

Risk Factors

An investment in PSEC Preferred Stock involves certain risks. You should carefully consider the information set forth in the “Risk Factors” section of the Prospectus for a discussion of material risk factors relevant to an investment in PSEC Preferred Stock, including, but not limited to the following:

- The Preferred Stock will be subject to a risk of early conversion at our option and holders may not be able to reinvest their funds.
- Holders of the Preferred Stock will bear dividend risk. We may be unable to pay dividends on the Preferred Stock under some circumstances. In addition, the terms of any future indebtedness we may incur could preclude the payment of dividends in respect of equity securities, including the Preferred Stock, under certain conditions.
- There is limited liquidity and no public trading market for the PSEC Preferred Stock and there is no guarantee that the Preferred Stock will be listed on a national securities exchange.
- The Preferred Stock pays dividends at a fixed rate. Prices of fixed income investments tend to vary inversely with changes in market yields. The market yields on securities comparable to the Preferred Stock may increase, which would likely result in a decline in the value of the Preferred Stock. Additionally, if interest rates rise, securities comparable to the Preferred Stock may pay higher dividend rates and holders of the Preferred Stock may not be able to sell the Preferred Stock at the Liquidation Preference and reinvest the proceeds at market rates. The Company may be subject to a greater risk of rising interest rates due to the current period of historically low interest rates. There is a possibility that interest rates may rise, which would likely drive down the prices of income- or dividend-paying securities.
- We will have a discretionary right to limit the aggregate Liquidation Preference of Preferred Stock subject to redemption following the death of a holder that may be exercised in any calendar year to an amount equal to the greater of \$10 million or 5% of all Preferred Stock outstanding as of the end of the most recent calendar year. Accordingly, no assurance can be given that exercise of a redemption following the death of a holder for the desired amount will be permitted in any single calendar year.
- The Company is seeking a credit rating on the Preferred Stock. Any credit rating that is issued on the Preferred Stock could be reduced or withdrawn while an investor holds Preferred Stock. A reduction or withdrawal of the credit rating would likely have an adverse effect on the market value of the Preferred Stock following a listing. In addition, a credit rating does not eliminate or mitigate the risks of investing in the Preferred Stock.
- Senior securities, including debt and preferred stock, expose us to additional risks, including the typical risks associated with leverage and could adversely affect our business, financial condition and results of operations.
- There is no cap on the number of shares of common stock that can be issued upon the conversion of shares of Preferred Stock. The conversion of the Preferred Stock into shares of common stock could cause the price of common stock to decline significantly.

PROSPECT CAPITAL
CONVERTIBLE PREFERRED
STOCK 

- The Preferred Stock will be subject to a risk of early redemption or conversion at our option and holders may not be able to reinvest their funds.
- Repurchases of common stock by the Company may reduce the asset coverage of the Preferred Stock, which could adversely affect their liquidity or market prices.
- In the event the Company does not generate a total return from dividends and interest received and net realized capital gains in an amount at least equal to its distributions for a given year, the Company may return capital as part of its distribution. This would decrease the asset coverage per share with respect to the Preferred Stock, which could adversely affect their liquidity or market prices.