

## Section 1: 497 (497)



**Prospect Capital Corporation**  
**Prospect Capital InterNotes®**  
**5.750% Notes due 2024 (the "2024 Notes")**  
**6.000% Notes due 2026 (the "2026 Notes")**  
**6.250% Notes due 2029 (the "2029 Notes," and together with the 2024 Notes and the 2026 Notes,**  
**the "Notes")**

Filed under Rule 497, Registration Statement No. 333-227124  
Pricing Supplement Nos. 649, 650 and 651 — Dated Monday, February 25, 2019  
(To: Prospectus Dated October 31, 2018, and Prospectus Supplement Dated February 8, 2019)

CUSIP Number	ISIN Number	Principal Amount	Selling Price	Gross Concession	Net Proceeds	Coupon Type	Coupon Rate	Coupon Frequency	Maturity Date	1st Coupon Date	1st Coupon Amount	Survivor's Option	Product Ranking
74348YJ85	US74348YJ856	\$4,095,000.00	100.000%	1.250%	\$4,043,812.50	Fixed	5.750%	Semi-Annual	2/15/2024	8/15/2019	\$26.67	Yes	Unsecured Notes
<b>Redemption Information: Callable at 100.000% on 8/15/2019 and every business day thereafter ("Optional Redemption Date").</b>													

CUSIP Number	ISIN Number	Principal Amount	Selling Price	Gross Concession	Net Proceeds	Coupon Type	Coupon Rate	Coupon Frequency	Maturity Date	1st Coupon Date	1st Coupon Amount	Survivor's Option	Product Ranking
74348YJ93	US74348YJ930	\$3,079,000.00	100.000%	1.750%	\$3,025,117.50	Fixed	6.000%	Semi-Annual	2/15/2026	8/15/2019	\$27.83	Yes	Unsecured Notes
<b>Redemption Information: Callable at 100.000% on 8/15/2019 and every business day thereafter ("Optional Redemption Date").</b>													

CUSIP Number	ISIN Number	Principal Amount	Selling Price	Gross Concession	Net Proceeds	Coupon Type	Coupon Rate	Coupon Frequency	Maturity Date	1st Coupon Date	1st Coupon Amount	Survivor's Option	Product Ranking
74348YK26	US74348YK268	\$2,693,000.00	100.000%	2.200%	\$2,633,754.00	Fixed	6.250%	Semi-Annual	2/15/2029	8/15/2019	\$28.99	Yes	Unsecured Notes
<b>Redemption Information: Callable at 100.000% on 8/15/2019 and every business day thereafter ("Optional Redemption Date").</b>													

Trade Date: Monday, February 25, 2019 @ 12:00 PM ET  
Settle Date: Thursday, February 28, 2019  
Minimum Denomination/Increments: \$1,000.00/\$1,000.00  
Initial trades settle flat and clear SDFS: DTC Book Entry only

The Notes will be issued pursuant to the Indenture, dated as of February 16, 2012, as amended and supplemented by that certain Six Hundred Forty-Ninth, Six Hundred Fiftieth and Six Hundred Fifty-First Supplemental Indenture dated as of February 28, 2019.

The date from which interest shall accrue on the Notes is Thursday, February 28, 2019. The "Interest Payment Dates" for the Notes shall be February 15 and August 15 of each year, commencing August 15, 2019; the interest payable on any Interest Payment Date, will be paid to the Person in whose name the Notes (or one or more predecessor Notes) is registered at the close of business on the Regular Record Date (as defined in the Indenture) for such interest, which shall be February 1 or August 1, as the case may be, next preceding such Interest Payment Date.

The Notes will be redeemable in whole or in part at any time or from time to time, at the option of Prospect Capital Corporation, on or after August 15, 2019 at a redemption price of \$1,000 per Note plus accrued and unpaid interest payments otherwise payable for the then-current semi-annual interest period accrued to, but excluding, the date fixed for redemption and upon not less than 5 days nor more than 60 days prior notice to the noteholder and the trustee, as described in the prospectus.

Except for Notes sold to level-fee accounts, Notes offered to the public will be offered at the public offering price set forth above. Agents purchasing Notes on an agency basis for client accounts shall purchase Notes at the public offering price. Notes sold by the Agents for their own account may be sold at the public offering price less the discount specified above. Notes purchased by the Agents on behalf of level-fee accounts may be sold to such accounts at the discount to the public offering price specified above, in which case, such Agents will not retain any portion of the sales price as compensation.

Prospect Capital Corporation is a financial services company that lends to and invests in middle market, privately-held companies. We are organized as an externally-managed, non-diversified closed-end management investment company that has elected to be treated as a business development company under the Investment Company Act of 1940. Prospect Capital Management L.P. manages our investments and Prospect Administration LLC provides the administrative services necessary for us to operate.

This pricing supplement relates only to the securities described in the accompanying prospectus supplement and prospectus, is only a summary of changes and should be read together with the accompanying prospectus supplement and prospectus, including among other things the section entitled "Risk Factors" beginning on page S-8 of such prospectus supplement and page 12 of such prospectus. This pricing supplement and the accompanying prospectus supplement and 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 40<sup>th</sup> Street, 42<sup>nd</sup> Floor, New York, NY 10016 or by telephone at

(212) 448-0702. The SEC maintains a website at [www.sec.gov](http://www.sec.gov) where such information is available without charge upon written or oral request. Our internet website address is [www.prospectstreet.com](http://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 pricing supplement. 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.

InterNotes® is a registered trademark of Incapital Holdings LLC.

#### **Recent Developments:**

During the period from February 19, 2019 through February 22, 2019, we issued \$6.8 million in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of \$6.7 million.

During the period from February 8, 2019 to February 22, 2019, we have issued \$2.5 million in aggregate principal amount of our 2024 Notes for net proceeds of \$2.5 million, have issued \$0.4 million in aggregate principal amount of our 2028 Notes for net proceeds of \$0.3 million, and have issued \$3.7 million in aggregate principal amount of our 2029 Notes for net proceeds of \$3.5 million.

#### **Legal Matters:**

In the opinion of Sean Dailey, Authorized Signatory of Prospect Administration, administrator for Prospect Capital Corporation, a Maryland corporation (the “Company”), the certificates evidencing the Notes (the “Note Certificates”) constitute the valid and binding obligations of the Company, entitled to the benefits of the Indenture and enforceable against the Company in accordance with their terms under the laws of the State of New York subject to applicable bankruptcy, insolvency and similar laws affecting creditors’ rights generally, concepts of reasonableness and equitable principles of general applicability (including, without limitation, concepts of good faith, fair dealing and the lack of bad faith), provided that such counsel expresses no opinion as to the effect of fraudulent conveyance, fraudulent transfer or similar provision of applicable law on the conclusions expressed above. This opinion is given as of the date hereof and is limited to the law of the State of New York as in effect on the date hereof. In addition, this opinion is subject to the same assumptions and qualifications stated in the letter of Skadden, Arps, Slate, Meagher & Flom, LLP dated March 8, 2012, filed as Exhibit (I)(5) to the Company’s registration statement on Form N-2 (File No. 333-176637) and to the further assumptions that (i) the Note Certificates have been duly authorized by all requisite corporate action on the part of the Company and duly executed by the Company under Maryland law, and (ii) they were duly authenticated by the Trustee and issued and delivered by the Company against payment therefor in accordance with the terms of the Fifth Amended and Restated Selling Agent Agreement and the Indenture. Capitalized terms used in this paragraph without definition have the meanings ascribed to them in the accompanying prospectus supplement.

Prospect Capital Corporation  
10 East 40<sup>th</sup> Street, 42<sup>nd</sup> Floor  
New York, New York 10016

In the opinion of Venable LLP, as Maryland counsel to the Company, (i) the execution and delivery by the Company of the Indenture, dated as of February 16, 2012, as amended and as supplemented through the Six Hundred Forty-Ninth, Six Hundred Fiftieth and Six Hundred Fifty-First Supplemental Indentures, between the Company and U.S. Bank National Association, and the global notes representing the Notes issued pursuant to such Supplemental Indentures, and the performance by the Company of its obligations thereunder, have been duly authorized by the Company and (ii) the issuance of the Notes has been duly authorized by the Company. This opinion is given to the Company as of February 25, 2019 and is limited to the laws of the State of Maryland as in effect on February 25, 2019. In addition, this opinion is subject to the same assumptions, qualifications and limitations stated in the opinion letter to the Company of Venable LLP, dated May 11, 2018, filed as Exhibit (I)(12) to the Company’s Registration Statement on Form N-2 (File No. 333-213391). Capitalized terms used in this paragraph without definition have the meanings ascribed to them in the accompanying prospectus supplement.

Very truly yours,

/s/ Venable LLP

PROSPECTUS SUPPLEMENT  
(To Prospectus dated October 31, 2018)



## Prospect Capital Corporation

### Prospect Capital InterNotes®

- We may offer to sell our Prospect Capital InterNotes® from time to time. The specific terms of the notes will be set prior to the time of sale and described in a pricing supplement. You should read this prospectus supplement, the accompanying prospectus and the applicable pricing supplement carefully before you invest. We may offer other debt securities from time to time other than the notes under our Registration Statement or in private placements.
- We may offer the notes to or through agents for resale. The applicable pricing supplement will specify the purchase price, agent discounts and net proceeds of any particular offering of notes. The agents are not required to sell any specific amount of notes but will use their reasonable best efforts to sell the notes. We also may offer the notes directly. We have not set a date for termination of our offering.
- The agents have advised us that from time to time they may purchase and sell notes in the secondary market, but they are not obligated to make a market in the notes and may suspend or completely stop that activity at any time. Unless otherwise specified in the applicable pricing supplement, we do not intend to list the notes on any stock exchange.

*Investing in the notes involves certain risks, including those described in the “Risk Factors” section beginning on page S-8 of this prospectus supplement and page 12 of the accompanying prospectus.*

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 40<sup>th</sup> Street, 42<sup>nd</sup> Floor, New York, NY 10016 or by telephone at (212) 448-0702. The SEC maintains a website at [www.sec.gov](http://www.sec.gov) where such information is available without charge upon written or oral request. Our internet website address is [www.prospectstreet.com](http://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.

We may sell the notes to or through one or more agents or dealers, including the agents listed below.

**Incapital LLC**

**Citigroup**

**RBC Capital Markets**

Prospectus Supplement dated February 8, 2019.

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## 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,” “projections,” “plans,” “seeks,” “anticipates,” “anticipated,” “should,” “could,” “may,” “will,” “designed to,” “foreseeable future,” “believe,” “believes” and “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, Internal Revenue Service, 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

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, including any pricing supplement included hereto, 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, including any pricing supplement included hereto, 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, including any pricing supplement included hereto, 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, including any pricing supplement included hereto, 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 Notes” beginning on page S-13. Final terms of any particular notes will be determined at the time of sale and will be contained in the pricing supplement, which will be included with this prospectus supplement, relating to those notes. The terms in that pricing supplement may vary from and supersede the terms contained in this summary and in “Description of Notes.” In addition, you should read the more detailed information appearing elsewhere in this prospectus supplement, the accompanying prospectus and in that pricing supplement.*

*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<sup>®</sup> 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 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 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 January 30, 2019, we sold \$37.0 million, or 13.64%, 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 7, 2019 we issued \$12.5 million in aggregate principal amount of Prospect Capital InterNotes® for net proceeds of \$12.3 million.

During the period from January 1, 2019 through February 7, 2019, we issued \$2.2 million in aggregate principal amount of our 2024 Notes for net proceeds of \$2.1 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

<b>Issuer</b>	Prospect Capital Corporation
<b>Purchasing Agent</b>	Incapital LLC
<b>Agents</b>	Citigroup Global Markets Inc. and RBC Capital Markets, LLC. From time to time, we may sell the notes to or through additional agents.
<b>Title of Notes</b>	Prospect Capital InterNotes®
<b>Amount</b>	We may issue notes from time to time in various offerings up to \$1.5 billion, the aggregate principal amount authorized by our board of directors for notes. As of February 7, 2019, approximately \$1.3 billion aggregate principal amount of notes has been issued. We have, from time to time, repurchased certain notes and, therefore, as of February 7, 2019, \$713.6 million aggregate principal amount of notes were outstanding. There are no limitations on our ability to issue additional indebtedness in the form of Prospect Capital InterNotes® or otherwise other than under the 1940 Act and the asset coverage requirement under our credit facility.
<b>Denominations</b>	The notes will be issued and sold in denominations of \$1,000 and multiples of \$1,000 (unless otherwise stated in the pricing supplement).
<b>Status</b>	The notes will be our direct unsecured senior obligations and will rank equally in right of payment with all of our other unsecured senior indebtedness from time to time outstanding.
<b>Maturities</b>	Each note will mature 12 months or more from its date of original issuance.
<b>Interest</b>	<p>Notes may be issued with a fixed or floating interest rate; a floating interest rate note will be based on the London Interbank Offered Rate (“LIBOR”).</p> <p>Interest on each fixed or floating interest rate note will be payable either monthly, quarterly, semi-annually or annually on each interest payment date and on the stated maturity date. Interest also will be paid on the date of redemption or repayment if a note is redeemed or repaid prior to its stated maturity in accordance with its terms.</p> <p>Interest on the notes will be computed on the basis of a 360-day year of twelve 30-day months, often referred to as the 30/360 (ISDA) day count convention.</p>
<b>Principal</b>	The principal amount of each note will be payable on its stated maturity date at the corporate trust office of the paying agent or at any other place we may designate.
<b>Redemption and Repayment</b>	Unless otherwise stated in the applicable pricing supplement, a note will not be redeemable at our option or be repayable at the option of the holder prior to its stated maturity date. The notes will not be subject to any sinking fund.
<b>Survivor’s Option</b>	Specific notes may contain a provision permitting the optional repayment of those notes prior to stated maturity, if requested by the authorized representative of the beneficial owner of those notes, following the death of the beneficial owner of the notes, so long as the notes were owned by the beneficial owner or his or her estate at least six months prior to the request. This feature is referred to as a “Survivor’s Option.” Your notes will not be repaid in this manner unless the pricing supplement for your notes provides for the Survivor’s Option. If the pricing supplement for your notes provides for the Survivor’s Option, your right to exercise the Survivor’s Option will be subject to limits set by us on (1) the permitted dollar amount of total exercises by all holders of notes in any calendar year, and (2) the permitted dollar amount of an individual exercise by a holder of a note in any calendar year. Additional details on the Survivor’s Option are described in the section entitled “Description of Notes—Survivor’s Option.”
<b>Sale and Clearance</b>	We will sell notes in the United States only. Notes will be issued in book-entry only form and will clear through The Depository Trust Company. We do not intend to issue notes in certificated form.
<b>Trustee</b>	The trustee for the notes is U.S. Bank National Association, under an indenture dated as of February 16, 2012, as amended and as supplemented from time to time.

**Selling Group**

The agents and dealers comprising the selling group are broker-dealers and securities firms. Each of the Purchasing Agent, Citigroup Global Markets Inc. and RBC Capital Markets, LLC entered into a Seventh Amended and Restated Selling Agent Agreement with us dated November 9, 2018 (as amended, the “Selling Agent Agreement”). Additional agents appointed by us from time to time in connection with the offering of the notes contemplated by this prospectus supplement will become parties to the Selling Agent Agreement. Dealers who are members of the selling group have executed a Master Selected Dealer Agreement with the Purchasing Agent. The agents and the dealers have agreed to market and sell the notes in accordance with the terms of those respective agreements and all other applicable laws and regulations. You may contact the Purchasing Agent at [info@incapital.com](mailto:info@incapital.com) for a list of selling group members.



total portfolio at period  
end

10.7 %

10.3%

10.7 %

10.3 %

10.5 %

10.4%

12.0%

11.9 %

11.9%

- (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).
- (2) 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.
- (3) Excludes equity investments and non-performing loans.
- (4) 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.
- (5) Includes equity investments and non-performing loans.

## RISK FACTORS

*Your investment in the notes will involve certain risks. This prospectus supplement and the accompanying prospectus do not describe all of those risks.*

*You should, in consultation with your own financial and legal advisors, carefully consider the following discussion of risks before deciding whether an investment in the notes is suitable for you. The notes will not be an appropriate investment for you if you are not knowledgeable about significant features of the notes or financial matters in general. You should not purchase the notes unless you understand, and know that you can bear, these investment risks.*

***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 7, 2019, together with our subsidiaries, we 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 any notes sold, 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.

***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. Neither we nor the agents undertake any obligation to maintain the ratings 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," 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 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.

***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.***

The notes are our general, senior unsecured obligations and rank equally in right of payment with all of our existing and future senior unsecured indebtedness, including without limitation, our Unsecured Notes. As a result, the notes are 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 7, 2019, we had \$358.0 million 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 respective maturities 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 and supplemental indentures under which the notes will be issued will contain limited protection for holders of the notes.***

The indenture and supplemental indentures (collectively, the "indenture") under which the notes will be issued offer limited protection to holders of the notes. The terms of the indenture and the notes do not restrict our or any of our 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 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)(1) 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 subsidiaries.

In addition, the indenture will not require us to offer to purchase the notes in connection with a change of control or any other event.

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. See in the accompanying prospectus “Risk Factors—Risks Relating to Our Business—The notes present other risks to holders of our common stock, including the possibility that the notes could discourage an acquisition of the Company by a third party and accounting uncertainty” and “—In addition to regulatory restrictions that restrict our ability to raise capital, our credit facility contains various covenants which, if not complied with, could accelerate repayment under the facility, thereby materially and adversely affecting our liquidity, financial condition and results of operations.” 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.

***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 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.

***We may choose to redeem notes when prevailing interest rates are relatively low.***

If your notes will be redeemable at our option, we may choose to redeem your notes from time to time, especially when prevailing interest rates are lower than the rate borne by the notes. If prevailing rates are lower at the time of redemption, you would not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as the interest rate on the notes being redeemed. Our redemption right also may adversely impact your ability to sell your notes as the optional redemption date or period approaches.

***Survivor’s Option may be limited in amount.***

We will have a discretionary right to limit the aggregate principal amount of notes subject to the Survivor’s Option that may be exercised in any calendar year to an amount equal to the greater of \$2.0 million or 2% of the outstanding principal amount of all notes outstanding as of the end of the most recent calendar year. We also have the discretionary right to limit to \$250,000 in any calendar year the aggregate principal amount of notes subject to the Survivor’s Option that may be exercised in such calendar year on behalf of any individual deceased beneficial owner of notes. Accordingly, no assurance can be given that exercise of the Survivor’s Option for the desired amount will be permitted in any single calendar year.

***We cannot assure that a trading market for your notes will ever develop or be maintained.***

In evaluating the notes, you should assume that you will be holding the notes until their stated maturity. The notes are a new issue of securities. We cannot assure you that a trading market for your notes will ever develop, be liquid or be maintained. Many factors independent of our creditworthiness affect the trading market for and market value of your notes. Those factors include, without limitation:

- the method of calculating the principal and interest for the notes;
- the time remaining to the stated maturity of the notes;
- the outstanding amount of the notes;
- the redemption or repayment features of the notes; and
- the level, direction and volatility of interest rates generally.

There may be a limited number of buyers when you decide to sell your notes. This may affect the price you receive for your notes or your ability to sell your notes at all.

***Your investment in the floating rate notes will involve certain risks not associated with an investment in conventional debt securities. You should consider carefully the following discussion of risks before you decide that an investment in the floating rate notes is suitable for you.***

Floating rate notes present different investment considerations than fixed rate notes. For notes with only floating rates, the rate of interest paid by us on the notes for each applicable interest period is not fixed, but will vary depending on LIBOR and accordingly could be substantially less than the rates of interest we would pay on fixed rate notes of the same maturity. Additionally, the notes may change the interest rate or interest rate formula in relation to LIBOR at one or more points during the term of such notes (often referred to as a “step up” feature) or may switch from floating to fixed rate or from a fixed to a floating rate during the term of the notes. Consequently, the return on the notes may be less than returns otherwise payable on fixed rate debt securities issued by us with similar maturities whose interest rates cannot change. The variable interest rate on the notes, while determined, in part, by reference to LIBOR, may not actually pay at such rates. Furthermore, we have no control over any fluctuations in LIBOR.

If the relevant pricing supplement specifies a maximum rate, the interest rate for any interest period will be limited by the maximum rate. The maximum rate will limit the amount of interest you may receive for each such interest period, even if the fixed or floating rate component, as adjusted by any spread factor, if applicable, and/or a spread, if applicable, would have otherwise resulted in an interest rate greater than the maximum rate. As a result, if the interest rate for any interest period without taking into consideration the maximum rate would have been greater than the maximum rate, the notes will provide you less interest income than an investment in a similar instrument that is not subject to a maximum interest rate.

***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.

***In addition to regulatory restrictions that restrict our ability to raise capital, our credit facility contains various covenants which, if not complied with, could accelerate repayment under the facility, thereby materially and adversely affecting our liquidity, financial condition and results of operations.***

The agreement governing our credit facility requires us to comply with certain financial and operational covenants. These covenants include:

- restrictions on the level of indebtedness that we are permitted to incur in relation to the value of our assets;
- restrictions on our ability to incur liens; and
- maintenance of a minimum level of stockholders’ equity.

As of December 31, 2018, we were in compliance with these covenants. However, our continued compliance with these covenants depends on many factors, some of which are beyond our control. Accordingly, there are no assurances that we will continue to comply with the covenants in our credit facility. Failure to comply with these covenants would result in a default under this facility which, if we were unable to obtain a waiver from the lenders thereunder, could result in an acceleration of repayments under the facility and thereby have a material adverse impact on our business, financial condition and results of operations.

## DESCRIPTION OF NOTES

*The following description of the particular terms of the notes being offered supplements and, to the extent inconsistent with or otherwise specified in an applicable pricing supplement, replaces the description of the general terms and provisions of the debt securities set forth under the heading “Description of Our Debt Securities” in the accompanying prospectus. Unless otherwise specified in an applicable pricing supplement, the notes will have the terms described below. Capitalized terms used but not defined below have the meanings given to them in the accompanying prospectus and in the indenture relating to the notes.*

The notes being offered by this prospectus supplement, the accompanying prospectus and the applicable pricing supplement will be issued under an indenture, dated as of February 16, 2012, as amended and as supplemented from time to time. U.S. Bank National Association was appointed as trustee, as successor to American Stock Transfer & Trust Company, LLC, pursuant to an Agreement of Resignation, Appointment and Acceptance dated as of March 9, 2012. The indenture is more fully described in the accompanying prospectus. The indenture does not limit the aggregate amount of debt securities that may be issued under it and provides that the debt securities may be issued under it from time to time in one or more series. The following statements are summaries of the material provisions of the indenture and the notes. These summaries do not purport to be complete and are qualified in their entirety by reference to the indenture, including for the definitions of certain terms. From time to time we may offer other debt securities either publicly or through private placement having maturities, interest rates, covenants and other terms that may differ materially from the terms of the notes described herein and in any pricing supplement.

The notes constitute a single series of debt securities for purposes of the indenture and are unlimited in aggregate principal amount under the terms of the indenture. Our board of directors has authorized the issuance and sale of the notes from time to time, up to an aggregate principal amount of \$1.5 billion. As of February 7, 2019, approximately \$1.3 billion aggregate principal amount of notes has been issued. We have, from time to time, repurchased certain notes and, therefore, as of February 7, 2019, \$713.6 million aggregate principal amount of notes were outstanding.

Notes issued in accordance with this prospectus supplement, the accompanying prospectus and the applicable pricing supplement will have the following general characteristics:

- the notes will be our direct unsecured senior obligations and will rank equally with all of our other unsecured senior indebtedness from time to time outstanding;
- the notes may be offered from time to time by us through the Purchasing Agent or the agents and each note will mature on a day that is at least 12 months from its date of original issuance;
- each note may be issued with a fixed or floating interest rate; any floating interest rate will be based on LIBOR;
- the notes will not be subject to any sinking fund; and
- the minimum denomination of the notes will be \$1,000 (unless otherwise stated in the pricing supplement).

In addition, the pricing supplement relating to each offering of notes will describe specific terms of the notes, including but not limited to:

- the stated maturity;
- the denomination of your notes;
- the price at which we originally issue your notes, expressed as a percentage of the principal amount, and the original issue date;
- whether your notes are fixed rate notes or floating rate notes;
- if your notes are fixed rate notes, the annual rate at which your notes will bear interest, or the periodic rates in the case of notes that bear different rates at different times during the term of the notes, and the interest payment dates, if different from those stated below under “—Interest Rates—Fixed Rate Notes;”
- if your notes are floating rate notes, the interest rate, spread or spread multiplier or initial base rate, maximum rate and/or minimum rate; if there is more than one spread to be applied at different times during the term of the notes for your interest rate, which spread during which periods applies to your notes; and the interest reset, determination, calculation and payment dates, all of which we describe under “—Interest Rates—Floating Rate Notes” below;
- if applicable, the circumstances under which your notes may be redeemed at our option or repaid at the holder’s option before the stated maturity, including any redemption commencement date, repayment date(s), redemption price(s) and redemption period(s), all of which we describe under “—Redemption and Repayment” below;
- whether the authorized representative of the holder of a beneficial interest in the notes will have the right to seek repayment upon the death of the holder as described under “—Survivor’s Option;”
- any special U.S. federal income tax consequences of the purchase, ownership and disposition of the notes; and
- any other significant terms of your notes, which could be different from those described in this prospectus supplement and the accompanying prospectus, but in no event inconsistent with the indenture.

We may at any time purchase notes at any price or prices in the open market or otherwise. Notes so purchased by us may, at our discretion, be held, resold or surrendered to the trustee for cancellation.

## **Types of Notes**

We may issue either of the two types of notes described below. Notes may have elements of each of the two types of notes described below. For example, notes may bear interest at a fixed rate for some periods and at a floating rate in others.

**Fixed Rate Notes.** Notes of this type will bear interest at one or more fixed rates described in your pricing supplement.

Fixed rate notes will bear interest from their original issue date or from the most recent date to which interest on the notes has been paid or made available for payment. Interest will accrue on the principal of fixed rate notes at the fixed rate or rates per annum stated in your pricing supplement during the applicable time periods as stated in your pricing supplement, until the principal is paid or made available for payment. Each payment of interest due on an interest payment date or the maturity will include interest accrued from and including the last date to which interest has been paid, or made available for payment, or from the issue date if none has been paid or made available for payment, to but excluding the interest payment date or maturity. We will compute interest on fixed rate notes on the basis of a 360-day year of twelve 30-day months (the 30/360 (ISDA) day count convention) unless your pricing supplement provides that we will compute interest on a different basis. We will pay interest on each interest payment date and at maturity as described below under “—Payments of Principal and Interest.” Notes may be offered that switch from a fixed rate to a floating rate or from a floating rate to a fixed rate during the term of the notes.

**Floating Rate Notes.** Notes of this type will bear interest at rates that are determined by reference to an interest rate formula based on LIBOR. In some cases, the rates may also be adjusted by adding or subtracting a spread in relation to LIBOR or multiplying by a spread multiplier and may be subject to a minimum rate and/or a maximum rate. The various interest rate formulas and these other features are described below in “—Interest Rates—Floating Rate Notes.” If your notes are floating rate notes, the formula and any adjustments that apply to the interest rate will be specified in your pricing supplement.

Floating rate notes will bear interest from their original issue date or from the most recent date to which interest on the notes has been paid or made available for payment. Interest will accrue on the principal of floating rate notes at a rate per annum determined according to the interest rate formula stated in your pricing supplement during the applicable interest rate periods as stated in your pricing supplement, until the principal is paid or made available for payment. We will pay interest on each interest payment date and at maturity as described below “—Payments of Principal and Interest.” Notes may be offered that switch from a fixed rate to a floating rate or from a floating rate to a fixed rate during the term of the notes.

## **Interest Rates**

This subsection describes the different kinds of interest rates that may apply to your notes, as specified in your pricing supplement.

**Fixed Rate Notes.** Fixed rate notes will bear interest from their original issue date or from the most recent date to which interest on the notes has been paid or made available for payment. Interest will accrue on the principal of fixed rate notes at the fixed yearly rate or rates stated in your pricing supplement during the applicable time periods as stated in your pricing supplement, until the principal is paid or made available for payment. Your pricing supplement will describe the interest periods and relevant interest payment dates on which interest on fixed rate notes will be payable. Each payment of interest due on an interest payment date or the maturity will include interest accrued from and including the last date to which interest has been paid, or made available for payment, or from the issue date if none has been paid or made available for payment, to but excluding the interest payment date or the maturity. We will compute interest on fixed rate notes on the basis of a 360-day year of twelve 30-day months (the 30/360 (ISDA) day count convention), unless your pricing supplement provides that we will compute interest on a different basis. We will pay interest on each interest payment date and at maturity as described below under “—Payments of Principal and Interest.”

**Floating Rate Notes.** Floating rate notes will bear interest at rates that are determined by reference to an interest rate formula based on LIBOR. In some cases, the rates may also be adjusted by adding or subtracting a spread in relation to LIBOR or multiplying by a spread multiplier and may be subject to a minimum rate and/or a maximum rate. If your note is a floating rate note, the formula and any adjustments that apply to the interest rate will be specified in your pricing supplement.

Each floating rate note will bear interest from its original issue date or from the most recent date to which interest on the note has been paid or made available for payment. Interest will accrue on the principal of a floating rate note at a rate per annum determined according to the interest rate formula stated in the pricing supplement during the applicable interest rate period specified in your pricing supplement, until the principal is paid or made available for payment. We will pay interest on each interest payment date and at maturity as described below under “—Payment of Principal and Interest.”

In addition, the following will apply to floating rate notes.

### **Initial Base Rate**

Unless otherwise specified in your pricing supplement, for floating rate notes, the initial base rate will be the applicable LIBOR base rate in effect from and including the original issue date to but excluding the initial interest reset date. We will specify the initial LIBOR base rate in your pricing supplement.

### **Spread or Spread Multiplier**

In some cases, the base rate for floating rate notes may be adjusted:

- by adding or subtracting a specified number of basis points, called the spread, with one basis point being 0.01% ; or
- by multiplying the base rate by a specified percentage, called the spread multiplier.

If you purchase floating rate notes, your pricing supplement will specify whether a spread or spread multiplier will apply to your notes and, if so, the amount of the applicable spread or spread multiplier and any increases or decreases in the spread or spread multiplier during the term of your notes.

### **Maximum and Minimum Rates**

The actual interest rate, after being adjusted by the spread or spread multiplier, may also be subject to either or both of the following limits:

- a maximum rate—*i.e.*, a specified upper limit that the actual interest rate in effect at any time may not exceed; and/or
- a minimum rate—*i.e.*, a specified lower limit that the actual interest rate in effect at any time may not fall below.

If you purchase floating rate notes, your pricing supplement will specify whether a maximum rate and/or minimum rate will apply to your notes and, if so, what those rates are.

Whether or not a maximum rate applies, the interest rate on floating rate notes will in no event be higher than the maximum rate permitted by New York law, as it may be modified by U.S. law of general application. Under current New York law, the maximum rate of interest, with some exceptions, for any loan in an amount less than \$250,000 is 16% and for any loan in the amount of \$250,000 or more but less than \$2,500,000 is 25%, per year on a simple interest basis. These limits do not apply to loans of \$2,500,000 or more.

The rest of this subsection describes how the interest rate and the interest payment dates will be determined, and how interest will be calculated, on floating rate notes.

### **Interest Reset Dates**

Except as otherwise specified in your pricing supplement, the rate of interest on floating rate notes will be reset, by the calculation agent described below, daily, weekly, monthly, quarterly, semi-annually or annually (each, an “interest reset period”). The date on which the interest rate resets and the reset rate becomes effective is called the interest reset date. Except as otherwise specified in your pricing supplement, the interest reset date will be as follows:

- for floating rate notes that reset daily, each London business day (as defined below);
- for floating rate notes that reset weekly, the Wednesday of each week;
- for floating rate notes that reset monthly, the third Wednesday of each month;
- for floating rate notes that reset quarterly, the third Wednesday of each of four months of each year as specified in your pricing supplement;
- for floating rate notes that reset semi-annually, the third Wednesday of each of two months of each year as specified in your pricing supplement; and
- for floating rate notes that reset annually, the third Wednesday of one month of each year as specified in your pricing supplement.

For floating rate notes, the interest rate in effect on any particular day will be the interest rate determined with respect to the latest interest reset date that occurs on or before that day. There are several exceptions, however, to the reset provisions described above.

Interest reset dates are subject to adjustment, as described below under “—Business Day Conventions.”

The base rate in effect from and including the original issue date to but excluding the first interest reset date will be the initial base rate. For floating rate notes that reset daily or weekly, the base rate in effect for each day following the fifth business

day before an interest payment date to, but excluding, the interest payment date, and for each day following the fifth business day before the maturity to, but excluding, the maturity, will be the base rate in effect on that fifth business day.

### **Interest Determination Dates**

The interest rate that takes effect on an interest reset date will be determined by the calculation agent for the LIBOR base rates by reference to a particular date called an interest determination date. Except as otherwise specified in your pricing supplement, the interest determination date relating to a particular interest reset date will be the second London business day preceding the interest reset date. We refer to an interest determination date for LIBOR notes as a LIBOR interest determination date.

### **Interest Calculation Date**

The interest rate that takes effect on a particular interest reset date will be determined by reference to the corresponding interest determination date or interest reset date, as applicable. For some notes, however, the calculation agent will set the rate on a day no later than the corresponding interest calculation date. Unless otherwise specified in your pricing supplement, the interest calculation date for rates to which a calculation date applies will be the business day immediately preceding the date on which interest will next be paid (on an interest payment date or the maturity, as the case may be). The calculation agent need not wait until the relevant interest calculation date to determine the interest rate if the rate information it needs to make the determination is available from the relevant sources sooner.

### **Interest Rate Calculations**

Interest payable on floating rate notes for any particular interest period will be calculated as described below using an interest factor, expressed as a decimal, applicable to each day during the applicable interest period, unless otherwise specified in your pricing supplement.

Calculations relating to floating rate notes will be made by the calculation agent, an institution that we appoint as our agent for this purpose. We have initially appointed U.S. Bank National Association as our calculation agent for any floating rate notes. We may specify a different calculation agent in your pricing supplement. The applicable pricing supplement for your floating rate note will name the institution that we have appointed to act as the calculation agent for that note as of its original issue date. We may appoint a different institution to serve as calculation agent from time to time after the original issue date of your floating rate note without your consent and without notifying you of the change. Absent manifest error, all determinations of the calculation agent will be final and binding on you and us, without any liability on the part of the calculation agent.

For floating rate notes, the calculation agent will determine, on the corresponding interest calculation date or interest determination date, as described below, the interest rate that takes effect on each interest reset date. In addition, the calculation agent will calculate the amount of interest that has accrued during each interest period—*i.e.*, the period from and including the original issue date, or the last date to which interest has accrued (which may be the interest payment date or any interest reset date in accordance with the business day convention), to but excluding the next date to which interest will accrue (which may be the interest payment date or any interest reset date in accordance with the business day convention). For each interest period, the calculation agent will calculate the amount of accrued interest by multiplying the face amount of the floating rate note by an accrued interest factor for the interest period. Such accrued interest rate factor is determined by multiplying the applicable interest rate for the period by the day count fraction. The day count fraction will be determined in accordance with the 30/360 (ISDA) day count convention, where the number of days in the interest period in respect of which payment is being made is divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y1” is the year, expressed as a number, in which the first day of the interest period falls;

“Y2” is the year, expressed as a number, in which the day immediately following the last day included in the interest period falls;

“M1” is the calendar month, expressed as a number, in which the first day of the interest period falls;

“M2” is the calendar month, expressed as a number, in which the day immediately following the last day included in the interest period falls;

“D1” is the first calendar day, expressed as a number, of the interest period, unless such number would be 31, in which case D1 will be 30; and

“D2” is the calendar day, expressed as a number, immediately following the last day included in the interest period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30.

Upon the request of the holder of any floating rate note, the calculation agent will provide the interest rate then in effect, and, if determined, the interest rate that will become effective on the next interest reset date with respect to such floating rate note.

All percentages resulting from any calculation relating to any note will be rounded upward or downward, as appropriate, to the next higher or lower one hundred-thousandth of a percentage point, *e.g.*, 9.876541% (or .09876541) being rounded down to 9.87654% (or .0987654) and 9.876545% (or .09876545) being rounded up to 9.87655% (or .0987655). All amounts used in or resulting from any calculation relating to any note will be rounded upward or downward to the nearest cent.

### **Sources and Corrections**

If we refer to a rate as set forth on a display page, other published source, information vendor or other vendor officially designated by the sponsor of that rate, if there is a successor source for the display page, other published source, information vendor or other official vendor, we refer to that successor source as applicable as determined by the calculation agent. When we refer to a particular heading or headings on any of those sources, those references include any successor or replacement heading or headings as determined by the calculation agent.

If the applicable rate is based on information obtained from a Reuters screen, that rate will be subject to the corrections, if any, published on that Reuters screen within one hour of the time that rate was first displayed on such source.

### **LIBOR Calculation**

LIBOR, with respect to the base rate and any interest reset date, will be the London interbank offered rate for deposits in U.S. dollars for the index maturity specified in your pricing supplement, appearing on the Reuters screen LIBOR page as of approximately 11:00 A.M., London time, on the relevant LIBOR interest determination date.

- If the rate described above does not so appear on the Reuters screen LIBOR page, then LIBOR will be determined on the basis of the rates at which deposits in U.S. dollars are offered by four major banks in the London interbank market selected by the calculation agent at approximately 11:00 A.M., London time, on the relevant LIBOR interest determination date, to prime banks in the London interbank market for a period of the specified index maturity, beginning on the relevant interest reset date, and in a representative amount. The calculation agent will request the principal London office of each of these major banks to provide a quotation of its rate. If at least two quotations are provided, LIBOR for the relevant interest reset date will be the arithmetic mean of the quotations.
- If fewer than two of the requested quotations described above are provided, LIBOR for the relevant interest reset date will be the arithmetic mean of the rates quoted by major banks in New York City selected by the calculation agent, at approximately 11:00 A.M., New York City time (or the time in the relevant principal financial center), on the relevant interest reset date, for loans in U.S. dollars (or the index currency) to leading European banks for a period of the specified index maturity, beginning on the relevant interest reset date, and in a representative amount.
- If no quotation is provided as described in the preceding paragraph, then the calculation agent, after consulting such sources as it deems comparable to any of the foregoing quotations or display page, or any such source as it deems reasonable from which to estimate LIBOR or any of the foregoing lending rates, shall determine LIBOR for that interest reset date in its sole discretion.
- For the purpose of this section, we define the term “index maturity” as the interest rate period of LIBOR on which the interest rate formula is based as specified in your pricing supplement.

In all cases, if the stated maturity or any earlier redemption date or repayment date with respect to any note falls on a day that is not a business day, any payment of principal, premium, if any, and interest otherwise due on such day will be made on the next succeeding business day, and no interest on such payment shall accrue for the period from and after such stated maturity, redemption date or repayment date, as the case may be.

### **Business Days**

The term “London business day” will apply to your floating rate notes, as specified in your pricing supplement, and it means each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which banking institutions in London generally are authorized or obligated by law, regulation or executive order to close and is also a day on which dealings in the applicable index currency are transacted in the London interbank market.

## Business Day Convention

The business day convention that will apply to your notes is the “following business day convention.” The “following business day convention” means, for any interest payment date or interest reset date, other than the maturity, if such date would otherwise fall on a day that is not a business day, then such date will be postponed to the next day that is a business day.

## Payment of Principal and Interest

Principal of and interest on beneficial interests in the notes will be made in accordance with the arrangements then in place between the paying agent and The Depository Trust Company (referred to as “DTC”) and its participants as described under “Registration and Settlement—The Depository Trust Company.” Payments in respect of any notes in certificated form will be made as described under “Registration and Settlement—Registration, Transfer and Payment of Certificated Notes.”

Interest on each note will be payable either monthly, quarterly, semi-annually or annually on each interest payment date and at the note’s stated maturity or on the date of redemption or repayment if a note is redeemed or repaid prior to maturity. Interest is payable to the person in whose name a note is registered at the close of business on the regular record date before each interest payment date. Interest due at a note’s stated maturity or on a date of redemption or repayment will be payable to the person to whom principal is payable.

We will pay any administrative costs imposed by banks in connection with making payments in immediately available funds, but any tax, assessment or governmental charge imposed upon any payments on a note, including, without limitation, any withholding tax, is the responsibility of the holders of beneficial interests in the note in respect of which such payments are made.

## Payment and Record Dates for Interest

Interest on the notes will be paid as follows:

<b>Interest Payment Frequency</b>	<b>Interest Payment Dates</b>
Monthly	Fifteenth day of each calendar month, beginning in the first calendar month following the month the note was issued.
Quarterly	Fifteenth day of every third month, beginning in the third calendar month following the month the note was issued.
Semi-annually	Fifteenth day of every sixth month, beginning in the sixth calendar month following the month the note was issued.
Annually	Fifteenth day of every twelfth month, beginning in the twelfth calendar month following the month the note was issued.

The regular record date for any interest payment date will be the first day of the calendar month in which the interest payment date occurs, except that the regular record date for interest due on the note’s stated maturity date or date of earlier redemption or repayment will be that particular date. For the purpose of determining the holder at the close of business on a regular record date when business is not being conducted, the close of business will mean 5:00 P.M., New York City time, on that day.

Interest on a note will be payable beginning on the first interest payment date after its date of original issuance to holders of record on the corresponding regular record date.

“Business day” means any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which banking institutions are authorized or required by law or regulation to close in The City of New York.

## Redemption and Repayment

Unless we otherwise provide in the applicable pricing supplement, a note will not be redeemable or repayable prior to its stated maturity date.

If the pricing supplement states that the note will be redeemable at our option prior to its stated maturity date, then on such date or dates specified in the pricing supplement, we may redeem those notes at our option either in whole or from time to time in part, upon not less than five nor more than 60 days’ written notice to the holder of those notes.

If the pricing supplement states that your note will be repayable at your option prior to its stated maturity date, we will require receipt of notice of the request for repayment at least 30 but not more than 60 days prior to the date or dates specified in

the pricing supplement. We also must receive the completed form entitled “Option to Elect Repayment.” Exercise of the repayment option by the holder of a note is irrevocable.

Since the notes will be represented by a global note, DTC or its nominee will be treated as the holder of the notes; therefore DTC or its nominee will be the only entity that receives notices of redemption of notes from us, in the case of our redemption of notes, and will be the only entity that can exercise the right to repayment of notes, in the case of optional repayment. See “Registration and Settlement.”

To ensure that DTC or its nominee will timely exercise a right to repayment with respect to a particular beneficial interest in a note, the beneficial owner of the interest in that note must instruct the broker or other direct or indirect participant through which it holds the beneficial interest to notify DTC or its nominee of its desire to exercise a right to repayment. Because different firms have different cut-off times for accepting instructions from their customers, each beneficial owner should consult the broker or other direct or indirect participant through which it holds an interest in a note to determine the cut-off time by which the instruction must be given for timely notice to be delivered to DTC or its nominee. Conveyance of notices and other communications by DTC or its nominee to participants, by participants to indirect participants and by participants and indirect participants to beneficial owners of the notes will be governed by agreements among them and any applicable statutory or regulatory requirements.

The redemption of a note normally will occur on a specified interest payment date and any business day thereafter following receipt of a valid notice. The repayment of a note normally will occur on the interest payment date or dates following receipt of a valid notice. Unless otherwise specified in the pricing supplement, the redemption or repayment price will equal 100% of the principal amount of the note plus unpaid interest accrued to the date or dates of redemption or repayment.

We may at any time purchase notes at any price or prices in the open market or otherwise. We may also purchase notes otherwise tendered for repayment by a holder or tendered by a holder’s duly authorized representative through exercise of the Survivor’s Option described below. If we purchase the notes in this manner, we have the discretion to either hold, resell or surrender the notes to the trustee for cancellation.

### **Survivor’s Option**

The “Survivor’s Option” is a provision in a note pursuant to which we agree to repay that note, if requested by the authorized representative of the beneficial owner of that note, following the death of the beneficial owner of the note, so long as the note was owned by that beneficial owner or the estate of that beneficial owner at least six months prior to the request. The pricing supplement relating to each offering of notes will state whether the Survivor’s Option applies to those notes.

If a note is entitled to a Survivor’s Option, upon the valid exercise of the Survivor’s Option and the proper tender of that note for repayment, we will, at our option, repay or repurchase that note, in whole or in part, at a price equal to 100% of the principal amount of the deceased beneficial owner’s interest in that note plus unpaid interest accrued to the date of repayment.

To be valid, the Survivor’s Option must be exercised by or on behalf of the person who has authority to act on behalf of the deceased beneficial owner of the note (including, without limitation, the personal representative or executor of the deceased beneficial owner or the surviving joint owner with the deceased beneficial owner) under the laws of the applicable jurisdiction.

The death of a person holding a beneficial ownership interest in a note as a joint tenant or tenant by the entirety with another person, or as a tenant in common with the deceased holder’s spouse, will be deemed the death of a beneficial owner of that note, and the entire principal amount of the note so held will be subject to repayment by us upon request. However, the death of a person holding a beneficial ownership interest in a note as tenant in common with a person other than such deceased holder’s spouse will be deemed the death of a beneficial owner only with respect to such deceased person’s interest in the note.

The death of a person who, during his or her lifetime, was entitled to substantially all of the beneficial ownership interests in a note will be deemed the death of the beneficial owner of that note for purposes of the Survivor’s Option, regardless of whether that beneficial owner was the registered holder of that note, if entitlement to those interests can be established to the satisfaction of the trustee. A beneficial ownership interest will be deemed to exist in typical cases of nominee ownership, ownership under the Uniform Transfers to Minors Act or Uniform Gifts to Minors Act, community property or other joint ownership arrangements between a husband and wife. In addition, a beneficial ownership interest will be deemed to exist in custodial and trust arrangements where one person has all of the beneficial ownership interests in the applicable note during his or her lifetime.

We have the discretionary right to limit the aggregate principal amount of notes as to which exercises of the Survivor’s Option shall be accepted by us from authorized representatives of all deceased beneficial owners in any calendar year to an amount equal to the greater of \$2,000,000 or 2% of the principal amount of all notes outstanding as of the end of the most recent calendar year. We also have the discretionary right to limit to \$250,000 in any calendar year the aggregate principal

amount of notes as to which exercises of the Survivor's Option shall be accepted by us from the authorized representative of any individual deceased beneficial owner of notes in such calendar year. In addition, we will not permit the exercise of the Survivor's Option except in principal amounts of \$1,000 and multiples of \$1,000.

An otherwise valid election to exercise the Survivor's Option may not be withdrawn. Each election to exercise the Survivor's Option will be accepted in the order that elections are received by the trustee, except for any note the acceptance of which would contravene any of the limitations described in the preceding paragraph. Notes accepted for repayment through the exercise of the Survivor's Option normally will be repaid on the first interest payment date that occurs 20 or more calendar days after the date of the acceptance. For example, if the acceptance date of a note tendered through a valid exercise of the Survivor's Option is September 1, 2017, and interest on that note is paid monthly, we would normally, at our option, repay that note on the interest payment date occurring on October 15, 2017, because the September 15, 2017 interest payment date would occur less than 20 days from the date of acceptance. Each tendered note that is not accepted in any calendar year due to the application of any of the limitations described in the preceding paragraph will be deemed to be tendered in the following calendar year in the order in which all such notes were originally tendered. If a note tendered through a valid exercise of the Survivor's Option is not accepted, the trustee will deliver a notice by first-class mail to the registered holder, at that holder's last known address as indicated in the note register, that states the reason that note has not been accepted for repayment.

With respect to notes represented by a global note, DTC or its nominee is treated as the holder of the notes and will be the only entity that can exercise the Survivor's Option for such notes. To obtain repayment pursuant to exercise of the Survivor's Option for a note, the deceased beneficial owner's authorized representative must provide the following items to the broker or other entity through which the beneficial interest in the note is held by the deceased beneficial owner:

- a written instruction to such broker or other entity to notify DTC of the authorized representative's desire to obtain repayment pursuant to exercise of the Survivor's Option;
- appropriate evidence satisfactory to the trustee (a) that the deceased was the beneficial owner of the note at the time of death and his or her interest in the note was owned by the deceased beneficial owner or his or her estate at least six months prior to the request for repayment, (b) that the death of the beneficial owner has occurred, (c) of the date of death of the beneficial owner, and (d) that the representative has authority to act on behalf of the beneficial owner;
- if the interest in the note is held by a nominee of the deceased beneficial owner, a certificate satisfactory to the trustee from the nominee attesting to the deceased's beneficial ownership of such note;
- written request for repayment signed by the authorized representative of the deceased beneficial owner with the signature guaranteed by a member firm of a registered national securities exchange or of the Financial Industry Regulatory Authority, Inc. or a commercial bank or trust company having an office or correspondent in the United States;
- if applicable, a properly executed assignment or endorsement;
- tax waivers and any other instruments or documents that the trustee reasonably requires in order to establish the validity of the beneficial ownership of the note and the claimant's entitlement to payment; and
- any additional information the trustee reasonably requires to evidence satisfaction of any conditions to the exercise of the Survivor's Option or to document beneficial ownership or authority to make the election and to cause the repayment of the note.

In turn, the broker or other entity will deliver each of these items to the trustee, together with evidence satisfactory to the trustee from the broker or other entity stating that it represents the deceased beneficial owner.

The death of a person owning a note in joint tenancy or tenancy by the entirety with another or others shall be deemed the death of the holder of the note, and the entire principal amount of the note so held shall be subject to repayment, together with interest accrued thereon to the repayment date. The death of a person owning a note by tenancy in common shall be deemed the death of a holder of a note only with respect to the deceased holder's interest in the note so held by tenancy in common; except that in the event a note is held by husband and wife as tenants in common, the death of either shall be deemed the death of the holder of the note, and the entire principal amount of the note so held shall be subject to repayment. The death of a person who, during his or her lifetime, was entitled to substantially all of the beneficial interests of ownership of a note, shall be deemed the death of the holder thereof for purposes of this provision, regardless of the registered holder, if such beneficial interest can be established to the satisfaction of the trustee and us. Such beneficial interest shall be deemed to exist in typical cases of nominee ownership, ownership under the Uniform Gifts to Minors Act, the Uniform Transfers to Minors Act, community property or other joint ownership arrangements between a husband and wife and trust arrangements where one person has substantially all of the beneficial ownership interest in the note during his or her lifetime.

We retain the right to limit the aggregate principal amount of notes as to which exercises of the Survivor's Option applicable to the notes will be accepted in any one calendar year as described above. All other questions regarding the eligibility

or validity of any exercise of the Survivor's Option will be determined by the trustee, in its sole discretion, which determination will be final and binding on all parties.

The broker or other entity will be responsible for disbursing payments received from the trustee to the authorized representative. See "Registration and Settlement."

Forms for the exercise of the Survivor's Option may be obtained from the Trustee at 100 Wall Street, Suite 1600, New York, NY 10005, Attention: General Counsel.

If applicable, we will comply with the requirements of Section 14(e) of the Exchange Act, and the rules promulgated thereunder, and any other securities laws or regulations in connection with any repayment of notes at the option of the registered holders or beneficial owners thereof.

**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

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.

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.

## 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	—%
<b>Total Investments</b>	<b>\$ 6,096,396</b>	<b>100.0%</b>	<b>\$ 5,842,570</b>	<b>100.0%</b>	<b>\$ 5,831,458</b>	<b>100.0%</b>	<b>\$ 5,727,279</b>	<b>100.0%</b>

(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%
<b>Total Interest Bearing Investments</b>	<b>\$ 5,508,512</b>	<b>100.0%</b>	<b>\$ 5,009,465</b>	<b>100.0%</b>	<b>\$ 5,100,210</b>	<b>100.0%</b>	<b>\$ 4,773,593</b>	<b>100.0%</b>

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%

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%
<b>Total Investments</b>	<b>\$ 6,096,396</b>	<b>100.0%</b>	<b>\$ 5,842,570</b>	<b>100.0%</b>	<b>\$ 5,831,458</b>	<b>100.0%</b>	<b>\$ 5,727,279</b>	<b>100.0%</b>

(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.

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:

<b>Quarter Ended</b>	<b>Acquisitions(1)</b>	<b>Dispositions(2)</b>
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.

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).

<b>Loan Type</b>	<b>Outstanding Principal Balance</b>	<b>Fair Value</b>	<b>Interest Rate Range</b>	<b>Weighted Average Interest Rate*</b>
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.

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
				<u>\$ 1,992,698</u>	<u>\$ 1,659,875</u>

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.

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.

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

	Principal Outstanding	Unamortized Discount & 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)
<b>Total</b>	<b>\$ 2,588,014</b>		<b>\$ 2,551,791</b>	<b>\$ 2,524,064</b>	

- (1) As permitted by ASC 825-10-25, we have not elected to value our Revolving Credit Facility, Convertible Notes, 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.
- (7) The effective interest rate is equal to the effect of the stated interest, the accretion of original issue discount and 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.
- (8) For the Prospect Capital InterNotes®, the rate presented is the weighted average effective interest rate. Interest 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
<b>Total Contractual Obligations</b>	<b>\$ 2,588,014</b>	<b>\$ 101,647</b>	<b>\$ 623,518</b>	<b>\$ 858,898</b>	<b>\$ 1,003,951</b>

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:

	<b>Payments Due by Period</b>				
	<b>Total</b>	<b>Less than 1 Year</b>	<b>1 – 3 Years</b>	<b>3 – 5 Years</b>	<b>After 5 Years</b>
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
<b>Total Contractual Obligations</b>	<b>\$ 2,347,888</b>	<b>\$ 101,647</b>	<b>\$ 859,020</b>	<b>\$ 895,025</b>	<b>\$ 492,196</b>

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.

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,		Six Months Ended December 31,	
	2018	2017	2018	2017
Average stated interest rate	4.5%	3.6%	4.4%	3.6%
Average outstanding balance	\$308,424	66,437	\$237,283	\$33,219

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%

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.

	<b>2019 Notes</b>	<b>2020 Notes</b>	<b>2022 Notes</b>
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

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.

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
	<u>\$ 69,586</u>			

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
	<u>\$ 52,177</u>			

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
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
	<u>\$ 725,659</u>			

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
	<u>\$ 760,924</u>			

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

## 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 December 31,		Six Months Ended 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 December 31,		Six Months Ended 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 <sup>(1)</sup>	\$ 5,504,149	\$ 5,541,686	\$ 5,503,842	\$ 5,482,245
Weighted average interest rate earned on performing interest bearing investments <sup>(1)</sup>	11.23%	10.83%	11.41%	10.88%
Average debt principal of all interest bearing investments <sup>(2)</sup>	\$ 6,058,947	\$ 5,838,576	\$ 5,994,970	\$ 5,804,372
Weighted average interest rate earned on all interest bearing investments <sup>(2)</sup>	10.20%	10.28%	10.47%	10.27%

<sup>(1)</sup> Excludes equity investments and non-accrual loans.

<sup>(2)</sup> Excludes equity investments.

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.

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

	Three Months Ended December 31,		Six Months Ended 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	<u>\$107,072</u>	<u>\$89,208</u>	<u>\$202,335</u>	<u>\$184,055</u>

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 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 \$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 December 31,		Six Months Ended 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 <sup>(1)</sup>	5.38%	5.27%	5.34%	5.30%
Annualized weighted average interest rate on borrowings <sup>(2)</sup>	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.

### 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 December 31,		Six Months Ended December 31,	
	2018	2017	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	<u>\$ (150,696)</u>	<u>\$ 54,695</u>	<u>\$ (149,647)</u>	<u>\$ 1,944</u>

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

	<b>Net Change in Unrealized Gains (Losses)</b>	
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:

	<b>Net Change in Unrealized Gains (Losses)</b>	
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

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

	<b>Net Change in Unrealized Gains (Losses)</b>	
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:

	<b>Net Change in Unrealized Gains (Losses)</b>	
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)
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

### 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**

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.

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 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.
4. The Board of Directors discusses valuations and determines the fair value of each investment in our portfolio in 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 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 Securitization 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 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 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.”

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:

(in thousands) Basis Point Change	Interest Income	Interest Expense	Net Investment Income	Net Investment Income (1)
Up 300 basis points	\$ 100,576	\$ 52	\$ 100,524	\$ 80,419
Up 200 basis points	66,628	35	66,593	53,274
Up 100 basis points	32,679	17	32,662	26,130
Down 100 basis points	(41,924)	(41)	(41,883)	(33,506)

(1) Includes the impact of income incentive fees. See Note 13 in the accompanying *Consolidated Financial Statements* for more information on income incentive fees.

As of December 31, 2018, one and three month LIBOR were 2.50% and 2.81%, respectively.

We may hedge against interest rate fluctuations by using standard hedging instruments such as futures, options and forward contracts subject to the requirements of the 1940 Act. While hedging activities may insulate us against adverse changes in interest rates, they may also limit our ability to participate in the benefits of higher interest rates with respect to our portfolio of investments. During the quarter ended December 31, 2018, we did not engage in hedging activities.

## REGISTRATION AND SETTLEMENT

### The Depository Trust Company

All of the notes we offer will be issued in book-entry only form. This means that we will not issue certificates for notes, except in the limited case described below. Instead, we will issue global notes in registered form. Each global note will be held through DTC and will be registered in the name of Cede & Co., as nominee of DTC.

Accordingly, Cede & Co. will be the holder of record of the notes. Each note represented by a global note evidences a beneficial interest in that global note.

Beneficial interests in a global note will be shown on, and transfers are effected through, records maintained by DTC or its participants. In order to own a beneficial interest in a note, you must be an institution that has an account with DTC or have a direct or indirect account with such an institution. Transfers of ownership interests in the notes will be accomplished by making entries in DTC participants' books acting on behalf of beneficial owners.

So long as DTC or its nominee is the registered holder of a global note, DTC or its nominee, as the case may be, will be the sole holder and owner of the notes represented thereby for all purposes, including payment of principal and interest, under the indenture. Except as otherwise provided below, you will not be entitled to receive physical delivery of certificated notes and will not be considered the holder of the notes for any purpose under the indenture. Accordingly, you must rely on the procedures of DTC and the procedures of the DTC participant through which you own your note in order to exercise any rights of a holder of a note under the indenture. The laws of some jurisdictions require that certain purchasers of notes take physical delivery of such notes in certificated form. Those limits and laws may impair the ability to transfer beneficial interests in the notes.

Each global note representing notes will be exchangeable for certificated notes of like tenor and terms and of differing authorized denominations in a like aggregate principal amount, only if (1) DTC notifies us that it is unwilling or unable to continue as depository for the global notes or we become aware that DTC has ceased to be a clearing agency registered under the Exchange Act and, in any such case we fail to appoint a successor to DTC within 60 calendar days, (2) we, in our sole discretion, determine that the global notes shall be exchangeable for certificated notes or (3) an event of default has occurred and is continuing with respect to the notes under the indenture. Upon any such exchange, the certificated notes shall be registered in the names of the beneficial owners of the global note representing the notes.

The following is based on information furnished by DTC:

DTC will act as securities depository for the notes. The notes will be issued as fully-registered notes registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. Generally, one fully registered global note will be issued for all of the principal amount of the notes.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments from over 85 countries that DTC's direct participants deposit with DTC.

DTC also facilitates the post-trade settlement among direct participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between direct participants' accounts. This eliminates the need for physical movement of securities certificates. Direct participants include both U.S. and non U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of direct participants of DTC and members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, as well as by The New York Stock Exchange, Inc., the American Stock Exchange LLC, and the Financial Industry Regulatory Authority, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a direct participant, either directly or indirectly. The DTC rules applicable to its participants are on file with the SEC. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of the notes under the DTC system must be made by or through direct participants, which will receive a credit for the notes on DTC's records. The beneficial interest of each actual purchaser of each note is in turn to be recorded on the direct and indirect participants' records. Beneficial owners will not receive written confirmation from DTC of their purchase.

Beneficial owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the direct or indirect participant through which the beneficial owner entered into the transaction. Transfers of beneficial interests in the notes are to be accomplished by entries made on the books of direct and indirect participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their beneficial interests in notes, except in the event that use of the book-entry system for the notes is discontinued.

To facilitate subsequent transfers, all notes deposited by direct participants with DTC will be registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of the notes with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the notes; DTC's records reflect only the identity of the direct participants to whose accounts such notes will be credited, which may or may not be the beneficial owners. The direct and indirect participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to direct participants, by direct participants to indirect participants, and by direct participants and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial owners of the notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the notes, such as redemption, tenders, defaults, and proposed amendments to the security documents. For example, beneficial owners of the notes may wish to ascertain that the nominee holding the notes for their benefit has agreed to obtain and transmit notices to beneficial owners. In the alternative, beneficial owners may wish to provide their names and addresses to the registrar of the notes and request that copies of the notices be provided to them directly. Any such request may or may not be successful.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the notes unless authorized by a direct participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to us as soon as possible after the regular record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those direct participants to whose accounts the notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

We will pay principal and or interest payments on the notes in same-day funds directly to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit direct participants' accounts on the applicable payment date in accordance with their respective holdings shown on DTC's records upon DTC's receipt of funds and corresponding detail information. Payments by participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of these participants and not of DTC or any other party, subject to any statutory or regulatory requirements that may be in effect from time to time. Payment of principal and interest to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC, is our responsibility, disbursement of such payments to direct participants is the responsibility of DTC, and disbursement of such payments to the beneficial owners is the responsibility of the direct or indirect participant.

We will send any redemption notices to DTC. If less than all of the notes are being redeemed, DTC's practice is to determine by lot the amount of the interest of each direct participant in such issue to be redeemed.

A beneficial owner, or its authorized representative, shall give notice to elect to have its notes repaid by us, through its direct or indirect participant, to the trustee, and shall effect delivery of such notes by causing the direct participant to transfer that participant's interest in the global note representing such notes, on DTC's records, to the trustee. The requirement for physical delivery of notes in connection with a demand for repayment will be deemed satisfied when the ownership rights in the global note representing such notes are transferred by the direct participants on DTC's records.

DTC may discontinue providing its services as securities depository for the notes at any time by giving us reasonable notice. Under such circumstances, if a successor securities depository is not obtained, we will print and deliver certificated notes. We may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, we will print and deliver certificated notes.

The information in this section concerning DTC and DTC's system has been obtained from sources that we believe to be reliable, but neither we, the Purchasing Agent nor any agent takes any responsibility for its accuracy.

### **Registration, Transfer and Payment of Certificated Notes**

If we ever issue notes in certificated form, those notes may be presented for registration, transfer and payment at the office of the registrar or at the office of any transfer agent designated and maintained by us. We have designated U.S. Bank National Association to act in those capacities for the notes. The registrar or transfer agent will make the transfer or registration only if it is satisfied with the documents of title and identity of the person making the request. There will not be a service charge

for any exchange or registration of transfer of the notes, but we may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the exchange. At any time, we may change transfer agents or approve a change in the location through which any transfer agent acts. We also may designate additional transfer agents for any notes at any time.

We will not be required to: (1) issue, exchange or register the transfer of any note to be redeemed for a period of 15 days after the selection of the notes to be redeemed; (2) exchange or register the transfer of any note that was selected, called or is being called for redemption, except the unredeemed portion of any note being redeemed in part; or (3) exchange or register the transfer of any note as to which an election for repayment by the holder has been made, except the unrepaid portion of any note being repaid in part.

We will pay principal of and interest on any certificated notes at the offices of the paying agents we may designate from time to time. Generally, we will pay interest on a note by check on any interest payment date other than at stated maturity or upon earlier redemption or repayment to the person in whose name the note is registered at the close of business on the regular record date for that payment. We will pay principal and interest at stated maturity or upon earlier redemption or repayment in same-day funds against presentation and surrender of the applicable notes.

## SUPPLEMENT TO MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following summary of U.S. federal income tax considerations supplements the discussion set forth under the heading “Material U.S. Federal Income Tax Considerations” in the accompanying prospectus and is subject to the qualifications and assumptions set forth therein.

The following is a general summary of U.S. federal income tax considerations generally applicable to the purchase, ownership and disposition of the notes. This discussion is based upon the Code, Treasury Regulations and judicial decisions and administrative interpretations thereof, all as of the date hereof and all of which are subject to change or differing interpretations, possibly with retroactive effect. No ruling from the Internal Revenue Service (“IRS”) has been or will be sought regarding any matter discussed herein. No assurance can be given that the IRS would not assert, or that a court would not sustain, a position contrary to any of the tax aspects set forth below.

This discussion applies only to a holder of notes that acquires the notes pursuant to this offering at their “issue price” within the meaning of the applicable provisions of the Code and who holds the notes as a capital asset (generally, property held for investment) under the Code. This discussion does not address any U.S. federal estate or gift tax consequences or any state, local or non-U.S. tax consequences. In addition, this discussion does not address all aspects of U.S. federal income taxation that may be applicable to investors in light of their particular circumstances, or to investors subject to special treatment under U.S. federal income tax law, including, but not limited to:

- banks, insurance companies or other financial institutions;
- pension plans or trusts;
- U.S. noteholders (as defined below) whose functional currency is not the U.S. dollar;
- real estate investment trusts;
- regulated investment companies;
- persons subject to the alternative minimum tax;
- cooperatives;
- tax-exempt organizations;
- dealers in securities;
- expatriates;
- foreign persons or entities (except to the extent set forth below);
- persons deemed to sell the notes under the constructive sale provisions of the Code; or
- persons that hold the notes as part of a straddle, hedge, conversion transaction or other integrated investment.

If a partnership (including any entity or arrangement treated as a partnership for U.S. federal income tax purposes) owns notes, the tax treatment of a partner in the partnership will depend upon the status of the partner and the activities of the partnership. Partners in a partnership that owns the notes should consult their tax advisors as to the particular U.S. federal income tax consequences applicable to them.

We encourage investors to consult their tax advisors regarding the specific consequences of an investment in our notes, including tax reporting requirements, the applicability of U.S. federal, state or local and foreign tax laws, eligibility for the benefits of any applicable tax treaty and the effect of any possible changes in the tax laws.

### **Consequences to U.S. Noteholders**

The following is a general summary of U.S. federal income tax consequences generally applicable to you if you are a U.S. noteholder. U.S. federal income tax consequences generally applicable to non-U.S. noteholders are described under “Consequences to Non-U.S. Noteholders” below. For purposes of this summary, the term “U.S. noteholder” means a beneficial owner of a note that is, for U.S. federal income tax purposes (i) an individual who is a citizen or resident of the U.S., (ii) a corporation, or other entity treated as a corporation for U.S. federal income tax purposes, that is created or organized under the laws of the U.S., any of the States or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source, or (iv) a trust (A) if a court within the U.S. is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all substantial decisions of such trust, or (B) that has made a valid election to be treated as a U.S. person for U.S. federal income tax purposes.

#### *Stated interest and OID on the notes*

Except as discussed below, a U.S. noteholder generally will be required to recognize stated interest as ordinary income at the time it is paid or accrued on the notes in accordance with its regular method of accounting for U.S. federal income tax purposes. In addition, if the notes’ “issue price” (the first price at which a substantial amount of the notes is sold to investors) is less than their “stated redemption price at maturity” (the sum of all payments to be made on the notes other than “qualified stated interest”) by more than a statutorily defined de minimis threshold, the notes will be issued with original issue discount

("OID") for U.S. federal income tax purposes. The term "qualified stated interest" generally means stated interest that is unconditionally payable at least annually at a single fixed rate or, if certain requirements are met (as described below), certain variable rates.

If the notes are issued with OID, a U.S. noteholder 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. Such OID will be included in gross income for each day during each taxable year in which the note is held using a constant yield-to-maturity method that reflects the compounding of interest. This means that the holder will have to include in income increasingly greater amounts of OID over time. Notice will be given in the applicable pricing supplement if we determine that a particular note will be issued with OID. We are required to provide information returns stating the amount of OID accrued on the notes held by persons of record other than certain exempt holders.

If the notes are "step-up notes" (i.e., notes with a fixed interest rate that increases at pre-determined intervals), the tax treatment described in the first sentence under "—Consequences to U.S. Noteholders—Stated interest and OID on the notes" assumes that we will have the right to call the notes at par (plus accrued but unpaid interest) on each date that the interest rate increases. If this is not the case, interest that exceeds the lowest rate payable under the step-up note may not be treated as qualified stated interest and, depending on the amount of such excess, may thus cause the step-up note to be treated as issued with OID, in which case the notes generally would be subject to the OID rules discussed above. Prospective investors are urged to consult their own tax advisors regarding the treatment of step-up notes or similar notes.

If you own a note issued with de minimis OID (i.e., discount that is not OID), you generally must include the de minimis OID in income at the time principal payments on the notes are made in proportion to the amount paid. Any amount of de minimis OID that you have included in income will be treated as capital gain.

#### *Short-term notes*

Notes that have a fixed maturity of one year or less ("short-term notes") will be subject to the following special rules.

All of the interest on a short-term note is treated as part of the short-term note's stated redemption price at maturity, thereby giving rise to OID. Thus, all short-term notes will be OID debt securities. OID will be treated as accruing on a short-term debt instrument ratably or, at the election of a U.S. noteholder, under a constant yield method.

A U.S. noteholder that uses the cash method of tax accounting (with certain exceptions) will generally not be required to include OID in respect of the short-term note in income on a current basis, though they may be required to include stated interest in income as the income is received. Such a U.S. noteholder may not be allowed to deduct all of the interest paid or accrued on any indebtedness incurred or maintained to purchase or carry such a short-term note until the maturity of the note or its earlier disposition in a taxable transaction. In addition, such a U.S. noteholder will be required to treat any gain realized on a disposition of the note as ordinary income to the extent of the holder's accrued OID on the note, and short-term capital gain to the extent the gain exceeds accrued OID. A U.S. noteholder that uses the cash method of tax accounting may, however, elect to include OID on a short-term note in income on a current basis. In such case, the limitation on the deductibility of interest described above will not apply. A U.S. noteholder that uses the accrual method of tax accounting and certain cash method holders generally will be required to include OID on a short-term note in income on a current basis.

#### *Floating rate notes*

In the case of a note that is a floating rate note (including a note based on LIBOR), special rules apply. In general, if a note qualifies for treatment as a "variable rate debt instrument" under Treasury Regulations and provides for stated interest that is unconditionally payable at least annually at a variable rate that, subject to certain exceptions, is a single "qualified floating rate" or "objective rate," each as defined below, all stated interest on the note is treated as qualified stated interest. In that case, both the note's "yield to maturity" and "qualified stated interest" will be determined, for purposes of calculating the accrual of OID, if any, as though the note will bear interest in all periods throughout its term at a fixed rate generally equal to the rate that would be applicable to interest payments on the note on its issue date or, in the case of an objective rate (other than a "qualified inverse floating rate"), the rate that reflects the yield to maturity that is reasonably expected for the note. A U.S. noteholder of a variable rate debt instrument would then recognize OID, if any, that is calculated based on the note's assumed yield to maturity. If the interest actually accrued or paid during an accrual period exceeds or is less than the assumed fixed interest, the qualified stated interest allocable to that period is increased or decreased under rules set forth in Treasury Regulations. Special rules apply for determining the amount of OID for other variable rate debt instruments, such as instruments with more than one qualified floating rate or instruments with a single fixed rate and one or more qualified floating rates. U.S. noteholders should consult their own tax advisors with respect to the specific U.S. federal income tax considerations regarding any investment in a note that qualifies a "variable rate debt instrument."

A note will generally qualify as a variable rate debt instrument if (a) the note's issue price does not exceed the total noncontingent principal payments by more than the lesser of: (i) .015 multiplied by the product of the total noncontingent principal payments and the number of complete years to maturity from the issue date, or (ii) 15% of the total noncontingent principal payments; (b) the note provides for stated interest, compounded or paid at least annually, only at one or more qualified floating rates, a single fixed rate and one or more qualified floating rates, a single objective rate, or a single fixed rate and a single objective rate that is a qualified inverse floating rate; and (c) the value of the rate on any date during the term of the note is set no earlier than three months prior to the first day on which that value is in effect or no later than one year following that first day.

Generally, a rate is a qualified floating rate if variations in the rate can reasonably be expected to measure contemporaneous fluctuations in the cost of newly borrowed funds in the currency in which the debt instrument is denominated. A rate that equals LIBOR or LIBOR plus or minus a fixed spread is, in general, a qualified floating rate. However, a rate (including a rate based on LIBOR) will generally not be a qualified floating rate if, among other circumstances:

- the rate is subject to one or more minimum or maximum rate floors or ceilings or one or more governors limiting the amount of increase or decrease in each case which are not fixed throughout the term of the note and which are reasonably expected as of the issue date to cause the rate in some accrual periods to be significantly higher or lower than the overall expected return on the note determined without the floor, ceiling, or governor; or
- the rate is a multiple of a qualified floating rate unless the multiple is a fixed multiple that is greater than 0.65 but not more than 1.35 (provided, however, that if a multiple of a qualified floating rate is not within such limits and thus is not itself a qualified floating rate, it may nevertheless qualify as an "objective rate").

If a note provides for two or more qualified floating rates that are within 0.25 percentage points of each other on the issue date or can reasonably be expected to have approximately the same values throughout the term of the note, the qualified floating rates together constitute a single qualified floating rate.

Generally, an objective rate is a rate that is determined using a single fixed formula that is based on objective financial or economic information such as one or more qualified floating rates. An objective rate is a qualified inverse floating rate if that rate is equal to a fixed rate minus a qualified floating rate and variations in the rate can reasonably be expected to inversely reflect contemporaneous variations in the qualified floating rate. A variable rate will generally not qualify as an objective rate if, among other circumstances, it is reasonably expected that the average value of the variable rate during the first half of the term of the note will be either significantly less than or significantly greater than the average value of the rate during the final half of the term of the note.

If a floating rate note does not qualify as a "variable rate debt instrument," the note generally will be subject to taxation under special rules applicable to contingent payment debt instruments. U.S. noteholders should consult their own tax advisors with respect to the specific U.S. federal income tax considerations regarding such notes.

#### *Sale, exchange, redemption or other taxable disposition of the notes*

Subject to the special rules for short-term notes discussed above, upon the sale, exchange, redemption or other taxable disposition of a note, a U.S. noteholder generally will recognize capital gain or loss in an amount equal to the difference between (1) the sum of cash plus the fair market value of all other property received on such disposition (except to the extent such cash or property is attributable to accrued but unpaid interest, which, to the extent not previously included in income, generally will be taxable as ordinary income) and (2) its adjusted tax basis in the note. A U.S. noteholder's adjusted tax basis in a note generally will equal the price the U.S. noteholder paid for the note increased by OID (including with respect to a short-term note), if any, previously included in income with respect to that note, and reduced by any cash payments on the note other than qualified stated interest. Such capital gain or loss will be long-term capital gain or loss if, at the time of such taxable disposition, the U.S. noteholder has held the note for more than one year. The deductibility of capital losses is subject to limitations.

#### *Medicare tax*

Certain U.S. noteholders who are individuals, estates or trusts and whose income exceeds certain thresholds will be required to pay a 3.8% Medicare tax on all or a portion of their "net investment income," which includes interest on the notes and capital gains from the sale or other disposition of the notes.

#### *Information reporting and backup withholding*

In general, information reporting requirements will apply to certain payments of principal and interest (including OID) and to the proceeds of sale of a note paid to a U.S. noteholder (unless such noteholder is an exempt recipient). A backup

withholding tax may apply to such payments if a U.S. noteholder fails to provide a taxpayer identification number or certification of exempt status, or if it is otherwise subject to backup withholding.

Any amounts withheld under the backup withholding rules will be allowed as a refund or credit against a U.S. noteholder's United States federal income tax liability provided the required information is timely furnished to the IRS.

### **Consequences to Non-U.S. Noteholders**

The following is a general summary of U.S. federal income tax consequences generally applicable to you if you are a non-U.S. noteholder. A beneficial owner of a note that is not a partnership for U.S. federal income tax purposes (including any entity or arrangement otherwise treated as a partnership for U.S. federal income tax purposes) or a U.S. noteholder is referred to herein as a "non-U.S. noteholder."

#### *Stated interest and OID on the notes*

Stated interest and OID, if any, paid or accrued to a non-U.S. noteholder will generally not be subject to U.S. federal income or withholding tax if the interest or OID is not effectively connected with its conduct of a trade or business within the United States and is not considered contingent interest within the meaning of Section 871(h)(4)(A) of the Code (generally relating to interest payments that are determined by reference to the income, profits, receipts, cash flow, changes in the value of non-publicly-traded property or other attributes of, or distributions or similar payments paid by, the debtor or a related party), and the non-U.S. noteholder:

- does not own, actually or constructively, 10% or more of the total combined voting power of all classes of our stock entitled to vote;
- is not a "controlled foreign corporation" with respect to which we are, directly or indirectly, a "related person";
- is not a bank whose receipt of interest on the notes is described in section 881(c)(3)(A) of the Code; and
- provides its name and address, and certifies, under penalties of perjury, that it is not a U.S. person (on a properly executed IRS Form W-8BEN or W-8BEN-E (or other applicable form)), or holds its notes through certain foreign intermediaries and satisfies the certification requirements of applicable Treasury Regulations.

If a non-U.S. noteholder does not qualify for an exemption under these rules, interest income and OID, if any, from the notes may be subject to withholding tax at the rate of 30% (or lower applicable treaty rate). Stated interest and OID, if any, effectively connected with a non-U.S. noteholder's conduct of a U.S. trade or business (and, if required by an applicable income tax treaty, which is attributable to a United States permanent establishment), however, would not be subject to a 30% withholding tax so long as the non-U.S. noteholder provides us or our paying agent an adequate certification (currently on IRS Form W-8ECI); such payments of interest generally would be subject to U.S. federal income tax on a net basis at the rates applicable to U.S. persons generally. In addition, if a non-U.S. noteholder is a foreign corporation and the stated interest and OID, if any, is effectively connected with its conduct of a U.S. trade or business, it may also be subject to a 30% (or lower applicable treaty rate) branch profits tax on its effectively connected earnings and profits for the taxable year, subject to adjustments. To claim the benefit of a tax treaty, a non-U.S. noteholder must provide a properly executed IRS Form W-8BEN or W-8BEN-E (or other applicable form) to us or our paying agent before the payment of stated interest or OID, and may be required to obtain a U.S. taxpayer identification number and provide documentary evidence issued by foreign governmental authorities to prove residence in the foreign country.

#### *Sale, exchange, redemption or other taxable disposition of the notes*

Any gain recognized by a non-U.S. noteholder on the sale, exchange, redemption or other taxable disposition of the notes (except with respect to accrued and unpaid interest, which would be taxed as described under "Consequences to Non-U.S. Noteholders—Stated interest and OID on the notes" above) generally will not be subject to U.S. federal income tax unless:

- the gain is effectively connected with its conduct of a U.S. trade or business (and, if required by an applicable income tax treaty, is attributable to a United States permanent establishment); or
- the non-U.S. noteholder is a nonresident alien individual present in the U.S. for 183 or more days in the taxable year within which the sale, exchange, redemption or other disposition takes place and certain other requirements are met.

If a non-U.S. noteholder is a holder described in the first bullet point above, the net gain derived from the sale, exchange, redemption or other taxable disposition of its notes generally will be subject to U.S. federal income tax on a net basis at the rates applicable to U.S. persons generally. In addition, if such non-U.S. noteholder is a foreign corporation, it may also be subject to a 30% (or lower applicable treaty rate) branch profits tax on its effectively connected earnings and profits for the taxable year, subject to adjustments. If a non-U.S. noteholder is a holder described in the second bullet point above, it will be subject to a flat 30% U.S. federal income tax on the gain derived from the sale, exchange, redemption or other taxable

disposition of its notes, which may be offset by U.S. source capital losses, even though it is not considered a resident of the United States.

#### *Information Reporting and Backup Withholding*

Generally, we must report to the IRS and to a non-U.S. noteholder the amount of interest (including OID) on the notes paid to a non-U.S. noteholder and the amount of tax, if any, withheld with respect to those payments if the notes are in registered form. Copies of the information returns reporting such interest payments and any withholding may also be made available to the tax authorities in the country in which a non-U.S. noteholder resides under the provisions of an applicable income tax treaty.

In general, a non-U.S. noteholder will not be subject to backup withholding with respect to payments on the notes that we make to such noteholder provided that we do not have actual knowledge or reason to know that such noteholder is a U.S. person as defined under the Code, and we have received from you the statement described above under the fourth bullet point under “Consequences to Non-U.S. Noteholders—Stated interest and OID on the notes.”

In addition, no information reporting requirements or backup withholding will be required regarding the proceeds of the sale of a note made within the United States or conducted through certain United States-related financial intermediaries, if the payor receives the statement described above and does not have actual knowledge or reason to know that the non-U.S. noteholder is a U.S. person as defined under the Code, or the non-U.S. noteholder otherwise establishes an exemption.

Any amounts withheld under the backup withholding rules will be allowed as a refund or credit against a non-U.S. noteholder’s United States federal income tax liability provided the required information is timely furnished to the IRS.

#### *Other withholding rules*

Withholding at a rate of 30% will be required on interest in respect of, and after December 31, 2018, on gross proceeds from the sale of, notes held by or through certain foreign financial institutions (including investment funds), unless such institution enters into an agreement with the Secretary of the Treasury to report, on an annual basis, information with respect to shares in, and accounts maintained by, the institution to the extent such shares or accounts are held by certain United States persons or by certain non-U.S. entities that are wholly or partially owned by United States persons and to withhold on certain payments. Accordingly, the entity through which notes are held will affect the determination of whether such withholding is required. An intergovernmental agreement between the United States and an applicable foreign country, or future guidance, may modify these requirements. Similarly, interest in respect of, and after December 31, 2018, gross proceeds from the sale of, notes held by an investor that is a non-financial non-U.S. entity will be subject to withholding at a rate of 30%, unless such entity either (i) certifies to us that such entity does not have any “substantial United States owners” or (ii) provides certain information regarding the entity’s “substantial United States owners,” which we will in turn provide to the Secretary of the Treasury. Non-U.S. noteholders are encouraged to consult with their tax advisors regarding the possible implications of these requirements on their investment in notes.

Non-U.S. noteholders should consult any applicable income tax treaties that may provide for different rules. In addition, non-U.S. noteholders are urged to consult their tax advisors regarding the tax consequences of the purchase, ownership and disposition of the notes.

#### *Taxation as a RIC*

In September 2016, the IRS and U.S. Treasury Department issued proposed regulations that, if finalized, would provide that the income inclusions from a PFIC with a QEF election or a CFC would not be good income for purposes of the 90% Income Test unless the Company receives a cash distribution from such entity in the same year attributable to the included income. If such income were not considered “good income” for purposes of the 90% income test, the Company may fail to qualify as a RIC.

It is unclear whether or in what form these regulations will be adopted or, if adopted, whether such regulations would have a significant impact on the income that could be generated by the Company. If adopted, the proposed regulations would apply to taxable years of the Company beginning on or after 90 days after the regulations are published as final. The Company is monitoring the status of the proposed regulations and is assessing the potential impact of the proposed tax regulation on its operations.

#### *Failure to Obtain RIC Tax Treatment*

If we were unable to obtain tax treatment as a RIC, we would be subject to tax on all of our taxable income at regular corporate rates. We would not be able to deduct distributions to stockholders, nor would they be required to be made. Distributions would generally be taxable to our stockholders as ordinary dividend income eligible for the reduced maximum rate applicable for qualified

dividend income to the extent of our current and accumulated earnings and profits. Subject to certain limitations under the Code, corporate distributees would be eligible for the dividends-received deduction.

Distributions in excess of our current and accumulated earnings and profits would be treated first as a return of capital to the extent of the stockholder's tax basis, and any remaining distributions would be treated as a capital gain.

#### *Tax Cuts and Jobs Act*

On December 22, 2017, President Trump signed into law the Tax Cuts and Jobs Act, which significantly changed the Code, including a reduction in the statutory corporate income tax rate to 21%, a new limitation on the deductibility of business interest expense, restrictions on the use of net operating loss carryforwards arising in taxable years beginning after December 31, 2017 and dramatic changes to the taxation of income earned from foreign sources and foreign subsidiaries. The Tax Cuts and Jobs Act also authorizes the Treasury Department to issue regulations with respect to the new provisions.

The newly imposed limitation on the deductibility of interest expense for U.S. federal income tax purposes may adversely affect our leveraged portfolio companies' ability to deduct interest payments. Additionally, the disallowance of interest deductibility may or may not impact the portfolio company's ability to make dividend distributions from taxable earnings and profits. We cannot predict how these or the other changes in the Tax Cuts and Jobs Act, or regulations or other guidance issued under it, might affect us, our business, the business of our portfolio companies, or an investment in our securities.

The discussion set forth herein does not constitute tax advice, and potential investors should consult their own tax advisors concerning the tax considerations relevant to their particular situation.

**CERTAIN CONSIDERATIONS APPLICABLE TO  
ERISA, GOVERNMENTAL AND OTHER PLAN INVESTORS**

A fiduciary of a pension plan or other employee benefit plan (including a governmental plan, an individual retirement account or a Keogh plan) proposing to invest in the notes should consider this section carefully.

A fiduciary of an employee benefit plan subject to the Employee Retirement Income Security Act of 1974, as amended (commonly referred to as “ERISA”), should consider fiduciary standards under ERISA in the context of the particular circumstances of such plan before authorizing an investment in the notes. Such fiduciary should consider whether the investment is in accordance with the documents and instruments governing the plan.

In addition, ERISA and the Code prohibit certain transactions (referred to as “prohibited transactions”) involving the assets of a plan subject to ERISA or the assets of an individual retirement account or plan subject to Section 4975 of the Code (referred to as an “ERISA plan”), on the one hand, and persons who have certain specified relationships to the plan (“parties in interest” within the meaning of ERISA or “disqualified persons” within the meaning of the Code), on the other. If we (or an affiliate) are considered a party in interest or disqualified person with respect to an ERISA plan, then the investment in notes by the ERISA plan may give rise to a prohibited transaction. The purchase and holding of notes by an ERISA plan may be subject to one or more statutory or administrative exemptions from the prohibited transaction rules under ERISA and the Code. Even if the conditions for relief under such exemptions were satisfied, however, there can be no assurance that such exemptions would apply to all of the prohibited transactions that may be deemed to arise in connection with a plan’s investment in the notes.

By purchasing and holding the notes, the person making the decision to invest on behalf of an ERISA plan is representing that the purchase and holding of the notes will not result in a prohibited transaction under ERISA or the Code. Therefore, an ERISA plan should not invest in the notes unless the plan fiduciary or other person acquiring securities on behalf of the ERISA plan determines that neither we nor an affiliate is a party in interest or a disqualified person or, alternatively, that an exemption from the prohibited transaction rules is available. If an ERISA plan engages in a prohibited transaction, the transaction may require “correction” and may cause the ERISA plan fiduciary to incur certain liabilities and the parties in interest or disqualified persons to be subject to excise taxes.

Employee benefit plans that are governmental plans and non-U.S. plans, and certain church plans, are not subject to ERISA requirements. However, non-U.S., federal, state or local laws or regulations governing the investment and management of the assets of such plans may contain fiduciary and prohibited transaction requirements similar to those under ERISA and Section 4975 of the Code discussed above. By purchasing and holding the notes, the person making the decision to invest on behalf of any such plan is representing that the purchase and holding of the notes will not violate any law applicable to such plan that is similar to the prohibited transaction provisions of ERISA or the Code.

If you are the fiduciary of an employee benefit plan, whether or not subject to ERISA, and you propose to invest in the notes with the assets of such employee benefit plan, you should consult your own legal counsel for further guidance. The sale of notes to an employee benefit plan is in no respect a representation by us, the Purchasing Agent or any other person that such an investment meets all relevant legal requirements with respect to investments by employee benefit plans generally or any particular plan or that such an investment is appropriate for employee benefit plans generally or any particular plan.

## USE OF PROCEEDS

Unless otherwise indicated in a pricing supplement for the notes, we expect to use the net proceeds from the sale of the notes initially to maintain balance sheet liquidity, involving repayment of debt under our credit facility, if any, and redemption of outstanding Prospect Capital InterNotes® and other debt, investments in high quality short-term debt instruments or a combination thereof, and thereafter to make long-term investments in accordance with our investment objective. We anticipate that substantially all of the net proceeds from each offering will be used for the above purposes within six months, depending on the availability of appropriate investment opportunities consistent with our investment objective and market conditions.

As of February 7, 2019, we had \$358.0 million in outstanding borrowings under our credit facility and, based on the assets currently pledged as collateral on the facility, a total of approximately \$578.2 million was available to us for borrowing under our credit facility net of outstanding borrowings. Interest on borrowings under the credit facility is one-month LIBOR plus 2.20%, with no minimum LIBOR floor. 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.

## SENIOR SECURITIES

Information about our senior securities is shown in the following table as of each fiscal year ended June 30 for the fiscal years ended June 30, 2009 through June 30, 2018 and as of December 31, 2018. *(All figures in this item are in thousands except per unit data.)*

	Total Amount Outstanding(1)	Asset Coverage per Unit(2)	Involuntary Liquidating Preference per Unit(3)	Average Market Value per Unit(4)
<b><u>Credit Facility(15)</u></b>				
Fiscal 2019 (as of December 31, 2018, unaudited)	\$ 297,000	\$ 19,830	—	—
Fiscal 2018 (as of June 30, 2018)	37,000	155,503	—	—
Fiscal 2017 (as of June 30, 2017)	—	—	—	—
Fiscal 2016 (as of June 30, 2016)	—	—	—	—
Fiscal 2015 (as of June 30, 2015)	368,700	18,136	—	—
Fiscal 2014 (as of June 30, 2014)	92,000	69,470	—	—
Fiscal 2013 (as of June 30, 2013)	124,000	34,996	—	—
Fiscal 2012 (as of June 30, 2012)	96,000	22,668	—	—
Fiscal 2011 (as of June 30, 2011)	84,200	18,065	—	—
Fiscal 2010 (as of June 30, 2010)	100,300	8,093	—	—
Fiscal 2009 (as of June 30, 2009)	124,800	5,268	—	—
<b><u>2015 Notes(5)</u></b>				
Fiscal 2015 (as of June 30, 2015)	\$ 150,000	\$ 44,579	—	—
Fiscal 2014 (as of June 30, 2014)	150,000	42,608	—	—
Fiscal 2013 (as of June 30, 2013)	150,000	28,930	—	—
Fiscal 2012 (as of June 30, 2012)	150,000	14,507	—	—
Fiscal 2011 (as of June 30, 2011)	150,000	10,140	—	—
<b><u>2016 Notes(6)</u></b>				
Fiscal 2016 (as of June 30, 2016)	\$ 167,500	\$ 36,677	—	—
Fiscal 2015 (as of June 30, 2015)	167,500	39,921	—	—
Fiscal 2014 (as of June 30, 2014)	167,500	38,157	—	—
Fiscal 2013 (as of June 30, 2013)	167,500	25,907	—	—
Fiscal 2012 (as of June 30, 2012)	167,500	12,992	—	—
Fiscal 2011 (as of June 30, 2011)	172,500	8,818	—	—
<b><u>2017 Notes(7)</u></b>				
Fiscal 2017 (as of June 30, 2017)	\$ 50,734	\$ 118,981	—	—
Fiscal 2016 (as of June 30, 2016)	129,500	47,439	—	—
Fiscal 2015 (as of June 30, 2015)	130,000	51,437	—	—
Fiscal 2014 (as of June 30, 2014)	130,000	49,163	—	—
Fiscal 2013 (as of June 30, 2013)	130,000	33,381	—	—
Fiscal 2012 (as of June 30, 2012)	130,000	16,739	—	—
<b><u>2018 Notes(8)</u></b>				
Fiscal 2017 (as of June 30, 2017)	\$ 85,419	\$ 70,668	—	—
Fiscal 2016 (as of June 30, 2016)	200,000	30,717	—	—
Fiscal 2015 (as of June 30, 2015)	200,000	33,434	—	—
Fiscal 2014 (as of June 30, 2014)	200,000	31,956	—	—
Fiscal 2013 (as of June 30, 2013)	200,000	21,697	—	—

	Total Amount Outstanding(1)	Asset Coverage per Unit(2)	Involuntary Liquidating Preference per Unit(3)	Average Market Value per Unit(4)
<b>2019 Notes(16)</b>				
Fiscal 2019 (as of December 31, 2018, unaudited)	\$ 101,647	\$ 57,942	—	—
Fiscal 2018 (as of June 30, 2018)	101,647	56,604	—	—
Fiscal 2017 (as of June 30, 2017)	200,000	30,182	—	—
Fiscal 2016 (as of June 30, 2016)	200,000	30,717	—	—
Fiscal 2015 (as of June 30, 2015)	200,000	33,434	—	—
Fiscal 2014 (as of June 30, 2014)	200,000	31,956	—	—
Fiscal 2013 (as of June 30, 2013)	200,000	21,697	—	—
<b>5.00% 2019 Notes(10)</b>				
Fiscal 2018 (as of June 30, 2018)	\$ 153,536	\$ 37,474	—	—
Fiscal 2017 (as of June 30, 2017)	300,000	20,121	—	—
Fiscal 2016 (as of June 30, 2016)	300,000	20,478	—	—
Fiscal 2015 (as of June 30, 2015)	300,000	22,289	—	—
Fiscal 2014 (as of June 30, 2014)	300,000	21,304	—	—
<b>2020 Notes</b>				
Fiscal 2019 (as of December 31, 2018, unaudited)	\$ 378,500	\$ 15,560	—	—
Fiscal 2018 (as of June 30, 2018)	392,000	14,678	—	—
Fiscal 2017 (as of June 30, 2017)	392,000	15,399	—	—
Fiscal 2016 (as of June 30, 2016)	392,000	15,672	—	—
Fiscal 2015 (as of June 30, 2015)	392,000	17,058	—	—
Fiscal 2014 (as of June 30, 2014)	400,000	15,978	—	—
<b>6.95% 2022 Notes(9)</b>				
Fiscal 2014 (as of June 30, 2014)	\$ 100,000	\$ 63,912	—	\$ 1,038
Fiscal 2013 (as of June 30, 2013)	100,000	43,395	—	1,036
Fiscal 2012 (as of June 30, 2012)	100,000	21,761	—	996
<b>2022 Notes</b>				
Fiscal 2019 (as of December 31, 2018, unaudited)	\$ 328,500	\$ 17,929	—	—
Fiscal 2018 (as of June 30, 2018)	328,500	17,515	—	—
Fiscal 2017 (as of June 30, 2017)	225,000	26,828	—	—
<b>2023 Notes(11)</b>				
Fiscal 2019 (as of December 31, 2018, unaudited)	\$ 318,718	\$ 18,479	—	—
Fiscal 2018 (as of June 30, 2018)	318,675	18,055	—	—
Fiscal 2017 (as of June 30, 2017)	248,507	24,291	—	—
Fiscal 2016 (as of June 30, 2016)	248,293	24,742	—	—
Fiscal 2015 (as of June 30, 2015)	248,094	26,953	—	—
Fiscal 2014 (as of June 30, 2014)	247,881	25,783	—	—
Fiscal 2013 (as of June 30, 2013)	247,725	17,517	—	—
<b>2024 Notes</b>				
Fiscal 2019 (as of December 31, 2018, unaudited)	\$ 219,297	\$ 26,857	—	\$ 990
Fiscal 2018 (as of June 30, 2018)	199,281	28,872	—	1,029
Fiscal 2017 (as of June 30, 2017)	199,281	30,291	—	1,027
Fiscal 2016 (as of June 30, 2016)	161,364	38,072	—	951

	Total Amount Outstanding(1)	Asset Coverage per Unit(2)	Involuntary Liquidating Preference per Unit(3)	Average Market Value per Unit(4)
<b><u>6.375% 2024 Notes(11)</u></b>				
Fiscal 2019 (as of December 31, 2018, unaudited)	\$ 99,700	\$ 59,073	—	—
<b><u>2028 Notes</u></b>				
Fiscal 2019 (as of December 31, 2018, unaudited)	\$ 67,411	\$ 87,369	—	\$ 956
Fiscal 2018 (as of June 30, 2018)	55,000	104,611	—	1,004
<b><u>2029 Notes</u></b>				
Fiscal 2019 (as of December 31, 2018, unaudited)	\$ 50,000	\$ 117,792	—	924
<b><u>Prospect Capital InterNotes@(13)</u></b>				
Fiscal 2019 (as of December 31, 2018, unaudited)	\$ 725,659	\$ 8,116	—	—
Fiscal 2018 (as of June 30, 2018)	760,924	7,561	—	—
Fiscal 2017 (as of June 30, 2017)	980,494	6,156	—	—
Fiscal 2016 (as of June 30, 2016)	908,808	6,760	—	—
Fiscal 2015 (as of June 30, 2015)	827,442	8,081	—	—
Fiscal 2014 (as of June 30, 2014)	785,670	8,135	—	—
Fiscal 2013 (as of June 30, 2013)	363,777	11,929	—	—
<b><u>All Senior Securities(11)(12)(13)(14)</u></b>				
Fiscal 2019 (as of December 31, 2018, unaudited)	\$ 2,586,432	\$ 2,277	—	—
Fiscal 2018 (as of June 30, 2018)	2,346,563	2,452	—	—
Fiscal 2017 (as of June 30, 2017)	2,681,435	2,251	—	—
Fiscal 2016 (as of June 30, 2016)	2,707,465	2,269	—	—
Fiscal 2015 (as of June 30, 2015)	2,983,736	2,241	—	—
Fiscal 2014 (as of June 30, 2014)	2,773,051	2,305	—	—
Fiscal 2013 (as of June 30, 2013)	1,683,002	2,578	—	—
Fiscal 2012 (as of June 30, 2012)	664,138	3,277	—	—

- (1) Except as noted, the total amount of each class of senior securities outstanding at the end of the year/period presented (in 000's).
- (2) The asset coverage ratio for a class of senior securities representing indebtedness is calculated as our consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by senior securities representing indebtedness. This asset coverage ratio is multiplied by \$1,000 to determine the Asset Coverage Per Unit.
- (3) This column is inapplicable.
- (4) This column is inapplicable, except for the 6.95% 2022 Notes, the 2024 Notes, the 2028 Notes and the 2029 Notes. The average market value per unit is calculated as an average of quarter-end prices and shown as the market value per \$1,000 of indebtedness.
- (5) We repaid the outstanding principal amount of the 2015 Notes on December 15, 2015.
- (6) We repaid the outstanding principal amount of the 2016 Notes on August 15, 2016.
- (7) We repaid the outstanding principal amount of the 2017 Notes on October 15, 2017.
- (8) We repaid the outstanding principal amount of the 2018 Notes on March 15, 2018.
- (9) We redeemed the 6.95% 2022 Notes on May 15, 2015.
- (10) We redeemed the 5.00% 2019 Notes on September 26, 2018.
- (11) For the period ended December 31, 2018 and all fiscal years ended June 30th, the notes are presented net of unamortized discount.
- (12) While we do not consider commitments to fund under revolving arrangements to be Senior Securities, if we were to elect to treat such unfunded commitments, which were \$24,737 as of December 31, 2018 as Senior Securities for purposes of Section 18 of the 1940 Act, our asset coverage per unit would be \$2,265.
- (13) We have provided notice to call on December 14, 2018 with settlement on January 15, 2019, \$24.0 million of our Prospect Capital InterNotes@ at par maturing on July 15, 2020, with a weighted average rate of 4.71%.

- (14) If we were to consider the additional issuance, repurchases and maturities subsequent to December 31, 2018 including all notices to redeem with settlements through February 7, 2019, our asset coverage per unit would be \$2,304, or \$2,293 including the effects of unfunded commitments.
- (15) As of February 7, 2019, we had \$358.0 million outstanding borrowings under our credit facility.
- (16) We redeemed the 2019 Notes on January 15, 2019.

## PLAN OF DISTRIBUTION

Under the terms of the Seventh Amended and Restated Selling Agent Agreement dated November 9, 2018, which we refer to as the “Selling Agent Agreement,” the notes will be offered from time to time by us to the Purchasing Agent for subsequent resale to agents, including Citigroup Global Markets Inc. and RBC Capital Markets, LLC and other dealers who are broker-dealers and securities firms. The agents, including the Purchasing Agent, and the additional agents named from time to time pursuant to the Selling Agent Agreement, are, or will be, parties to the Selling Agent Agreement. The notes will be offered for sale in the United States only. Dealers who are members of the selling group have executed a Master Selected Dealer Agreement with the Purchasing Agent. We also may appoint additional agents to sell the notes. Any sale of the notes through those additional agents, however, will be on the same terms and conditions to which the original agents have agreed. The Purchasing Agent will purchase the notes at a discount ranging from 0.4% to 3.8% of the non-discounted price for each note sold. However, we also may sell the notes to the Purchasing Agent at a discount greater than or less than the range specified above. The discount at which we sell the notes to the Purchasing Agent will be set forth in the applicable pricing supplement. The Purchasing Agent also may sell notes to dealers at a concession not in excess of the discount it received from us. In certain cases, the Purchasing Agent and the other agents and dealers may agree that the Purchasing Agent will retain the entire discount. We will disclose any particular arrangements in the applicable pricing supplement.

Following the solicitation of orders, each of the agents, severally and not jointly, may purchase notes as principal for its own account from the Purchasing Agent. Unless otherwise set forth in the applicable pricing supplement, these notes will be purchased by the agents and resold by them to one or more investors at a fixed public offering price. After the initial public offering of notes, the public offering price (in the case of notes to be resold at a fixed public offering price), discount and concession may be changed.

Except for notes sold to level-fee accounts, notes offered to the public will be offered at the public offering price set forth in the applicable pricing supplement. Agents purchasing notes on an agency basis for client accounts shall purchase notes at the public offering price. Notes sold by the Agents for their own account may be sold at the public offering price less a discount specified in the applicable pricing supplement. Notes purchased by the Agents on behalf of level-fee accounts may be sold to such accounts at the discount to the public offering price specified in the applicable pricing supplement, in which case, such Agents will not retain any portion of the sales price as compensation.

We have the sole right to accept offers to purchase notes and may reject any proposed offer to purchase notes in whole or in part. Each agent also has the right, in its discretion reasonably exercised, to reject any proposed offer to purchase notes in whole or in part. We reserve the right to withdraw, cancel or modify any offer without notice. We also may change the terms, including the interest rate we will pay on the notes, at any time prior to our acceptance of an offer to purchase.

Each agent, including the Purchasing Agent, may be deemed to be an “underwriter” within the meaning of the Securities Act. We have agreed to indemnify the agents against certain liabilities, including liabilities under the Securities Act, or to contribute to any payments they may be required to make in respect of such liabilities. We also have agreed to reimburse the agents for certain expenses.

No note will have an established trading market when issued. We do not intend to apply for the listing of the notes on any securities exchange. However, we have been advised by the agents that they may purchase and sell notes in the secondary market as permitted by applicable laws and regulations. The agents are not obligated to make a market in the notes, and they may discontinue making a market in the notes at any time without notice. Neither we nor the agents can provide any assurance regarding the development, liquidity or maintenance of any trading market for any notes. All secondary trading in the notes will settle in same-day funds. See “Registration and Settlement.”

In connection with certain offerings of notes, the rules of the SEC permit the Purchasing Agent to engage in transactions that may stabilize the price of the notes. The Purchasing Agent will conduct these activities for the agents. These transactions may consist of short sales, stabilizing transactions and purchases to cover positions created by short sales. A short sale is the sale by the Purchasing Agent of a greater amount of notes than the amount the Purchasing Agent has agreed to purchase in connection with a specific offering of notes. Stabilizing transactions consist of certain bids or purchases made by the Purchasing Agent to prevent or retard a decline in the price of the notes while an offering of notes is in process. In general, these purchases or bids for the notes for the purpose of stabilization or to reduce a syndicate short position could cause the price of the notes to be higher than it might otherwise be in the absence of those purchases or bids. Neither we nor the Purchasing Agent makes any representation or prediction as to the direction or magnitude of any effect that these transactions may have on the price of any notes. In addition, neither we nor the Purchasing Agent makes any representation that, once commenced, these transactions will not be discontinued without notice. The Purchasing Agent is not required to engage in these activities and may end any of these activities at any time.

Some of the agents and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us or our affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

In addition, in the ordinary course of their business activities, the agents and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. The agents and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

## LEGAL MATTERS

The legality of the notes will be passed upon for the Company by Sean Dailey, our Vice President, Legal, Skadden, Arps, Slate, Meagher & Flom LLP (“Skadden, Arps”), New York, New York, and Venable LLP, as special Maryland counsel, Baltimore, Maryland, will pass on certain matters for the Company. Troutman Sanders LLP will pass on certain matters for the agents. Skadden, Arps and Venable LLP each have from time to time acted as counsel for us and our subsidiaries and may do so in the future.

## INDEPENDENT ACCOUNTING FIRMS

BDO USA, LLP is the independent registered public accounting firm of the Company and National Property REIT Corp. RSM US LLP is the independent registered public accounting firm of First Tower Finance Company LLC.

## AVAILABLE INFORMATION

We have filed with the SEC a registration statement on Form N-2, together with all amendments and related exhibits, under the Securities Act, with respect to the notes offered by this prospectus supplement and accompanying prospectus. The registration statement contains additional information about us and the notes being registered by this prospectus supplement and accompanying prospectus. We file with or submit to the SEC annual, quarterly and current periodic reports, proxy statements and other information meeting the informational requirements of the Exchange Act. This information and the information specifically regarding how we voted proxies relating to portfolio securities for the period ended June 30, 2018, are available free of charge by contacting us at 10 East 40<sup>th</sup> Street, 42<sup>nd</sup> floor, New York, NY 10016 or by telephone at toll-free (888) 748-0702. The SEC maintains an Internet site that contains reports, proxy and information statements and other information filed electronically by us with the SEC which are available on the SEC’s Internet site at <http://www.sec.gov>.

No dealer, salesperson or other individual has been authorized to give any information or to make any representation other than those contained in this prospectus supplement and accompanying prospectus and, if given or made, such information or representations must not be relied upon as having been authorized by us or the Purchasing Agent or any agent. This prospectus supplement does not constitute an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction in which such an offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation. Neither the delivery of this prospectus supplement and accompanying prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in our affairs or that information contained herein is correct as of any time subsequent to the date hereof.

## INDEX TO FINANCIAL STATEMENTS

### Financial Statements

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<u>Consolidated Statements of Operations for the three months ended December 31, 2018 and December 31, 2017 (unaudited)</u>	<u>F-3</u>
<u>Consolidated Statements of Changes in Net Assets for the six months ended December 31, 2018 and December 31, 2017 (unaudited)</u>	<u>F-4</u>
<u>Consolidated Statements of Cash Flows for the six months ended December 31, 2018 and December 31, 2017 (unaudited)</u>	<u>F-5</u>
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**PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES**  
(in thousands, except share and per share data)

	<b>December 31,</b>	<b>June 30, 2018</b>
	<b>2018</b>	<b>(Audited)</b>
	(Unaudited)	(Audited)
<b>Assets</b>		
Investments at fair value:		
Control investments (amortized cost of \$2,381,352 and \$2,300,526, respectively)	\$ 2,432,766	\$ 2,404,326
Affiliate investments (amortized cost of \$176,997 and \$55,637, respectively)	91,861	58,436
Non-control/non-affiliate investments (amortized cost of \$3,538,047 and \$3,475,295, respectively)	3,317,943	3,264,517
Total investments at fair value (amortized cost of \$6,096,396 and \$5,831,458, respectively)	5,842,570	5,727,279
Cash	109,668	83,758
Receivables for:		
Interest, net	7,663	19,783
Other	237	1,867
Deferred financing costs on Revolving Credit Facility (Note 4)	8,493	2,032
Due from broker (Note 6)	580	3,029
Prepaid expenses	568	984
Due from Affiliate (Note 13)	88	88
<b>Total Assets</b>	<b>5,969,867</b>	<b>5,838,820</b>
<b>Liabilities</b>		
Revolving Credit Facility (Notes 4 and 8)	297,000	37,000
Convertible Notes (less unamortized debt issuance costs of \$10,636 and \$13,074, respectively) (Notes 5 and 8)	798,011	809,073
Public Notes (less unamortized discount and debt issuance costs of \$13,946 and \$11,007, respectively) (Notes 6 and 8)	742,762	716,810
Prospect Capital InterNotes® (less unamortized debt issuance costs of \$11,641 and \$11,998, respectively) (Notes 7 and 8)	714,018	748,926
Due to Prospect Capital Management (Note 13)	51,301	49,045
Interest payable	32,975	33,741
Dividends payable	21,963	21,865
Due to broker	—	6,159
Accrued expenses	5,505	5,426
Due to Prospect Administration (Note 13)	1,785	2,212
Other liabilities	1,372	1,516
<b>Total Liabilities</b>	<b>2,666,692</b>	<b>2,431,773</b>
Commitments and Contingencies (Note 3)		
<b>Net Assets</b>	<b>\$ 3,303,175</b>	<b>\$ 3,407,047</b>
<b>Components of Net Assets</b>		
Common stock, par value \$0.001 per share (1,000,000,000 common shares authorized; 366,055,966 and 364,409,938 issued and outstanding, respectively) (Note 9)	\$ 366	\$ 364
Paid-in capital in excess of par (Note 9)	4,032,761	4,021,541
Accumulated overdistributed net investment income	(10,716)	(45,186)
Accumulated net realized loss	(465,410)	(465,493)
Net unrealized loss	(253,826)	(104,179)
<b>Net Assets</b>	<b>\$ 3,303,175</b>	<b>\$ 3,407,047</b>
<b>Net Asset Value Per Share (Note 16)</b>	<b>\$ 9.02</b>	<b>\$ 9.35</b>

See notes to consolidated financial statements.

**PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(in thousands, except share and per share data)  
(Unaudited)

	Three Months Ended December		Six Months Ended December 31,	
	2018	2017	2018	2017
<b>Investment Income</b>				
Interest income:				
Control investments	\$ 53,674	\$ 47,418	\$ 110,128	\$ 93,448
Affiliate investments	174	—	401	205
Non-control/non-affiliate investments	68,679	75,833	137,288	148,263
Structured credit securities	35,467	30,131	69,619	59,551
Total interest income	157,994	153,382	317,436	301,467
Dividend income:				
Control investments	13,000	—	27,665	—
Non-control/non-affiliate investments	266	326	528	870
Total dividend income	13,266	326	28,193	870
Other income:				
Control investments	15,741	4,038	18,532	6,129
Non-control/non-affiliate investments	882	4,654	4,144	12,513
Total other income (Note 10)	16,623	8,692	22,676	18,642
<b>Total Investment Income</b>	187,883	162,400	368,305	320,979
<b>Operating Expenses</b>				
Base management fee (Note 13)	33,187	29,559	63,144	59,722
Income incentive fee (Note 13)	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 (Note 13)	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
<b>Total Operating Expenses</b>	107,072	89,208	202,335	184,055
<b>Net Investment Income</b>	80,811	73,192	165,970	136,924
<b>Net Realized and Net Change in Unrealized Gains (Losses) from Investments</b>				
Net realized gains (losses)				
Control investments	2,801	2	2,802	11
Affiliate investments	—	—	—	846
Non-control/non-affiliate investments	192	(5,675)	1,232	(5,093)
Net realized gains (losses)	2,993	(5,673)	4,034	(4,236)
Net change in unrealized (losses) gains				
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
<b>Net Realized and Net Change in Unrealized (Losses) Gains from Investments</b>	(147,703)	49,022	(145,613)	(2,292)
Net realized losses on extinguishment of debt	(497)	(487)	(3,951)	(932)
<b>Net (Decrease) Increase in Net Assets Resulting from Operations</b>	\$ (67,389)	\$ 121,727	\$ 16,406	\$ 133,700
Net (decrease) increase in net assets resulting from operations per share	\$ (0.18)	\$ 0.34	\$ 0.04	\$ 0.37
Dividends declared per share	\$ (0.18)	\$ (0.18)	\$ (0.36)	\$ (0.41)

See notes to consolidated financial statements.

**PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**  
(in thousands, except share data)  
(Unaudited)

	Six Months Ended December 31,	
	2018	2017
<b>Operations</b>		
Net investment income	\$ 165,970	\$ 136,924
Net realized gains (losses)	83	(5,168)
Net change in net unrealized (losses) gains	(149,647)	1,944
<b>Net Increase in Net Assets Resulting from Operations</b>	<b>16,406</b>	<b>133,700</b>
<b>Distributions to Shareholders</b>		
Distribution from net investment income	(131,531)	(146,559)
<b>Net Decrease in Net Assets Resulting from Distributions to Shareholders</b>	<b>(131,531)</b>	<b>(146,559)</b>
<b>Common Stock Transactions</b>		
Value of shares issued through reinvestment of dividends	11,253	6,319
<b>Net Increase in Net Assets Resulting from Common Stock Transactions</b>	<b>11,253</b>	<b>6,319</b>
<b>Total Decrease in Net Assets</b>	<b>(103,872)</b>	<b>(6,540)</b>
Net assets at beginning of period	3,407,047	3,354,952
<b>Net Assets at End of Period</b> (Accumulated Overdistributed Net Investment Income of \$10,716 and \$64,446, respectively)	<b>\$ 3,303,175</b>	<b>\$ 3,348,412</b>
<b>Common Stock Activity</b>		
Shares issued through reinvestment of dividends	1,646,028	903,819
Shares issued and outstanding at beginning of period	364,409,938	360,076,933
<b>Shares Issued and Outstanding at End of Period</b>	<b>366,055,966</b>	<b>360,980,752</b>

See notes to consolidated financial statements.

**PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands, except share data)  
(Unaudited)

	Six Months Ended December 31,	
	2018	2017
<b>Operating Activities</b>		
Net increase in net assets resulting from operations	\$ 16,406	\$ 133,700
Net realized losses on extinguishment of debt	3,951	932
Net realized (gains) losses on investments	(4,034)	4,236
Net change in net unrealized losses (gains) on investments	149,647	(1,944)
(Accretion of premiums) and amortization of discounts, net	(120)	22,607
Accretion of discount on Public Notes (Note 6)	235	141
Amortization of deferred financing costs	6,343	6,219
Payment-in-kind interest	(19,306)	(3,980)
Structuring fees	(3,434)	(5,531)
Change in operating assets and liabilities:		
Payments for purchases of investments	(458,154)	(951,377)
Proceeds from sale of investments and collection of investment principal	220,110	1,353,163
Decrease in due to broker	(6,159)	(50,371)
Increase (decrease) in due to Prospect Capital Management	2,256	(620)
Decrease (increase) in interest receivable, net	12,120	(4,873)
(Decrease) increase in interest payable	(766)	550
Increase (decrease) in accrued expenses	79	(765)
Decrease (increase) in due from broker	2,449	(600)
(Decrease) increase in other liabilities	(144)	52
Decrease in other receivables	1,630	161
Increase in due from Prospect Administration	—	(2,082)
Increase in due from affiliate	—	(74)
Decrease in prepaid expenses	416	579
(Decrease) Increase in due to Prospect Administration	(427)	25
<b>Net Cash (Used in) Provided by Operating Activities</b>	<b>(76,902)</b>	<b>500,148</b>
<b>Financing Activities</b>		
Borrowings under Revolving Credit Facility (Note 4)	746,791	341,000
Principal payments under Revolving Credit Facility (Note 4)	(486,791)	(341,000)
Issuances of Public Notes, net of original issue discount (Note 6)	182,427	—
Redemptions of Public Notes (Note 6)	(153,536)	—
Redemptions of Convertible Notes (Note 5)	—	(50,734)
Repurchase of Convertible Notes, net (Note 5)	(13,433)	—
Issuances of Prospect Capital InterNotes® (Note 7)	69,586	52,177
Redemptions of Prospect Capital InterNotes®, net (Note 7)	(104,851)	(195,174)
Financing costs paid and deferred	(17,201)	(1,437)
Dividends paid	(120,180)	(148,587)
<b>Net Cash Provided by (Used in) Financing Activities</b>	<b>102,812</b>	<b>(343,755)</b>
<b>Net Increase in Cash</b>	<b>25,910</b>	<b>156,393</b>
Cash at beginning of period	83,758	318,083
<b>Cash at End of Period</b>	<b>\$ 109,668</b>	<b>\$ 474,476</b>
<b>Supplemental Disclosures</b>		
Cash paid for interest	\$ 72,752	\$ 73,472
<b>Non-Cash Financing Activities</b>		
Value of shares issued through reinvestment of dividends	\$ 11,253	\$ 6,319
Cost basis of investments written off as worthless	\$ —	\$ 5,662

See notes to consolidated financial statements.

**PROSPECT CAPITAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED SCHEDULES OF INVESTMENTS**  
(in thousands, except share data)

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Portfolio Company	Industry	Investments(1)(44)	Acquisition Date(53)	December 31, 2018 (Unaudited)			
				Principal Value	Amortized Cost	Fair Value(2)	% of Net Assets
<b>LEVEL 3 PORTFOLIO INVESTMENTS</b>							
<b>Control Investments (greater than 25.00% voting control)(47)</b>							
CCPI Inc.(19)	Electronic Equipment, Instruments & Components	Senior Secured Term Loan A (10.00%, due 12/31/2020)(3)	12/13/2012	\$ 2,797	\$ 2,797	\$ 2,797	0.1%
		Senior Secured Term Loan B (12.00% plus 7.00% PIK, due 12/31/2020)(3)(46)	12/13/2012	17,566	17,566	17,566	0.5%
		Common Stock (14,857 shares)(16)	12/13/2012		6,759	20,919	0.6%
				<b>27,122</b>	<b>41,282</b>	<b>41,282</b>	<b>1.2%</b>
CP Energy Services Inc.(20)	Energy Equipment & Services	Senior Secured Term Loan (13.81% (LIBOR + 11.00% with 1.00% LIBOR floor), due 12/29/2022)(11)	12/29/2017	35,048	35,048	35,048	1.1%
		Series B Convertible Preferred Stock (16.00%, 790 shares)(16)	10/30/2015		63,225	63,225	1.9%
		Common Stock (102,924 shares)(16)	8/2/2013				