inputs.

(6)Represents the rate on drawn down and outstanding balances. Deferred debt issuance costs are amortized on a straight-line method over the stated life of the obligation.

The effective interest rate is equal to the effect of the stated interest, the accretion of original issue discount and (7)amortization of debt issuance costs. For the 2024 Notes and the 2028 Notes, the rate presented is a combined effective interest rate of their respective original Note issuances and Note Follow-on Programs.

For the Prospect Capital InterNotes®, the rate presented is the weighted average effective interest rate. Interest (8)expense and deferred debt issuance costs, which are amortized on a straight-line method over the stated life of the obligation which approximates level yield, are weighted against the average year-to-date principal balance.

The following table shows the contractual maturities of our Revolving Credit Facility, Convertible Notes, Public Notes and Prospect Capital InterNotes® as of December 31, 2018:

| | Payments Due by Period | | | | |
|-------------------------------|------------------------|------------------|-------------|-------------|---------------|
| | Total | Less than 1 Year | 1 – 3 Years | 3 – 5 Years | After 5 Years |
| Revolving Credit Facility | \$ 297,000 | \$ — | \$ — | \$ — | \$ 297,000 |
| Convertible Notes | 808,647 | 101,647 | 378,500 | 328,500 | — |
| Public Notes | 756,708 | — | — | 320,000 | 436,708 |
| Prospect Capital InterNotes® | 725,659 | — | 245,018 | 210,398 | 270,243 |
| Total Contractual Obligations | \$ 2,588,014 | \$ 101,647 | \$ 623,518 | \$ 858,898 | \$ 1,003,951 |

The following table shows the contractual maturities of our Revolving Credit Facility, Convertible Notes, Public Notes and Prospect Capital InterNotes® as of June 30, 2018:

| | Payments Due by Period | | | | |
|-------------------------------|------------------------|------------------|-------------|-------------|---------------|
| | Total | Less than 1 Year | 1 – 3 Years | 3 – 5 Years | After 5 Years |
| Revolving Credit Facility | \$37,000 | \$— | \$37,000 | \$— | \$— |
| Convertible Notes | 822,147 | 101,647 | 392,000 | 328,500 | — |
| Public Notes | 727,817 | — | 153,536 | 320,000 | 254,281 |
| Prospect Capital InterNotes® | 760,924 | — | 276,484 | 246,525 | 237,915 |
| Total Contractual Obligations | \$2,347,888 | \$101,647 | \$859,020 | \$895,025 | \$492,196 |

Historically, we have funded a portion of our cash needs through borrowings from banks, issuances of senior securities, including secured, unsecured and convertible debt securities, or issuances of common equity. For flexibility, we maintain a universal shelf registration statement that allows for the public offering and sale of our debt securities, common stock, preferred stock, subscription rights, and warrants and units to purchase such securities in an amount up to \$5,000,000 less issuances to date. As of December 31, 2018, we can issue up to \$4,933,730 of additional debt and equity securities in the public market under this shelf registration. We may from time to time issue securities pursuant to the shelf registration statement or otherwise pursuant to private offerings. The issuance of debt or equity securities will depend on future market conditions, funding needs and other factors and there can be no assurance that any such issuance will occur or be successful.

Each of our Convertible Notes, Public Notes and Prospect Capital InterNotes® (collectively, our “Unsecured Notes”) are our general, unsecured obligations and rank equal in right of payment with all of our existing and future unsecured indebtedness and will be senior in right of payment to any of our subordinated indebtedness that may be issued in the future. The Unsecured Notes are effectively subordinated to our existing secured indebtedness, such as our credit facility, and future secured indebtedness to the extent of the value of the assets securing such indebtedness and structurally subordinated to any existing and future liabilities and other indebtedness of any of our subsidiaries.

Revolving Credit Facility

On August 29, 2014, we renegotiated our previous credit facility and closed an expanded five and a half year revolving credit facility (the “2014 Facility”). The lenders had extended commitments of \$885,000 under the 2014 Facility as of December 31, 2018. The 2014 Facility included an accordion feature which allowed commitments to be increased up to \$1,500,000 in the aggregate. Interest on borrowings under the 2014 Facility is one-month LIBOR plus 225 basis points. Additionally, the lenders charged a fee on the unused portion of the 2014 Facility equal to either 50 basis points if at least 35% of the credit facility was drawn or 100 basis points otherwise.

On August 1, 2018, we renegotiated the 2014 Facility and closed an expanded five and a half year revolving credit facility (the “2018 Facility” and collectively with the 2014 Facility, the “Revolving Credit Facility”). The lenders have extended commitments of \$1,020,000 under the 2018 Facility as of December 31, 2018. The 2018 Facility includes an accordion feature which allows commitments to be increased up to \$1,500,000 in the aggregate. The 2018 Facility matures on March 27, 2024. It includes a revolving period that extends through March 27, 2022, followed by an additional two-year amortization period, with distributions allowed to Prospect after the completion of the revolving period. During such two-year amortization period, all principal payments on the pledged assets will be applied to reduce the balance. At the end of the two-year amortization period, the remaining balance will become due, if required by the lenders.

The 2018 Facility contains restrictions pertaining to the geographic and industry concentrations of funded loans, maximum size of funded loans, interest rate payment frequency of funded loans, maturity dates of funded loans and minimum equity requirements. The 2018 Facility also contains certain requirements relating to portfolio performance, including required minimum portfolio yield and limitations on delinquencies and charge-offs, violation of which could result in the early termination of the 2018 Facility. The 2018 Facility also requires the maintenance of a minimum liquidity requirement. As of December 31, 2018, we were in compliance with the applicable covenants.

Interest on borrowings under the 2018 Facility is one-month LIBOR plus 220 basis points. Additionally, the lenders charge a fee on the unused portion of the credit facility equal to either 50 basis points if more than 60% of the credit

facility is drawn, or 100 basis points if more than 35% and an amount less than or equal to 60% of the credit facility is drawn, or 150 basis points if an amount less than or equal to 35% of the credit facility is drawn. The 2018 Facility requires us to pledge assets as collateral in order to borrow under the credit facility.

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For the three and six months ended December 31, 2018 and December 31, 2017, the average stated interest rate (i.e., rate in effect plus the spread) and average outstanding borrowings for the Revolving Credit Facility were as follows:

| | Three Months Ended December 31, 2018 | | Six Months Ended December 31, 2017 | |
|------------------------------|---|-----------|---|-----------|
| Average stated interest rate | 4.5% | 3.6% | 4.4% | 3.6% |
| Average outstanding balance | \$308,464 | \$304,437 | \$237,283 | \$233,219 |

As of December 31, 2018 and June 30, 2018, we had \$601,464 and \$547,205, respectively, available to us for borrowing under the Revolving Credit Facility, with \$297,000 and \$37,000 outstanding as of December 31, 2018 and June 30, 2018, respectively. As additional eligible investments are transferred to PCF and pledged under the Revolving Credit Facility, PCF will generate additional availability up to the current commitment amount of \$1,020,000. As of December 31, 2018, the investments, including cash, used as collateral for the Revolving Credit Facility had an aggregate fair value of \$1,637,084, which represents 27.5% of our total investments, including cash. These assets are held and owned by PCF, a bankruptcy remote special purpose entity, and as such, these investments are not available to our general creditors. The release of any assets from PCF requires the approval of the facility agent.

In connection with the origination and amendments of the Revolving Credit Facility, we incurred \$10,206 of new fees and \$1,473 were carried over for continuing participants from the previous facility, all of which are being amortized over the term of the facility in accordance with ASC 470-50. As of December 31, 2018, \$8,493 remains to be amortized and is reflected as deferred financing costs on the Consolidated Statements of Assets and Liabilities. During the six months ended December 31, 2018, \$325 of fees were expensed relating to credit providers in the 2014 Facility who did not commit to the 2018 Facility.

During the three months ended December 31, 2018 and December 31, 2017, we recorded \$6,960 and \$3,386, respectively, of interest costs, unused fees and amortization of financing costs on the Revolving Credit Facility as interest expense. During the six months ended December 31, 2018 and December 31, 2017, we recorded \$11,326 and \$6,340, respectively, of interest costs, unused fees and amortization of financing costs on the Revolving Credit Facility as interest expense.

Convertible Notes

On April 16, 2012, we issued \$130,000 aggregate principal amount of convertible notes that matured on October 15, 2017 (the "2017 Notes"). The 2017 Notes bore interest at a rate of 5.375% per year, payable semi-annually on April 15 and October 15 of each year, beginning October 15, 2012. Total proceeds from the issuance of the 2017 Notes, net of underwriting discounts and offering costs, were \$126,035. On March 28, 2016, we repurchased \$500 aggregate principal amount of the 2017 Notes at a price of 98.25, including commissions. The transaction resulted in our recognizing a \$9 gain for the period ended March 31, 2016. On April 6, 2017, we repurchased \$78,766 aggregate principal amount of the 2017 Notes at a price of 102.0, including commissions. The transaction resulted in our recognizing a \$1,786 loss during the three months ended June 30, 2017. On October 15, 2017, we repaid the outstanding principal amount of \$50,734 of the 2017 Notes, plus interest. No gain or loss was realized on the transaction.

On August 14, 2012, we issued \$200,000 aggregate principal amount of convertible notes that matured on March 15, 2018 (the "2018 Notes"). The 2018 Notes bore interest at a rate of 5.75% per year, payable semi-annually on March 15 and September 15 of each year, beginning March 15, 2013. Total proceeds from the issuance of the 2018 Notes, net of underwriting discounts and offering costs, were \$193,600. On April 6, 2017, we repurchased \$114,581 aggregate principal amount of the 2018 Notes at a price of 103.5, including commissions. The transaction resulted in our recognizing a \$4,700 loss during the three months ended June 30, 2017. On March 15, 2018, we repaid the outstanding principal amount of \$85,419 of the 2018 Notes, plus interest. No gain or loss was realized on the transaction.

On December 21, 2012, we issued \$200,000 aggregate principal amount of convertible notes that mature on January 15, 2019 (the "2019 Notes"), unless previously converted or repurchased in accordance with their terms. The

2019 Notes bear interest at a rate of 5.875% per year, payable semi-annually on January 15 and July 15 of each year, beginning July 15, 2013. Total proceeds from the issuance of the 2019 Notes, net of underwriting discounts and offering costs, were \$193,600. On May 30, 2018, we repurchased \$98,353 aggregate principal amount of the 2019 Notes at a price of 102.0, including commissions. The transaction resulted in our recognizing a \$2,383 loss during the three months ended June 30, 2018. As of December 31, 2018, the outstanding aggregate principal amount of the 2019 Notes is \$101,647.

On April 11, 2014, we issued \$400,000 aggregate principal amount of convertible notes that mature on April 15, 2020 (the "2020 Notes"), unless previously converted or repurchased in accordance with their terms. The 2020 Notes bear interest at a rate of 4.75%

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per year, payable semi-annually on April 15 and October 15 each year, beginning October 15, 2014. Total proceeds from the issuance of the 2020 Notes, net of underwriting discounts and offering costs, were \$387,500. On January 30, 2015, we repurchased \$8,000 aggregate principal amount of the 2020 Notes at a price of 93.0, including commissions. As a result of this transaction, we recorded a gain of \$332, in the amount of the difference between the reacquisition price and the net carrying amount of the notes, net of the proportionate amount of unamortized debt issuance cost. During the three months ended December 31, 2018, we repurchased an additional \$13,500 aggregate principal amount of the 2020 Notes at a price of 99.5, including commissions. As a result of this transaction, we recorded a loss of \$41, in the amount of the difference between the reacquisition price and the net carrying amount of the 2020 Notes, net of the proportionate amount of unamortized debt issuance costs. As of December 31, 2018, the outstanding aggregate principal amount of the 2020 Notes is \$378,500.

On April 11, 2017, we issued \$225,000 aggregate principal amount of convertible notes that mature on July 15, 2022 (the "Original 2022 Notes"), unless previously converted or repurchased in accordance with their terms. The Original 2022 Notes bear interest at a rate of 4.95% per year, payable semi-annually on January 15 and July 15 each year, beginning July 15, 2017. Total proceeds from the issuance of the Original 2022 Notes, net of underwriting discounts and offering costs, were \$218,010. On May 18, 2018, we issued an additional \$103,500 aggregate principal amount of convertible notes that mature on July 15, 2022 (the "Additional 2022 Notes", and together with the Original 2022 Notes, the "2022 Notes"), unless previously converted or repurchased in accordance with their terms. The Additional 2022 Notes were a further issuance of, and are fully fungible and rank equally in right of payment with, the Original 2022 Notes and bear interest at a rate of 4.95% per year, payable semi-annually on January 15 and July 15 each year, beginning July 15, 2018. Total proceeds from the issuance of the Additional 2022 Notes, net of underwriting discounts and offering costs, were \$100,749. Following the issuance of the Additional 2022 Notes and as of December 31, 2018, the outstanding aggregate principal amount of the 2022 Notes is \$328,500.

Certain key terms related to the convertible features for the 2019 Notes, the 2020 Notes and the 2022 Notes (collectively, the "Convertible Notes") are listed below.

| | 2019 Notes | 2020 Notes | 2022 Notes |
|---|------------|---------------|---------------|
| Initial conversion rate(1) | 79.7766 | 80.6647 | 100.2305 |
| Initial conversion price | \$12.54 | \$12.40 | \$9.98 |
| Conversion rate at December 31, 2018(1)(2) | 79.8360 | 80.6670 | 100.2305 |
| Conversion price at December 31, 2018(2)(3) | \$12.53 | \$12.40 | \$9.98 |
| Last conversion price calculation date | 12/21/2017 | 4/11/2018 | 4/11/2018 |
| Dividend threshold amount (per share)(4) | \$0.110025 | \$0.110525 | \$0.083330 |

(1) Conversion rates denominated in shares of common stock per \$1 principal amount of the Convertible Notes converted.

(2) Represents conversion rate and conversion price, as applicable, taking into account certain de minimis adjustments that will be made on the conversion date.

(3) The conversion price will increase only if the current monthly dividends (per share) exceed the dividend threshold amount (per share).

(4) The conversion rate is increased if monthly cash dividends paid to common shares exceed the monthly dividend threshold amount, subject to adjustment. Current dividend rates are at or below the minimum dividend threshold amount for further conversion rate adjustments for all bonds.

Upon conversion, unless a holder converts after a record date for an interest payment but prior to the corresponding interest payment date, the holder will receive a separate cash payment with respect to the notes surrendered for conversion representing accrued and unpaid interest to, but not including, the conversion date. Any such payment will be made on the settlement date applicable to the relevant conversion on the Convertible Notes.

No holder of Convertible Notes will be entitled to receive shares of our common stock upon conversion to the extent (but only to the extent) that such receipt would cause such converting holder to become, directly or indirectly, a beneficial owner (within the meaning of Section 13(d) of the Securities Exchange Act of 1934 and the rules and regulations promulgated thereunder) of more than 5.0% of the shares of our common stock outstanding at such time. The 5.0% limitation shall no longer apply following the effective date of any fundamental change. We will not issue

any shares in connection with the conversion or redemption of the Convertible Notes which would equal or exceed 20% of the shares outstanding at the time of the transaction in accordance with NASDAQ rules.

Subject to certain exceptions, holders may require us to repurchase, for cash, all or part of their Convertible Notes upon a fundamental change at a price equal to 100% of the principal amount of the Convertible Notes being repurchased plus any accrued and unpaid

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interest up to, but excluding, the fundamental change repurchase date. In addition, upon a fundamental change that constitutes a non-stock change of control we will also pay holders an amount in cash equal to the present value of all remaining interest payments (without duplication of the foregoing amounts) on such Convertible Notes through and including the maturity date.

In connection with the issuance of the Convertible Notes, we incurred \$27,214 of fees which are being amortized over the terms of the notes, of which \$10,636 remains to be amortized and is included as a reduction within Convertible Notes on the Consolidated Statement of Assets and Liabilities as of December 31, 2018.

During the three months ended December 31, 2018 and December 31, 2017, we recorded \$11,457 and \$13,003, respectively, of interest costs and amortization of financing costs on the Convertible Notes as interest expense. During the six months ended December 31, 2018 and December 31, 2017, we recorded \$22,892 and \$26,659, respectively, of interest costs and amortization of financing costs on the Convertible Notes as interest expense.

Public Notes

On March 15, 2013, we issued \$250,000 aggregate principal amount of unsecured notes that mature on March 15, 2023 (the "Original 2023 Notes"). The Original 2023 Notes bear interest at a rate of 5.875% per year, payable semi-annually on March 15 and September 15 of each year, beginning September 15, 2013. Total proceeds from the issuance of the Original 2023 Notes, net of underwriting discounts and offering costs, were \$243,641. On June 20, 2018, we issued an additional \$70,000 aggregate principal amount of unsecured notes that mature on March 15, 2023 (the "Additional 2023 Notes", and together with the Original 2023 Notes, the "2023 Notes"). The Additional 2023 Notes were a further issuance of, and are fully fungible and rank equally in right of payment with, the Original 2023 Notes and bear interest at a rate of 5.875% per year, payable semi-annually on March 15 and September 15 of each year, beginning September 15, 2018. Total proceeds from the issuance of the Additional 2023 Notes, net of underwriting discounts, were \$69,403. As of December 31, 2018, the outstanding aggregate principal amount of the 2023 Notes is \$320,000.

On April 7, 2014, we issued \$300,000 aggregate principal amount of unsecured notes that mature on July 15, 2019 (the "5.00% 2019 Notes"). Included in the issuance is \$45,000 of Prospect Capital InterNotes® that were exchanged for the 5.00% 2019 Notes. The 5.00% 2019 Notes bear interest at a rate of 5.00% per year, payable semi-annually on January 15 and July 15 of each year, beginning July 15, 2014. Total proceeds from the issuance of the 5.00% 2019 Notes, net of underwriting discounts and offering costs, were \$295,998. On June 7, 2018, we commenced a tender offer to purchase for cash any and all of the \$300,000 aggregate principal amount outstanding of the 5.00% 2019 Notes. On June 20, 2018, \$146,464 aggregate principal amount of the 5.00% 2019 Notes, representing 48.8% of the previously outstanding 5.00% 2019 Notes, were validly tendered and accepted. The transaction resulted in our recognizing a loss of \$3,705 during the three months ended June 30, 2018. On September 26, 2018, we repurchased the remaining \$153,536 aggregate principal amount of the 5.00% 2019 Notes at a price of 101.645, including commissions. The transaction resulted in our recognizing a loss of \$2,874 during the six months ended December 31, 2018.

On December 10, 2015, we issued \$160,000 aggregate principal amount of unsecured notes that mature on June 15, 2024 (the "2024 Notes"). The 2024 Notes bear interest at a rate of 6.25% per year, payable quarterly on March 15, June 15, September 15 and December 15 of each year, beginning March 15, 2016. Total proceeds from the issuance of the Original 2024 Notes, net of underwriting discounts and offering costs, were \$155,043. On June 16, 2016, we entered into an at-the-market ("ATM") program with FBR Capital Markets & Co. through which we could sell, by means of ATM offerings, from time to time, up to \$100,000 in aggregate principal amount of our existing 2024 Notes ("Initial 2024 Notes ATM"). Following the initial 2024 Notes ATM, the aggregate principal amount of the 2024 Notes issued was \$199,281 for net proceeds of \$193,253, after commissions and offering costs. On July 2, 2018, we entered into a second ATM program with B.Riley FBR, Inc. and BB&T Capital Markets, and on August 31, 2018 with Comerica Securities, Inc., through which we could sell, by means of ATM offerings, up to \$100,000 in aggregate principal amount of the 2024 Notes ("Second 2024 Notes ATM", and together with the Initial 2024 Notes ATM, the "2024 Notes Follow-on Program"). The 2024 Notes are listed on the New York Stock Exchange ("NYSE") and trade thereon under the ticker "PBB." During the six months ended December 31, 2018, we issued an additional \$20,016 aggregate principal amount under the second 2024 Notes ATM, for net proceeds of \$19,855, after commissions and offering costs. As of

December 31, 2018, the outstanding aggregate principal amount of the 2024 Notes is \$219,297.

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On June 7, 2018, we issued \$55,000 aggregate principal amount of unsecured notes that mature on June 15, 2028 (the “2028 Notes”). The 2028 Notes bear interest at a rate of 6.25% per year, payable quarterly on March 15, June 15, September 15, and December 15 of each year, beginning September 15, 2018. Total proceeds from the issuance of the 2028 Notes, net of underwriting discounts and offering costs were \$53,119. On July 2, 2018, we entered into an ATM program with B.Riley FBR, Inc. and BB&T Capital Markets, and on August 31, 2018 with Comerica Securities, Inc., through which we could sell, by means of ATM offerings, up to \$100,000 in aggregate principal amount of our existing 2028 Notes (“2028 Notes ATM” or “2028 Notes Follow-on Program”). The 2028 Notes are listed on the NYSE and trade thereon under the ticker “PBY.” During the six months ended December 31, 2018, we issued an additional \$12,411 aggregate principal amount under the 2028 Notes ATM, for net proceeds of \$12,247, after commissions and offering costs. As of December 31, 2018, the outstanding aggregate principal amount of the 2028 Notes is \$67,411. On September 27, 2018, we issued \$100,000 aggregate principal amount of unsecured notes that mature on January 15, 2024 (the “6.375% 2024 Notes”). The 6.375% 2024 Notes bear interest at a rate of 6.375% per year, payable semi-annually on January 15 and July 15 of each year, beginning January 15, 2019. Total proceeds from the issuance of the 6.375% 2024 Notes, net of underwriting discounts and offering costs, were \$98,985. As of December 31, 2018, the outstanding aggregate principal amount of the 6.375% 2024 Notes is \$100,000. On November 28, 2018, we issued \$50,000 aggregate principal amount of unsecured notes that mature on June 15, 2029 (the “2029 Notes”). The 2029 Notes bear interest at a rate of 6.875% per year, payable quarterly on March 15, June 15, September 15, and December 15 of each year, beginning March 15, 2019. Total proceeds from the issuance of the 2029 Notes, net of underwriting discounts and offering costs, were \$48,057.

The 2023 Notes, the 2024 Notes, the 2028 Notes, the 6.375% 2024 Notes, and the 2029 Notes (collectively, the “Public Notes”) are direct unsecured obligations and rank equally with all of our unsecured indebtedness from time to time outstanding.

In connection with the issuance of the Public Notes we recorded a discount of \$3,435 and debt issuance costs of \$15,762, which are being amortized over the terms of the notes. As of December 31, 2018, \$2,087 of the original issue discount and \$11,859 of the debt issuance costs remain to be amortized and are included as a reduction within Public Notes on the Consolidated Statement of Assets and Liabilities.

During the three months ended December 31, 2018 and December 31, 2017, we recorded \$11,467 and \$11,048, respectively, of interest costs and amortization of financing costs on the Public Notes as interest expense. During the six months ended December 31, 2018 and December 31, 2017, we recorded \$22,830 and \$22,089, respectively, of interest costs and amortization of financing costs on the Public Notes as interest expense.

Prospect Capital InterNotes®

On February 16, 2012, we entered into a selling agent agreement (the “Selling Agent Agreement”) with Incapital LLC, as purchasing agent for our issuance and sale from time to time of up to \$500,000 of Prospect Capital InterNotes® (the “InterNotes® Offering”), which was increased to \$1,500,000 in May 2014. Additional agents may be appointed by us from time to time in connection with the InterNotes® Offering and become parties to the Selling Agent Agreement.

These notes are direct unsecured obligations and rank equally with all of our unsecured indebtedness from time to time outstanding. Each series of notes will be issued by a separate trust. These notes bear interest at fixed interest rates and offer a variety of maturities no less than twelve months from the original date of issuance.

During the six months ended December 31, 2018, we issued \$69,586 aggregate principal amount of Prospect Capital InterNotes® for net proceeds of \$68,439. These notes were issued with stated interest rates ranging from 5.00% to 6.25% with a weighted average interest rate of 5.64%. These notes mature between July 15, 2023 and November 15, 2028.

The following table summarizes the Prospect Capital InterNotes® issued during the six months ended December 31, 2018:

| Tenor at Origination (in years) | Principal Amount | Interest Rate Range | Weighted Average Interest Rate | Maturity Date Range |
|---------------------------------|------------------|---------------------|--------------------------------|-----------------------------------|
| 5 | \$33,295 | 5.00%–5.75% | 5.29 % | July 15, 2023 – January 15, 2024 |
| 7 | 14,718 | 5.50%–6.00% | 5.84 % | July 15, 2025 – January 15, 2026 |
| 8 | 385 | 5.75 % | 5.75 % | July 15, 2026 |
| 10 | 21,188 | 6.00%–6.25% | 6.06 % | July 15, 2028 – November 15, 2028 |
| | \$69,586 | | | |

During the six months ended December 31, 2017, we issued \$52,177 aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of \$51,398. These notes were issued with stated interest rates ranging from 4.00% to 5.00% with a weighted average interest rate of 4.39%. These notes mature between July 15, 2022 and December 15, 2025.

The following table summarizes the Prospect Capital InterNotes® issued during the six months ended December 31, 2017:

| Tenor at Origination (in years) | Principal Amount | Interest Rate Range | Weighted Average Interest Rate | Maturity Date Range |
|---------------------------------|------------------|---------------------|--------------------------------|-------------------------------------|
| 5 | \$31,950 | 4.00%–4.75% | 4.23 % | July 15, 2022 – December 15, 2022 |
| 7 | 2,825 | 4.75%–5.00% | 4.94 % | July 15, 2024 |
| 8 | 17,402 | 4.50%–5.00% | 4.61 % | August 15, 2025 – December 15, 2025 |
| | \$52,177 | | | |

During the six months ended December 31, 2018, we redeemed, prior to maturity, \$99,432 aggregate principal amount of Prospect Capital InterNotes® at par with a weighted average interest rate of 4.86% in order to replace shorter maturity debt with longer-term debt. During the six months ended December 31, 2018, we repaid \$5,419 aggregate principal amount of Prospect Capital InterNotes® at par in accordance with the Survivor's Option, as defined in the InterNotes® Offering prospectus. As a result of these transactions, we recorded a loss in the amount of the unamortized debt issuance costs. The net loss on the extinguishment of Prospect Capital InterNotes® in the six months ended December 31, 2018 was \$711.

The following table summarizes the Prospect Capital InterNotes® outstanding as of December 31, 2018:

| Tenor at Origination (in years) | Principal Amount | Interest Rate Range | Weighted Average Interest Rate | Maturity Date Range |
|---------------------------------|------------------|---------------------|--------------------------------|-------------------------------------|
| 5 | \$254,515 | 4.00% – 5.75% | 4.97 % | July 15, 2020 - January 15, 2024 |
| 5.2 | 2,618 | 4.63 % | 4.63 % | September 15, 2020 |
| 5.3 | 2,601 | 4.63 % | 4.63 % | September 15, 2020 |
| 5.5 | 53,836 | 4.25% – 4.75% | 4.59 % | June 15, 2020 - October 15, 2020 |
| 6 | 2,182 | 4.88 % | 4.88 % | April 15, 2021 - May 15, 2021 |
| 6.5 | 38,672 | 5.10% – 5.25% | 5.23 % | December 15, 2021 - May 15, 2022 |
| 7 | 103,377 | 4.00% – 6.00% | 5.21 % | January 15, 2020 - January 15, 2026 |
| 7.5 | 1,996 | 5.75 % | 5.75 % | February 15, 2021 |
| 8 | 24,720 | 4.50% – 5.75% | 4.67 % | August 15, 2025 - July 15, 2026 |
| 10 | 58,497 | 5.33% – 7.00% | 6.14 % | March 15, 2022 - November 15, 2028 |

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| | | | | | | |
|----|-----------|---------------|---|------|---|---------------------------------------|
| 12 | 2,978 | 6.00 | % | 6.00 | % | November 15, 2025 - December 15, 2025 |
| 15 | 17,138 | 5.25% – 6.00% | | 5.36 | % | May 15, 2028 - November 15, 2028 |
| 18 | 19,806 | 4.13% – 6.25% | | 5.56 | % | December 15, 2030 - August 15, 2031 |
| 20 | 3,990 | 5.75% – 6.00% | | 5.89 | % | November 15, 2032 - October 15, 2033 |
| 25 | 32,335 | 6.25% – 6.50% | | 6.39 | % | August 15, 2038 - May 15, 2039 |
| 30 | 106,398 | 5.50% – 6.75% | | 6.24 | % | November 15, 2042 - October 15, 2043 |
| | \$725,659 | | | | | |

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During the six months ended December 31, 2017, we redeemed, prior to maturity \$181,538 aggregate principal amount of Prospect Capital InterNotes® at par with a weighted average interest rate of 4.85% in order to replace debt with shorter maturity dates. During the six months ended December 31, 2017, we repaid \$3,793 aggregate principal amount of Prospect Capital InterNotes® at par in accordance with the Survivor's Option, as defined in the InterNotes® Offering prospectus. As a result of these transactions, we recorded a loss in the amount of the unamortized debt issuance costs. The net loss on the extinguishment of Prospect Capital InterNotes® in the six months ended December 31, 2017 was \$932.

The following table summarizes the Prospect Capital InterNotes® outstanding as of June 30, 2018:

| Tenor at Origination (in years) | Principal Amount | Interest Rate Range | Weighted Average Interest Rate | Maturity Date Range |
|---------------------------------|------------------|---------------------|--------------------------------|---------------------------------------|
| 5 | \$228,835 | 4.00% – 5.50% | 4.92 % | July 15, 2020 - June 15, 2023 |
| 5.2 | 4,440 | 4.63 | % 4.63 % | August 15, 2020 - September 15, 2020 |
| 5.3 | 2,636 | 4.63 | % 4.63 % | September 15, 2020 |
| 5.5 | 86,097 | 4.25% – 4.75% | 4.61 % | May 15, 2020 - November 15, 2020 |
| 6 | 2,182 | 4.88 | % 4.88 % | April 15, 2021 - May 15, 2021 |
| 6.5 | 38,832 | 5.10% – 5.25% | 5.23 % | December 15, 2021 - May 15, 2022 |
| 7 | 147,349 | 4.00% – 5.75% | 5.05 % | January 15, 2020 - June 15, 2025 |
| 7.5 | 1,996 | 5.75% | 5.75 % | February 15, 2021 |
| 8 | 24,720 | 4.50% – 5.25% | 4.65 % | August 15, 2025 - May 15, 2026 |
| 10 | 37,424 | 5.34% – 7.00% | 6.19 % | March 15, 2022 - December 15, 2025 |
| 12 | 2,978 | 6.00 | % 6.00 % | November 15, 2025 - December 15, 2025 |
| 15 | 17,163 | 5.25% – 6.00% | 5.35 % | May 15, 2028 - November 15, 2028 |
| 18 | 20,677 | 4.13% – 6.25% | 5.55 % | December 15, 2030 - August 15, 2031 |
| 20 | 4,120 | 5.75% – 6.00% | 5.89 % | November 15, 2032 - October 15, 2033 |
| 25 | 33,139 | 6.25% – 6.50% | 6.39 % | August 15, 2038 - May 15, 2039 |
| 30 | 108,336 | 5.50% – 6.75% | 6.24 % | November 15, 2042 - October 15, 2043 |
| | \$760,924 | | | |

In connection with the issuance of Prospect Capital InterNotes®, we incurred \$25,209 of fees which are being amortized over the term of the notes, of which \$11,641 remains to be amortized and is included as a reduction within Prospect Capital InterNotes® on the Consolidated Statement of Assets and Liabilities as of December 31, 2018. During the three months ended December 31, 2018 and December 31, 2017, we recorded \$10,771 and \$11,910, respectively, of interest costs and amortization of financing costs on the Prospect Capital InterNotes® as interest expense. During the six months ended December 31, 2018 and December 31, 2017 we recorded \$21,516 and \$25,294, respectively, of interest costs and amortization of financing costs on the Prospect Capital InterNotes® as interest expense.

Net Asset Value

During the six months ended December 31, 2018 our net asset value decreased by \$103,872, or \$0.33 per share. The decrease was primarily attributable to an increase in net unrealized losses of \$149,646, or \$0.41 per weighted average share, coupled with a \$0.01 per share decline from reinvestment of our dividends on behalf of our stockholders at current market prices. The decrease was partially offset by net investment income exceeding dividends by \$0.09 per weighted average share for the six months ended December 31, 2018. The following table shows the calculation of net asset value per share as of December 31, 2018 and June 30, 2018.

| | December 31, 2018 | June 30, 2018 |
|---|-------------------|---------------|
| Net assets | \$3,303,175 | \$3,407,047 |
| Shares of common stock issued and outstanding | 366,055,966 | 364,409,938 |
| Net asset value per share | \$9.02 | \$9.35 |

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Results of Operations

Operating results for the three and six months ended December 31, 2018 and December 31, 2017 were as follows:

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|-----------|------------------|-----------|
| | December 31, | | December 31, | |
| | 2018 | 2017 | 2018 | 2017 |
| Total Investment Income | \$187,883 | \$162,400 | \$368,305 | \$320,979 |
| Total Operating Expenses | 107,072 | 89,208 | 202,335 | 184,055 |
| Net Investment Income | 80,811 | 73,192 | 165,970 | 136,924 |
| Net Realized Gains (Losses) | 2,993 | (5,673) | 4,034 | (4,236) |
| Net Change in Unrealized Gains (Losses) | (150,696) | 54,695 | (149,647) | 1,944 |
| Net Realized Losses on Extinguishment of Debt | (497) | (487) | (3,951) | (932) |
| Net Increase in Net Assets Resulting from Operations | \$(67,389) | \$121,727 | \$16,406 | \$133,700 |

While we seek to maximize gains and minimize losses, our investments in portfolio companies can expose our capital to risks greater than those we may anticipate. These companies typically do not issue securities rated investment grade, and have limited resources, limited operating history, and concentrated product lines or customers. These are generally private companies with limited operating information available and are likely to depend on a small core of management talents. Changes in any of these factors can have a significant impact on the value of the portfolio company.

Investment Income

We generate revenue in the form of interest income on the debt securities that we own, dividend income on any common or preferred stock that we own, and fees generated from the structuring of new deals. Our investments, if in the form of debt securities, will typically have a term of one to ten years and bear interest at a fixed or floating rate. To the extent achievable, we will seek to collateralize our investments by obtaining security interests in our portfolio companies' assets. We also may acquire minority or majority equity interests in our portfolio companies, which may pay cash or in-kind dividends on a recurring or otherwise negotiated basis. In addition, we may generate revenue in other forms including prepayment penalties and possibly consulting fees. Any such fees generated in connection with our investments are recognized as earned.

Investment income, which consists of interest income, including accretion of loan origination fees, prepayment penalty fees, dividend income and other income, including settlement of net profits interests, overriding royalty interests and structuring fees, was \$187,883 and \$162,400 for the three months ended December 31, 2018 and December 31, 2017, respectively. Investment income increased \$25,483, or \$0.07 per share from three months ended December 31, 2018 compared to the three months ended December 31, 2017 primarily due increases in dividend income and other income. Investment income was \$368,305 and \$320,979 for the six months ended December 31, 2018 and December 31, 2017, respectively. Investment income increased \$47,326, or \$0.13 per share from six months ended December 31, 2018 compared to the six months ended December 31, 2017 primarily due increases in interest income and dividend income.

The following table describes the various components of investment income and the related levels of debt investments:

| | Three Months Ended | | Six Months Ended | | |
|--|--------------------|-------------|------------------|-------------|---|
| | December 31, | | December 31, | | |
| | 2018 | 2017 | 2018 | 2017 | |
| Interest income | \$157,994 | \$153,382 | \$317,436 | \$301,467 | |
| Dividend income | 13,266 | 326 | 28,193 | 870 | |
| Other income | 16,623 | 8,692 | 22,676 | 18,642 | |
| Total investment income | \$187,883 | \$162,400 | \$368,305 | \$320,979 | |
| Average debt principal of performing interest bearing investments ⁽¹⁾ | \$5,504,149 | \$5,541,686 | \$5,503,842 | \$5,482,245 | |
| | 11.23 | % 10.83 | % 11.41 | % 10.88 | % |

Weighted average interest rate earned on performing
interest bearing investments⁽¹⁾

Average debt principal of all interest bearing investments⁽²⁾ \$6,058,947 \$5,838,576 \$5,994,970 \$5,804,372

Weighted average interest rate earned on all interest bearing
investments⁽²⁾ 10.20 % 10.28 % 10.47 % 10.27 %

(1) Excludes equity investments and non-accrual loans.

(2) Excludes equity investments.

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Average interest income producing assets increased from \$5,541,686 for the three months ended December 31, 2017 to \$5,504,149 for the three months ended December 31, 2018. The average interest earned on interest bearing performing assets increased from 10.83% for the three months ended December 31, 2017 to 11.23% for the three months ended December 31, 2018. The increase is primarily attributable to an increase in cash-on-cash yields on our CLO investment portfolio due to a number of recent resets across the portfolio. In addition, the increase in LIBOR above our floors amongst our interest bearing investments. See Item 3. Quantitative and Qualitative Disclosures about Market Risk for detailed disclosures with respect to the approximate annual impact on net investment income resulting from base rate changes in interest rate.

Average interest income producing assets increased from \$5,482,245 for the six months ended December 31, 2017 to \$5,503,842 for the six months ended December 31, 2018. The average interest earned on interest bearing performing assets increased from 10.88% for the six months ended December 31, 2017 to 11.41% for the six months ended December 31, 2018. The increase is primarily attributable to an increase in cash-on-cash yields on our CLO investment portfolio due to a number of recent resets across the portfolio. In addition, the increase in LIBOR above our floors amongst our interest bearing investments.

Investment income is also generated from dividends and other income which is less predictable than interest income. Dividend income increased from \$326 for the three months ended December 31, 2017 to \$13,266 for the three months ended December 31, 2018. The \$12,940 increase in dividend income is primarily attributable to a \$9,000 dividend received from our investment in NPRC, which was generated from taxable earnings and profits in connection with the gain on the sales of NPRC's Atlantic Beach property. In addition, we received a \$4,000 dividend from our investment in Valley Electric. No dividends were received from NPRC or Valley Electric for the three months ended December 31, 2017.

Dividend income increased from \$870 for the six months ended December 31, 2017 to \$28,193 for the six months ended December 31, 2018. The \$27,323 increase in dividend income is primarily attributable to \$20,000 in dividends received from our investment in NPRC, which was generated from taxable earnings and profits in connection with the gain on the sales of NPRC's St. Marin, Central Park, Matthews Reserve, and Atlantic Beach properties. In addition, we received \$7,500 in dividends from our investment in Valley Electric. No dividends were received from NPRC or Valley Electric for the six months ended December 31, 2017.

Other income is comprised of structuring fees, advisory fees, royalty interests, and settlement of net profits interests. Income from other sources increased from \$8,692 for the three months ended December 31, 2017 to \$16,623 for the three months ended December 31, 2018. The \$7,931 increase is primarily attributable to a \$12,711 structuring fee from our investment in NPRC for services rendered in connection with the restructuring of our senior secured term loan during the three months ended December 31, 2018. During the three months ended December 31, 2017, we recognized structuring fees of \$1,057 from NPRC. The remaining \$3,723 increase is primarily attributable to an increase in structuring fees and amendment fees which are generated from new originations as well as from follow-on investments and amendments to existing portfolio companies.

Income from other sources was \$18,642 and \$22,676 for the six months ended December 31, 2017 and December 31, 2018, respectively. The \$4,034 increase is primarily attributable to a \$12,711 structuring fee from our investment in NPRC for services rendered in connection with the restructuring of our senior secured term loan during the six months ended December 31, 2018. During the six months ended December 31, 2017, we received a \$3,233 structuring fee from our investment in Pacific World for services rendered in connection with amending its revolving credit facility and a \$3,065 structuring fee related to our investment in Broder Bros., Co. We recognized structuring fees of \$1,358 from NPRC for the six months ended December 31, 2017. The remaining \$720 increase is primarily attributable to an increase in structuring fees and amendment fees which are generated from new originations as well as from follow-on investments and amendments to existing portfolio companies.

Operating Expenses

Our primary operating expenses consist of investment advisory fees (base management and income incentive fees), borrowing costs, legal and professional fees, overhead-related expenses and other operating expenses. These expenses include our allocable portion of overhead under the Administration Agreement with Prospect Administration under which Prospect Administration provides administrative services and facilities for us. Our investment advisory fees compensate the Investment Adviser for its work in identifying, evaluating, negotiating, closing and monitoring our investments. We bear all other costs and expenses of our operations and transactions. Operating expenses were \$107,072 and \$89,208 for the three months ended December 31, 2018 and December 31, 2017, respectively. Operating expenses were \$202,335 and \$184,055 for the six months ended December 31, 2018 and December 31, 2017, respectively.

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The following table describes the various components of our operating expenses:

| | Three Months | | Six Months Ended | |
|---|--------------------|----------|------------------|-----------|
| | Ended December 31, | | December 31, | |
| | 2018 | 2017 | 2018 | 2017 |
| Base management fee | \$33,187 | \$29,559 | \$63,144 | \$59,722 |
| Income incentive fee | 20,203 | 18,298 | 41,493 | 34,231 |
| Interest and credit facility expenses | 40,656 | 39,347 | 78,564 | 80,382 |
| Allocation of overhead from Prospect Administration | 5,642 | (824) | 9,007 | 2,704 |
| Audit, compliance and tax related fees | 2,389 | 1,866 | 2,782 | 2,954 |
| Directors' fees | 150 | 112 | 229 | 225 |
| Other general and administrative expenses | 4,845 | 850 | 7,116 | 3,837 |
| Total Operating Expenses | \$107,072 | \$89,208 | \$202,335 | \$184,055 |

Total gross base management fee was \$33,187 and \$29,742 for the three months ended December 31, 2018 and December 31, 2017, respectively. The increase in total gross base management fee is directly related to an increase in average total assets combined with a \$2,757 adjustment for fees earned in prior periods that were neither expensed nor paid to the Investment Adviser. The Investment Adviser has entered into a servicing agreement with certain institutions who purchased loans with us, where we serve as the agent and collect a servicing fee on behalf of the Investment Adviser. We received payments of \$183 from these institutions for the three months ended December 31, 2017 on behalf of the Investment Adviser, for providing such services under the servicing agreement. We were given a credit for these payments as a reduction of base management fee payable by us to the Investment Adviser resulting in net base management fees of \$29,559 for the three months ended December 31, 2017. No such payments were received for the three months ended December 31, 2018.

Total gross base management fee was \$63,282 and \$60,121 for the six months ended December 31, 2018 and December 31, 2017, respectively. The increase in total gross base management fee is directly related an increase in average total assets combined with a \$2,757 adjustment for fees earned in prior periods that were neither expensed nor paid to the Investment Adviser. The Investment Adviser has entered into a servicing agreement with certain institutions who purchased loans with us, where we serve as the agent and collect a servicing fee on behalf of the Investment Adviser. We received payments of \$138 and \$399 from these institutions for the six months ended December 31, 2018 and December 31, 2017, respectively, on behalf of the Investment Adviser, for providing such services under the servicing agreement. We were given a credit for these payments as a reduction of base management fee payable by us to the Investment Adviser resulting in net base management fees of \$63,144 and \$59,722 for the six months ended December 31, 2018 and December 31, 2017, respectively.

For the three months ended December 31, 2018 and December 31, 2017, we incurred \$20,203 and \$18,298 of income incentive fees, respectively (\$0.06 and \$0.05 per weighted average share, respectively). This increase was driven by a corresponding increase in pre-incentive fee net investment income from \$91,490 for the three months ended December 31, 2017 to \$101,014 for the three months ended December 31, 2018. No capital gains incentive fee has yet been incurred pursuant to the Investment Advisory Agreement.

For the six months ended December 31, 2018 and December 31, 2017, we incurred \$41,493 and \$34,231 of income incentive fees, respectively (\$0.11 and \$0.10 per weighted average share, respectively). This increase was driven by a corresponding increase in pre-incentive fee net investment income from \$171,155 for the six months ended December 31, 2017 to \$207,463 for the six months ended December 31, 2018. No capital gains incentive fee has yet been incurred pursuant to the Investment Advisory Agreement.

During the three months ended December 31, 2018 and December 31, 2017, we incurred \$40,656 and \$39,347 respectively, of interest and credit facility expenses related to our Revolving Credit Facility, Convertible Notes, Public Notes and Prospect Capital InterNotes® (collectively, our "Notes"). During the six months ended December 31, 2018 and December 31, 2017, we incurred \$78,564 and \$80,382, respectively, of interest expenses related to our Notes. These expenses are related directly to the leveraging capacity and the levels of indebtedness actually undertaken in those periods.

The table below describes the various expenses of our Notes and the related indicators of leveraging capacity and indebtedness during these years.

| | Three Months Ended | | Six Months Ended | | |
|---|--------------------|-------------|------------------|-------------|---|
| | December 31, | | December 31, | | |
| | 2018 | 2017 | 2018 | 2017 | |
| Interest on borrowings | \$34,998 | \$34,130 | \$67,983 | \$69,668 | |
| Amortization of deferred financing costs | 3,627 | 3,053 | 6,343 | 6,219 | |
| Accretion of discount on Public Notes | 104 | 72 | 235 | 141 | |
| Facility commitment fees | 1,927 | 2,092 | 4,003 | 4,354 | |
| Total interest and credit facility expenses | \$40,656 | \$39,347 | \$78,564 | \$80,382 | |
| Average principal debt outstanding | \$2,600,363 | \$2,588,997 | \$2,548,458 | \$2,627,534 | |
| Annualized weighted average stated interest rate on borrowings ⁽¹⁾ | 5.38 | % 5.27 | % 5.34 | % 5.30 | % |
| Annualized weighted average interest rate on borrowings ⁽²⁾ | 6.25 | % 6.08 | % 6.17 | % 6.12 | % |

(1) Includes only the stated interest expense.

(2) Includes the stated interest expense, amortization of deferred financing costs, accretion of discount on Public Notes and commitment fees on the undrawn portion of our Revolving Credit Facility.

Interest expense is relatively stable on a dollars basis for the three months ended December 31, 2018 as compared to the three months ended December 31, 2017. The weighted average stated interest rate on borrowings (excluding amortization, accretion and undrawn facility fees) increased from 5.27% for the three months ended December 31, 2017 to 5.38% for the three months ended December 31, 2018. This increase is primarily due to issuances of Public Notes at higher rates, partially offset by repurchases of our Convertible Notes and increased utilization of our Revolving Credit Facility, which bears a lower rate than our remaining debt.

Interest expense is relatively stable on a dollars basis for the six months ended December 31, 2018 as compared to the six months ended December 31, 2017. The weighted average stated interest rate on borrowings (excluding amortization, accretion and undrawn facility fees) increased from 5.30% for the six months ended December 31, 2017 to 5.34% for the six months ended December 31, 2018. This increase is primarily due to issuances of Public Notes at higher rates, partially offset by repurchases of our Convertible Notes and increased utilization of our Revolving Credit Facility, which bears a lower rate than our remaining debt.

The allocation of gross overhead expense from Prospect Administration was \$5,642 and \$3,827 for the three months ended December 31, 2018 and December 31, 2017, respectively. Prospect Administration received estimated payments of \$4,651 directly from our portfolio companies, and certain funds managed by the Investment Adviser for legal, tax and portfolio level accounting services during the three months ended December 31, 2017. No such payments were received for the three months ended December 31, 2018. We were given a credit for these payments as a reduction of the administrative services cost payable by us to Prospect Administration. Had Prospect Administration not received these payments, Prospect Administration's charges for its administrative services would have increased by these amounts. Net overhead during the three months ended December 31, 2018 and December 31, 2017 totaled \$5,642 and \$(824), respectively.

The allocation of gross overhead expense from Prospect Administration was \$9,007 and \$8,496 for the six months ended December 31, 2018 and December 31, 2017, respectively. Prospect Administration received estimated payments of \$5,792 directly from our portfolio companies, insurance carrier, and certain funds managed by the Investment Adviser for legal, tax and portfolio level accounting services during the six months ended December 31, 2017. No such payments were received for the six months ended December 31, 2018. We were given a credit for these payments as a reduction of the administrative services cost payable by us to Prospect Administration. Had Prospect Administration not received these payments, Prospect Administration's charges for its administrative services would have increased by these amounts. Net overhead during the six months ended December 31, 2018 and December 31, 2017 totaled \$9,007 and \$2,704, respectively.

Total operating expenses, excluding investment advisory fees, interest and credit facility expenses, and allocation of overhead from Prospect Administration ("Other Operating Expenses"), net of any expense reimbursements, were

\$10,127 and \$7,016 for the six months ended December 31, 2018 and December 31, 2017, respectively. The \$3,111 increase was primarily attributable to increases in other general and administrative expenses.

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Net Investment Income

Net investment income represents the difference between investment income and operating expenses. Net investment income was \$80,811 and \$73,192 for the three months ended December 31, 2018 and December 31, 2017, respectively. Net investment income for the three months ended December 31, 2018 and December 31, 2017 was \$0.22 and \$0.20 per weighted average share, respectively. During the three months ended December 31, 2018, the increase of \$7,619 or \$0.02 per weighted average share, was primarily due to an increase in dividend income of \$12,940, or \$0.04 per weighted average share, and an increase in other income of \$7,931, or \$0.03 per weighted average share. This favorable variance was partially offset by an increase to operating expenses, which was primarily due to a \$10,461, or \$0.03 per weighted average share, increase in net overhead and other general and administrative expenses for the three months ended December 31, 2018 compared to the three months ended December 31, 2017. Net investment income was \$165,970 and \$136,924 for the six months ended December 31, 2018 and December 31, 2017, respectively. Net investment income for the six months ended December 31, 2018 and December 31, 2017 was \$0.45 and \$0.38 per weighted average share, respectively. During the six months ended December 31, 2018, the increase of \$29,046 or \$0.07 per weighted average share, was primarily due to an increase in interest income of \$15,969, or \$0.04 per weighted average share, and an increase in dividend income of \$27,323, or \$0.08 per weighted average share, respectively. This favorable variance was partially offset by an increase to operating expenses, which was primarily due to a \$9,582, or \$0.03 per weighted average share, increase in net overhead and other general and administrative expenses for the six months ended December 31, 2018 compared to the six months ended December 31, 2017.

Net Realized (Losses) Gains

Net realized (losses) gains for the three months ended December 31, 2018 and December 31, 2017 was \$2,993 and \$(5,673), respectively. This \$8,666 favorable change is due to lower levels of realized losses in the current period. During the three months ended December 31, 2018, net realized gains primarily resulted from \$2,802 of escrow proceeds related to the sale of Gulf Coast. In comparison, during the three months ended December 31, 2017, net realized losses of \$(5,673) primarily related to the repayment of our investment in Primesport, for which received a partial repayment and realized a loss of \$3,019, and realized losses of \$2,494 and \$826 related to our investments in Apidos IX CLO and Madison IX CLO, respectively.

Net realized (losses) gains for the six months ended December 31, 2018 and December 31, 2017 was \$4,034 and \$(4,236), respectively. This \$8,270 favorable change is due to lower levels of realized losses in the current period. During the six months ended December 31, 2018, net realized gains primarily resulted from \$2,802 of escrow proceeds related to the sale of Gulf Coast. In comparison, during the six months ended December 31, 2017, net realized losses of \$(4,236) primarily related to the repayment of our investment in Primesport, for which received a partial repayment and realized a loss of \$3,019, and a realized loss of \$2,494 related to our investment in Apidos IX CLO.

Change in Unrealized Gains (Losses), Net

The following table reflects net change in unrealized gains (losses) for our portfolio for the three months ended and six months ended December 31, 2018 and December 31, 2017, respectively:

| | Three Months Ended | | Six Months Ended | |
|---|----------------------|----------|----------------------|-----------|
| | December 31, 2018 | 2017 | December 31, 2018 | 2017 |
| Control investments | \$(85,733) | \$44,425 | \$(33,815) | \$45,518 |
| Affiliate investments | (5,894) | 1,533 | (19,649) | 6,726 |
| Non-control/non-affiliate investments | (59,069) | 8,737 | (96,183) | (50,300) |
| Net change in unrealized (losses) gains | \$(150,696) | \$54,695 | \$(149,647) | \$1,944 |

The following table reflects net change in unrealized gains (losses) on investments for the three months ended December 31, 2018:

| | Net Change in Unrealized Gains (Losses) |
|----------------------------------|---|
| Valley Electric Company, Inc. | \$7,815 |
| CCPI Inc. | 6,706 |
| NMMB, Inc. | 3,972 |
| Credit Central Loan Company, LLC | (3,562) |
| USES Corp. | (3,246) |
| InterDent, Inc. | (3,248) |
| ACE Cash Express, Inc. | (3,681) |
| Engine Group, Inc. | (4,368) |
| MITY, Inc. | (6,372) |
| United Sporting Companies, Inc. | (7,700) |
| Universal Turbine Parts, LLC | (8,135) |
| CP Energy Services Inc. | (12,422) |
| National Property REIT Corp. | (28,921) |
| Pacific World Corporation | (31,628) |
| CLO Equity | (39,765) |
| Other, net | (16,141) |
| Net change in unrealized losses | \$(150,696) |

The following table reflects net change in unrealized gains (losses) on investments for the three months ended December 31, 2017:

| | Net Change in Unrealized Gains (Losses) |
|----------------------------------|---|
| First Tower Finance Company LLC | \$ 32,654 |
| PrimeSport, Inc. | 19,355 |
| Spartan Energy Services, Inc. | 18,245 |
| National Property REIT Corp. | 11,236 |
| Credit Central Loan Company, LLC | 8,117 |
| Echelon Aviation LLC | 6,075 |
| Arctic Energy Services, LLC | 5,923 |
| InterDent, Inc. | 4,838 |
| Valley Electric Company, Inc. | 3,796 |
| Pacific World Corporation | (3,277) |
| Edmentum Ultimate Holdings, LLC | (4,763) |
| MITY, Inc. | (8,254) |
| Nationwide Loan Company LLC | (9,826) |
| CLO Equity | (12,047) |
| United Sporting Companies, Inc. | (13,757) |
| Other, net | (3,619) |
| Net change in unrealized gains | \$ 54,695 |

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The following table reflects net change in unrealized gains (losses) on investments for the six months ended December 31, 2018:

| | Net Change in Unrealized Gains (Losses) |
|----------------------------------|---|
| Valley Electric Company, Inc. | \$33,861 |
| CP Energy Services Inc. | 6,957 |
| NMMB, Inc. | 6,311 |
| CCPI Inc. | 5,863 |
| Echelon Aviation LLC | 5,817 |
| First Tower Finance Company LLC | 3,253 |
| Nationwide Loan Company LLC | (3,030) |
| Freedom Marine Solutions, LLC | (3,313) |
| InterDent, Inc. | (3,720) |
| USES Corp. | (3,758) |
| ACE Cash Express, Inc. | (3,919) |
| Engine Group, Inc. | (5,067) |
| R-V Industries, Inc. | (7,216) |
| MITY, Inc. | (7,751) |
| Credit Central Loan Company, LLC | (10,499) |
| National Property REIT Corp. | (13,918) |
| United Sporting Companies, Inc. | (15,836) |
| Universal Turbine Parts, LLC | (19,043) |
| Pacific World Corporation | (32,240) |
| CLO Equity | (64,477) |
| Other, net | (17,922) |
| Net change in unrealized losses | \$(149,647) |

The following table reflects net change in unrealized gains (losses) on investments for the six months ended December 31, 2017:

| | Net Change in Unrealized Gains (Losses) |
|----------------------------------|---|
| First Tower Finance Company LLC | \$41,784 |
| PrimeSport, Inc. | 23,741 |
| Spartan Energy Services, Inc. | 18,612 |
| CP Energy Services Inc. | 14,341 |
| Credit Central Loan Company, LLC | 9,337 |
| Targus International, LLC | 7,572 |
| National Property REIT Corp. | 7,508 |
| Valley Electric Company, Inc. | 7,320 |
| Arctic Energy Services, LLC | 6,788 |
| Echelon Aviation LLC | 5,259 |
| CCPI Inc. | (4,046) |
| MITY, Inc. | (7,030) |

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| | | |
|---------------------------------|----------|---|
| Universal Turbine Parts, LLC | (8,218 |) |
| USES Corp. | (8,859 |) |
| Nationwide Loan Company LLC | (10,764 |) |
| Edmentum Ultimate Holdings, LLC | (13,094 |) |
| United Sporting Companies, Inc. | (27,164 |) |
| CLO Equity | (56,802 |) |
| Other, net | (4,341 |) |
| Net change in unrealized gains | \$ 1,944 | |

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Financial Condition, Liquidity and Capital Resources

For the six months ended December 31, 2018 and December 31, 2017, our operating activities used \$76,902 and provided \$500,148 of cash, respectively. There were no investing activities for the six months ended December 31, 2018 and December 31, 2017. Financing activities provided \$102,812 and used \$343,755 of cash during the six months ended December 31, 2018 and December 31, 2017, respectively, which included dividend payments of \$120,180 and \$148,587, respectively. Our primary uses of funds have been to continue to invest in portfolio companies, through both debt and equity investments, repay outstanding borrowings and to make cash distributions to holders of our common stock.

Our primary sources of funds have historically been issuances of debt and equity. More recently, we have and may continue to fund a portion of our cash needs through repayments and opportunistic sales of our existing investment portfolio. We may also securitize a portion of our investments in unsecured or senior secured loans or other assets. Our objective is to put in place such borrowings in order to enable us to expand our portfolio. During the six months ended December 31, 2018, we borrowed \$746,791 and we made repayments totaling \$486,791 under the Revolving Credit Facility. As of December 31, 2018, our outstanding balance on the Revolving Credit Facility was \$297,000. As of December 31, 2018, we had, net of unamortized discount and debt issuance costs, \$798,011 outstanding on the Convertible Notes, \$742,762 outstanding on the Public Notes and \$714,018 outstanding on the Prospect Capital InterNotes® (See “Capitalization” above).

Undrawn committed revolvers and delayed draw term loans to our portfolio companies incur commitment and unused fees ranging from 0.00% to 5.00%. As of December 31, 2018 and June 30, 2018, we had \$24,737 and \$29,675, respectively, of undrawn revolver and delayed draw term loan commitments to our portfolio companies. The fair value of our undrawn committed revolvers and delayed draw term loans was zero as of December 31, 2018 and June 30, 2018.

We have guaranteed \$2,571 in standby letters of credit issued through a financial intermediary on behalf of InterDent, Inc. (“InterDent”) as of December 31, 2018. Under this arrangement, we would be required to make payments to the financial intermediary if the third parties were to default on their related payment obligations. As of December 31, 2018, we have not recorded a liability on the statement of assets and liabilities for this guarantee as the likelihood of default on the standby letters of credit to be remote.

Our shareholders’ equity accounts as of December 31, 2018 and June 30, 2018 reflect cumulative shares issued, net of shares repurchased, as of those respective dates. Our common stock has been issued through public offerings, a registered direct offering, the exercise of over-allotment options on the part of the underwriters, our dividend reinvestment plan and in connection with the acquisition of certain controlled portfolio companies. When our common stock is issued, the related offering expenses have been charged against paid-in capital in excess of par. All underwriting fees and offering expenses were borne by us.

As part of our Repurchase Program, we delivered a notice with our annual proxy mailing on September 25, 2018. We did not repurchase any shares of our common stock for the six months ended December 31, 2018 or December 31, 2017.

On October 31, 2018, our registration statement on Form N-2 (File No. 333-227124) was declared effective by the SEC. The registration statement permits us to issue, through one or more transactions, up to an aggregate of \$5,000,000 in securities, consisting of common stock, preferred stock, debt securities, subscription rights to purchase our securities, warrants representing rights to purchase our securities or separately tradeable units combining two or more of our securities. As of December 31, 2018, we have the ability to issue up to \$4,933,730 in securities under the registration statement.

Off-Balance Sheet Arrangements

As of December 31, 2018, we did not have any off-balance sheet liabilities or other contractual obligations that are reasonably likely to have a current or future material effect on our financial condition, other than those which originate from 1) the investment advisory and management agreement and the administration agreement and 2) the portfolio companies.

Recent Developments

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During the period from January 1, 2019 through February 6, 2019 we issued \$12,546 aggregate principal amount of Prospect Capital InterNotes® for net proceeds of \$12,346.

During the period from January 1, 2019 through February 6, 2019, we issued \$2,171 in aggregate principal amount of our 2024 Notes for net proceeds of \$2,142.

On January 4, 2019, we repurchased \$2,000 in aggregate principal amount of our 2020 Notes at a price of 99.375, including commission.

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Pursuant to notice to call provided on December 14, 2018, we redeemed \$23,986 of our Prospect Capital InterNotes® at par maturing on July 15, 2020, with a weighted average rate of 4.71%. Settlement of the call occurred on January 15, 2019.

During the period from January 23, 2019 to January 30, 2019, we sold \$37,000, or 13.64%, of the outstanding principal balance of the senior secured note investment in Broder Bros., Co.

On February 6, 2019, we announced the declaration of monthly dividends in the following amounts and with the following dates:

\$0.06 per share for February 2019 to holders of record on February 28, 2019 with a payment date of March 21, 2019

\$0.06 per share for March 2019 to holders of record on March 29, 2019 with a payment date of April 18, 2019.

\$0.06 per share for April 2019 to holders of record on April 30, 2019 with a payment date of May 23, 2019.

Critical Accounting Policies and Estimates

Basis of Presentation and Consolidation

The accompanying consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (“GAAP”) pursuant to the requirements for reporting on Form 10-Q, ASC 946, Financial Services—Investment Companies (“ASC 946”), and Articles 6, 10 and 12 of Regulation S-X. Under the 1940 Act, ASC 946, and the regulations pursuant to Article 6 of Regulation S-X, we are precluded from consolidating any entity other than another investment company or an operating company which provides substantially all of its services to benefit us. Our consolidated financial statements include the accounts of Prospect, PCF, PSBL, PYC, and the Consolidated Holding Companies. All intercompany balances and transactions have been eliminated in consolidation. The financial results of our non-substantially wholly-owned holding companies and operating portfolio company investments are not consolidated in the financial statements. Any operating companies owned by the Consolidated Holding Companies are not consolidated.

Reclassifications

Certain reclassifications have been made in the presentation of prior consolidated financial statements and accompanying notes to conform to the presentation as of and for the six months ended December 31, 2018.

Use of Estimates

The preparation of the consolidated financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of income, expenses, and gains and losses during the reported period. Changes in the economic environment, financial markets, creditworthiness of the issuers of our investment portfolio and any other parameters used in determining these estimates could cause actual results to differ, and these differences could be material.

Investment Classification

We are a non-diversified company within the meaning of the 1940 Act. As required by the 1940 Act, we classify our investments by level of control. As defined in the 1940 Act, “Control Investments” are those where there is the ability or power to exercise a controlling influence over the management or policies of a company. Control is generally deemed to exist when a company or individual possesses or has the right to acquire within 60 days or less, a beneficial ownership of more than 25% of the voting securities of an investee company. Under the 1940 Act, “Affiliate Investments” are defined by a lesser degree of influence and are deemed to exist through the possession outright or via the right to acquire within 60 days or less, beneficial ownership of 5% or more of the outstanding voting securities of another person. “Non-Control/Non-Affiliate Investments” are those that are neither Control Investments nor Affiliate Investments.

As a BDC, we must not acquire any assets other than “qualifying assets” specified in the 1940 Act unless, at the time the acquisition is made, at least 70% of our total assets are qualifying assets (with certain limited exceptions). As of December 31, 2018 and June 30, 2018, our qualifying assets as a percentage of total assets, stood at 74.69% and 73.20%, respectively.

Investment Transactions

Investments are recognized when we assume an obligation to acquire a financial instrument and assume the risks for gains or losses related to that instrument. Specifically, we record all security transactions on a trade date basis.

Investments are derecognized

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when we assume an obligation to sell a financial instrument and forego the risks for gains or losses related to that instrument. In accordance with ASC 325-40, Beneficial Interest in Securitized Financial Assets, investments in CLOs are periodically assessed for other-than-temporary impairment (“OTTI”). When the Company determines that a CLO has OTTI, the amortized cost basis of the CLO is written down to its fair value as of the date of the determination based on events and information evaluated and that write-down is recognized as a realized loss. Amounts for investments traded but not yet settled are reported in Due to Broker or Due from Broker, in the Consolidated Statements of Assets and Liabilities.

Foreign Currency

Foreign currency amounts are translated into US Dollars (USD) on the following basis:

- i. fair value of investment securities, other assets and liabilities—at the spot exchange rate on the last business day of the period; and
- ii. purchases and sales of investment securities, income and expenses—at the rates of exchange prevailing on the respective dates of such investment transactions, income or expenses.

We do not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in fair values of investments held or disposed of during the period. Such fluctuations are included within the net realized and net change in unrealized gains or losses from investments in the Consolidated Statements of Operations.

Investment Risks

Our investments are subject to a variety of risks. Those risks include the following:

Market Risk

Market risk represents the potential loss that can be caused by a change in the fair value of the financial instrument.

Credit Risk

Credit risk represents the risk that we would incur if the counterparties failed to perform pursuant to the terms of their agreements with us.

Liquidity Risk

Liquidity risk represents the possibility that we may not be able to rapidly adjust the size of our investment positions in times of high volatility and financial stress at a reasonable price.

Interest Rate Risk

Interest rate risk represents a change in interest rates, which could result in an adverse change in the fair value of an interest-bearing financial instrument.

Prepayment Risk

Many of our debt investments allow for prepayment of principal without penalty. Downward changes in interest rates may cause prepayments to occur at a faster than expected rate, thereby effectively shortening the maturity of the security and making us less likely to fully earn all of the expected income of that security and reinvesting in a lower yielding instrument.

Structured Credit Related Risk

CLO investments may be riskier and less transparent to us than direct investments in underlying companies. CLOs typically will have no significant assets other than their underlying senior secured loans. Therefore, payments on CLO investments are and will be payable solely from the cash flows from such senior secured loans.

Online Small-and-Medium-Sized Business Lending Risk

With respect to our online small-and-medium-sized business (“SME”) lending initiative, we invest primarily in marketplace loans through marketplace lending platforms (e.g. OnDeck). We do not conduct loan origination activities ourselves. Therefore, our ability to purchase SME loans, and our ability to grow our portfolio of SME loans, is directly influenced by the business

performance and competitiveness of the marketplace loan origination business of the marketplace lending platforms from which we purchase SME loans. In addition, our ability to analyze the risk-return profile of SME loans is significantly dependent on the marketplace platforms' ability to effectively evaluate a borrower's credit profile and likelihood of default. If we are unable to effectively evaluate borrowers' credit profiles or the credit decisioning and scoring models implemented by each platform, we may incur unanticipated losses which could adversely impact our operating results.

Foreign Currency

Investments denominated in foreign currencies and foreign currency transactions may involve certain considerations and risks not typically associated with those of domestic origin. These risks include, but are not limited to, currency fluctuations and revaluations and future adverse political, social and economic developments, which could cause investments in foreign markets to be less liquid and prices more volatile than those of comparable U.S. companies or U.S. government securities.

Investment Valuation

To value our investments, we follow the guidance of ASC 820, Fair Value Measurement ("ASC 820"), that defines fair value, establishes a framework for measuring fair value in conformity with GAAP, and requires disclosures about fair value measurements. In accordance with ASC 820, the fair value of our investments is defined as the price that we would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market in which that investment is transacted.

ASC 820 classifies the inputs used to measure these fair values into the following hierarchy:

- Level 1: Quoted prices in active markets for identical assets or liabilities, accessible by us at the measurement date.
- Level 2: Quoted prices for similar assets or liabilities in active markets, or quoted prices for identical or similar assets or liabilities in markets that are not active, or other observable inputs other than quoted prices.
- Level 3: Unobservable inputs for the asset or liability.

In all cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to each investment.

Our Board of Directors has established procedures for the valuation of our investment portfolio. These procedures are detailed below.

Investments for which market quotations are readily available are valued at such market quotations.

For most of our investments, market quotations are not available. With respect to investments for which market quotations are not readily available or when such market quotations are deemed not to represent fair value, our Board of Directors has approved a multi-step valuation process each quarter, as described below.

1. Each portfolio company or investment is reviewed by our investment professionals with independent valuation firms engaged by our Board of Directors.
2. The independent valuation firms prepare independent valuations for each investment based on their own independent assessments and issue their report.
3. The Audit Committee of our Board of Directors reviews and discusses with the independent valuation firms the valuation reports, and then makes a recommendation to the Board of Directors of the value for each investment. The Board of Directors discusses valuations and determines the fair value of each investment in our portfolio in
4. good faith based on the input of the Investment Adviser, the respective independent valuation firm and the Audit Committee.

Our non-CLO investments are valued utilizing a yield technique, enterprise value ("EV") technique, net asset value technique, liquidation technique, discounted cash flow technique, or a combination of techniques, as appropriate. The yield technique uses loan spreads for loans and other relevant information implied by market data involving identical or comparable assets or liabilities. Under the EV technique, the EV of a portfolio company is first determined and allocated over the portfolio company's securities in order of their preference relative to one another (i.e., "waterfall" allocation). To determine the EV, we typically use a market (multiples) valuation approach that considers relevant and applicable market trading data of guideline public companies, transaction

metrics from precedent merger and acquisitions transactions, and/or a discounted cash flow technique. The net asset value technique, an income approach, is used to derive a value of an underlying investment (such as real estate property) by dividing a relevant earnings stream by an appropriate capitalization rate. For this purpose, we consider capitalization rates for similar properties as may be obtained from guideline public companies and/or relevant transactions. The liquidation technique is intended to approximate the net recovery value of an investment based on, among other things, assumptions regarding liquidation proceeds based on a hypothetical liquidation of a portfolio company's assets. The discounted cash flow technique converts future cash flows or earnings to a range of fair values from which a single estimate may be derived utilizing an appropriate discount rate. The fair value measurement is based on the net present value indicated by current market expectations about those future amounts.

In applying these methodologies, additional factors that we consider in valuing our investments may include, as we deem relevant: security covenants, call protection provisions, and information rights; the nature and realizable value of any collateral; the portfolio company's ability to make payments; the principal markets in which the portfolio company does business; publicly available financial ratios of peer companies; the principal market; and enterprise values, among other factors.

Our investments in CLOs are classified as Level 3 fair value measured securities under ASC 820 and are valued using a discounted multi-path cash flow model. The CLO structures are analyzed to identify the risk exposures and to determine an appropriate call date (i.e., expected maturity). These risk factors are sensitized in the multi-path cash flow model using Monte Carlo simulations, which is a simulation used to model the probability of different outcomes, to generate probability-weighted (i.e., multi-path) cash flows from the underlying assets and liabilities. These cash flows are discounted using appropriate market discount rates, and relevant data in the CLO market as well as certain benchmark credit indices are considered, to determine the value of each CLO investment. In addition, we generate a single-path cash flow utilizing our best estimate of expected cash receipts, and assess the reasonableness of the implied discount rate that would be effective for the value derived from the multi-path cash flows. We are not responsible for and have no influence over the asset management of the portfolios underlying the CLO investments we hold, as those portfolios are managed by non-affiliated third party CLO collateral managers. The main risk factors are default risk, prepayment risk, interest rate risk, downgrade risk, and credit spread risk.

Valuation of Other Financial Assets and Financial Liabilities

ASC 825, Financial Instruments, specifically ASC 825-10-25, permits an entity to choose, at specified election dates, to measure eligible items at fair value (the "Fair Value Option"). We have not elected the Fair Value Option to report selected financial assets and financial liabilities. See Note 8 in the accompanying Consolidated Financial Statements for the disclosure of the fair value of our outstanding debt and the market observable inputs used in determining fair value.

Convertible Notes

We have recorded the Convertible Notes at their contractual amounts. We have determined that the embedded conversion options in the Convertible Unsecured Notes are not required to be separately accounted for as a derivative under ASC 815, Derivatives and Hedging. See Note 5 in the accompanying Consolidated Financial Statements for further discussion.

Revenue Recognition

Realized gains or losses on the sale of investments are calculated using the specific identification method.

Interest income, adjusted for amortization of premium and accretion of discount, is recorded on an accrual basis. Loan origination fees, original issue discount, and market discounts are capitalized and accreted into interest income over the respective terms of the applicable loans using the effective interest method or straight-line, as applicable, and adjusted only for material amendments or prepayments. Upon a prepayment of a loan, prepayment premiums, original issue discount, or market discounts are recorded as interest income.

Loans are placed on non-accrual status when there is reasonable doubt that principal or interest will be collected.

Unpaid accrued interest is generally reversed when a loan is placed on non-accrual status. Interest payments received on non-accrual loans are either applied to the cost basis or interest income, depending upon management's judgment of the collectibility of the loan receivable. Non-accrual loans are restored to accrual status when past due principal and interest is paid and in management's judgment, is likely to remain current and future principal and interest collections when due are probable. Interest received and applied against cost while a loan is on non-accrual, and PIK interest

capitalized but not recognized while on non-accrual, is recognized prospectively on the effective yield basis through maturity of the loan when placed back on accrual status, to the extent deemed collectible by management. As of December 31, 2018, approximately 3.6% of our total assets at fair value are in non-accrual status.

Some of our loans and other investments may have contractual payment-in-kind (“PIK”) interest or dividends. PIK income computed at the contractual rate is accrued into income and reflected as receivable up to the capitalization date. PIK investments offer issuers

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the option at each payment date of making payments in cash or in additional securities. When additional securities are received, they typically have the same terms, including maturity dates and interest rates as the original securities issued. On these payment dates, we capitalize the accrued interest (reflecting such amounts in the basis as additional securities received). PIK generally becomes due at maturity of the investment or upon the investment being called by the issuer. At the point that we believe PIK is not fully expected to be realized, the PIK investment will be placed on non-accrual status. When a PIK investment is placed on non-accrual status, the accrued, uncapitalized interest or dividends are reversed from the related receivable through interest or dividend income, respectively. We do not reverse previously capitalized PIK interest or dividends. Upon capitalization, PIK is subject to the fair value estimates associated with their related investments. PIK investments on non-accrual status are restored to accrual status if we believe that PIK is expected to be realized.

Interest income from investments in the “equity” class of security of CLO funds (typically preferred shares, income notes or subordinated notes) and “equity” class of security of securitized trust is recorded based upon an estimation of an effective yield to expected maturity utilizing assumed cash flows in accordance with ASC 325-40, Beneficial Interests in Securitized Financial Assets. We monitor the expected cash inflows from our CLO and securitized trust equity investments, including the expected residual payments, and the effective yield is determined and updated periodically. Dividend income is recorded on the ex-dividend date.

Other income generally includes amendment fees, commitment fees, administrative agent fees and structuring fees which are recorded when earned. Excess deal deposits, net profits interests and overriding royalty interests are included in other income. See Note 10 in the accompanying Consolidated Financial Statements for further discussion.

Federal and State Income Taxes

We have elected to be treated as a RIC and intend to continue to comply with the requirements of the Code applicable to regulated investment companies. We are required to distribute at least 90% of our investment company taxable income and intend to distribute (or retain through a deemed distribution) all of our investment company taxable income and net capital gains to stockholders; therefore, we have made no provision for income taxes. The character of income and gains that we will distribute is determined in accordance with income tax regulations that may differ from GAAP. Book and tax basis differences relating to stockholder dividends and distributions and other permanent book and tax differences are reclassified to paid-in capital.

If we do not distribute (or are not deemed to have distributed) at least 98% of our annual ordinary income and 98.2% of our capital gains in the calendar year earned, we will generally be required to pay an excise tax equal to 4% of the amount by which 98% of our annual ordinary income and 98.2% of our capital gains exceed the distributions from such taxable income for the year. To the extent that we determine that our estimated current year annual taxable income will be in excess of estimated current year dividend distributions from such taxable income, we accrue excise taxes, if any, on estimated excess taxable income. As of December 31, 2018, we do not expect to have any excise tax due for the 2018 calendar year. Thus, we have not accrued any excise tax for this period.

If we fail to satisfy the annual distribution requirement or otherwise fail to qualify as a RIC in any taxable year, we would be subject to tax on all of our taxable income at regular corporate income tax rates. We would not be able to deduct distributions to stockholders, nor would we be required to make distributions. Distributions would generally be taxable to our individual and other non-corporate taxable stockholders as ordinary dividend income eligible for the reduced maximum rate applicable to qualified dividend income to the extent of our current and accumulated earnings and profits, provided certain holding period and other requirements are met. Subject to certain limitations under the Code, corporate distributions would be eligible for the dividends-received deduction. To qualify again to be taxed as a RIC in a subsequent year, we would be required to distribute to our shareholders our accumulated earnings and profits attributable to non-RIC years. In addition, if we failed to qualify as a RIC for a period greater than two taxable years, then, in order to qualify as a RIC in a subsequent year, we would be required to elect to recognize and pay tax on any net built-in gain (the excess of aggregate gain, including items of income, over aggregate loss that would have been realized if we had been liquidated) or, alternatively, be subject to taxation on such built-in gain recognized for a period of five years.

We follow ASC 740, Income Taxes (“ASC 740”). ASC 740 provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the consolidated financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing our tax returns to determine

whether the tax positions are “more-likely-than-not” of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold are recorded as a tax benefit or expense in the current year. As of December 31, 2018, we did not record any unrecognized tax benefits or liabilities. Management’s determinations regarding ASC 740 may be subject to review and adjustment at a later date based upon factors including, but not limited to, an on-going analysis of tax laws, regulations and interpretations thereof. Although we file

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both federal and state income tax returns, our major tax jurisdiction is federal. Our federal tax returns for the tax years ended August 31, 2015 and thereafter remain subject to examination by the Internal Revenue Service.

Dividends and Distributions

Dividends and distributions to common stockholders are recorded on the ex-dividend date. The amount, if any, to be paid as a monthly dividend or distribution is approved by our Board of Directors quarterly and is generally based upon our management's estimate of our future taxable earnings. Net realized capital gains, if any, are distributed at least annually.

Financing Costs

We record origination expenses related to our Revolving Credit Facility and the Unsecured Notes as deferred financing costs. These expenses are deferred and amortized as part of interest expense using the straight-line method over the stated life of the obligation for our Revolving Credit Facility. The same methodology is used to approximate the effective yield method for our Prospect Capital InterNotes®, our 2024 Notes Follow-on Program, and our 2028 Notes Follow-on Program. The effective interest method is used to amortize deferred financing costs for our remaining Unsecured Notes over the respective expected life or maturity. In the event that we modify or extinguish our debt before maturity, we follow the guidance in ASC 470-50, Modification and Extinguishments ("ASC 470-50"). For modifications to or exchanges of our Revolving Credit Facility, any unamortized deferred costs relating to lenders who are not part of the new lending group are expensed. For extinguishments of our Unsecured Notes, any unamortized deferred costs are deducted from the carrying amount of the debt in determining the gain or loss from the extinguishment.

Unamortized deferred financing costs are presented as a direct deduction to the respective Unsecured Notes (see Notes 5, 6, and 7 in the accompanying Consolidated Financial Statements for further discussion).

We may record registration expenses related to shelf filings as prepaid expenses. These expenses consist principally of SEC registration fees, legal fees and accounting fees incurred. These prepaid expenses are charged to capital upon the receipt of proceeds from an equity offering or charged to expense if no offering is completed. As of December 31, 2018 and June 30, 2018, there are no prepaid expenses related to registration expenses and all amounts incurred have been expensed.

Guarantees and Indemnification Agreements

We follow ASC 460, Guarantees ("ASC 460"). ASC 460 elaborates on the disclosure requirements of a guarantor in its interim and annual consolidated financial statements about its obligations under certain guarantees that it has issued. It also requires a guarantor to recognize, at the inception of a guarantee, for those guarantees that are covered by ASC 460, the fair value of the obligation undertaken in issuing certain guarantees.

Per Share Information

Net increase or decrease in net assets resulting from operations per share is calculated using the weighted average number of common shares outstanding for the period presented. In accordance with ASC 946, convertible securities are not considered in the calculation of net asset value per share.

Recent Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"), which amends the financial instruments impairment guidance so that an entity is required to measure expected credit losses for financial assets based on historical experience, current conditions and reasonable and supportable forecasts. As such, an entity will use forward-looking information to estimate credit losses. ASU 2016-13 also amends the guidance in FASB ASC Subtopic No. 325-40, Investments-Other, Beneficial Interests in Securitized Financial Assets, related to the subsequent measurement of accretable yield recognized as interest income over the life of a beneficial interest in securitized financial assets under the effective yield method. ASU 2016-13 is effective for financial statements issued for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We are currently evaluating the impact, if any, of adopting this ASU on our consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments ("ASU 2016-15"), which addresses certain aspects of cash flow statement classification.

One such amendment requires cash payments for debt prepayment or debt extinguishment costs to be classified as cash outflows for financing activities. ASU 2016-15 is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods

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within those fiscal years. The adoption of the amended guidance in ASU 2016-15 did not have a significant effect on our consolidated financial statements and disclosures.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which amends accounting guidance for revenue recognition arising from contracts with customers. Under the new guidance, an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services. In August 2015, the FASB also issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which deferred the effective date of the standard for one year. As a result, the guidance is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The application of this guidance did not have a material impact on our consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement. The standard will modify the disclosure requirements for fair value measurements by removing, modifying, or adding certain disclosures. ASU No. 2018-13 is effective for annual reporting periods beginning after December 15, 2019, including interim periods within that reporting period. Early adoption is permitted upon issuance of this ASU. We are currently evaluating the impact of adopting this ASU on our consolidated financial statements.

SEC Disclosure Update and Simplification

In August 2018, the SEC adopted the final rule under SEC Release No. 33-10532, Disclosure Update and Simplification, amending certain disclosure requirements that were redundant, duplicative, overlapping, outdated or superseded. The amendments are intended to facilitate the disclosure of information to investors and simplify compliance. As a result of the amendments, we are required to present a reconciliation of changes in stockholders' equity in the notes or as a separate statement. This analysis should reconcile the beginning balance to the ending balance of each caption in stockholders' equity for each period for which an income statement is required to be filed and comply with the remaining content requirements of Rule 3-04 of Regulation S-X. In October 2018, the SEC announced that this final rule will become effective on November 5, 2018. In light of the timing of effectiveness of the amendments and proximity of effectiveness to the filing date for most filers' quarterly reports, the SEC Staff commented that it would not object if the first presentation of the changes in shareholders' equity is included in a filer's Form 10-Q for the quarter that begins after the effective date of the amendments. Due to the timing of our filing of this prospectus supplement, our first presentation of the changes in stockholders' equity will be for our third quarter ended March 31, 2019.

Tax Cuts and Jobs Act

On December 22, 2017, the President signed into law the Tax Cuts and Jobs Act (The "Tax Act"), which significantly changed the Code, including, a reduction in the corporate income tax rate, a new limitation on the deductibility of interest expense, and significant changes to the taxation of income earned from foreign sources and foreign subsidiaries. The Tax Act also authorizes the IRS to issue regulations with respect to the new provisions. We cannot predict how the changes in the Tax and Jobs Act, or regulations or other guidance issued under it, might affect us, our business or the business of our portfolio companies. However, our portfolio companies may or may not make certain elections under the Tax Act that could materially increase their taxable earnings and profits. Any such increase in the earnings and profits of a portfolio company may result in the characterization of certain distributions sourced from sale proceeds as dividend income, which may increase our distributable taxable income. During the three months ended December 31, 2018, we received \$9,000 of such dividends from NPRC related to the gain on the sale of NPRC's Atlantic Beach property.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to financial market risks, including changes in interest rates and equity price risk. Interest rate sensitivity refers to the change in our earnings that may result from changes in the level of interest rates impacting some of the loans in our portfolio which have floating interest rates. Additionally, because we fund a portion of our investments with borrowings, our net investment income is affected by the difference between the rate at which we invest and the rate at which we borrow. As a result, there can be no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income. See “Risk Factors - Risks Relating to Our Business - Changes in interest rates may affect our cost of capital and net investment income” in the accompanying prospectus.

Our debt investments may be based on floating rates or fixed rates. For our floating rate loans the rates are determined from the LIBOR, EURO Interbank Offer Rate, the Federal Funds Rate or the Prime Rate. The floating interest rate loans may be subject to a LIBOR floor. Our loans typically have durations of one to three months after which they reset to current market interest rates. As of December 31, 2018, 88.15% of the interest earning investments in our portfolio, at fair value, bore interest at floating rates.

We also have a revolving credit facility and certain Prospect Capital InterNotes® issuances that are based on floating LIBOR rates. Interest on borrowings under the revolving credit facility is one-month LIBOR plus 220 basis points with no minimum LIBOR floor and there is \$297 million outstanding as of December 31, 2018. Interest on five Prospect Capital InterNotes® is three-month LIBOR plus a range of 300 to 350 basis points with no minimum LIBOR floor. The Convertible Notes, Public Notes and remaining Prospect Capital InterNotes® bear interest at fixed rates. The following table shows the approximate annual impact on net investment income of base rate changes in interest rates (considering interest rate flows for floating rate instruments, excluding our investments in CLO residual interests) to our loan portfolio and outstanding debt as of December 31, 2018, assuming no changes in our investment and borrowing structure: