Hercules Capital, Inc.
Form 497
November 14, 2016

Filed Pursuant to Rule 497
Registration No. 333-203511

PROSPECTUS SUPPLEMENT

(To prospectus dated August 24, 2016)

Up to 8,000,000 Shares

Common Stock

We have entered into an amended and restated equity distribution agreement, dated August 26, 2016, or the Equity Distribution Agreement, with JMP Securities LLC, or JMP Securities, relating to the shares of common stock offered by this prospectus supplement and the accompanying prospectus. Our common stock is listed on the New York Stock Exchange, or NYSE, under the trading symbol HTGC. The last reported sale price on the NYSE on November 7, 2016 was $13.17 per share. The net asset value per share of our common stock at September 30, 2016 (the last date prior to the date of this prospectus supplement on which we determined net asset value) was $9.86.

We are an internally managed, non-diversified, closed-end investment company that has elected to be regulated as a business development company under the Investment Company Act of 1940, as amended. Our investment objective is to maximize our portfolio total return by generating current income from our debt investments and capital appreciation from our warrant and equity-related investments.

The Equity Distribution Agreement provides that we may offer and sell up to 8,000,000 shares of our common stock from time to time through JMP Securities, as our sales agent. Sales of our common stock, if any, under this prospectus supplement and the accompanying prospectus may be made in negotiated transactions or transactions that are deemed to be at the market, as defined in Rule 415 under the Securities Act of 1933, as amended, including sales made directly on the NYSE or similar securities exchange or sales made to or through a market maker other than on an exchange, at prices related to the prevailing market prices or at negotiated prices. As of the date of this prospectus supplement, we have sold approximately 5.6 million shares of our common stock under the Equity Distribution Agreement.

JMP Securities will receive a commission from us to be negotiated from time to time, but in no event in excess of 2.0% of the gross sales price of any shares of our common stock sold through JMP Securities under the Equity Distribution Agreement. JMP Securities is not required to sell any specific number or dollar amount of common stock, but will use its commercially reasonable efforts consistent with its sales and trading practices to sell the shares of our common stock offered by this prospectus supplement and the accompanying prospectus. See Plan of Distribution beginning on page S-18 of this prospectus supplement. The sales price per share of our common stock offered by this prospectus supplement and the accompanying prospectus, less JMP Securities commission, will not be less than the net asset value per share of our common stock at the time of such sale.

Please read this prospectus supplement, and the accompanying prospectus, before investing, and keep it for future reference. The prospectus supplement and the accompanying prospectus contain important information about us that a prospective investor should know before investing in our common stock. 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 400 Hamilton Avenue, Suite 310, Palo Alto, California 94301, or by telephone by calling collect at (650) 289-3060 or on our website at www.htgc.com. The information on our website is not incorporated by reference into this prospectus or the accompanying prospectus. The SEC also maintains a website at www.sec.gov that contains such information.

An investment in our common stock involves risks, including the risk of a total loss of investment. In addition, the companies in which we invest are subject to special risks. See the Risk Factors section beginning on page 11 of the accompanying prospectus to read about risks that you should consider before investing in our common stock, including the risk of leverage.

Neither the SEC nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

JMP Securities

The date of this prospectus supplement is November 14, 2016.

Table of Contents

Index to Financial Statements

You should rely only on the information contained in this prospectus supplement and the accompanying prospectus. We have not, and JMP Securities has not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and JMP Securities is not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information contained in this prospectus supplement and the accompanying prospectus is accurate only as of the date on the front cover of this prospectus supplement and the accompanying prospectus, as applicable. Our business, financial condition, results of operations and prospects may have changed since that date.

This document is in two parts. The first part is this prospectus supplement, which describes the terms of this offering and also adds to and updates information contained in the accompanying prospectus. The second part is the accompanying prospectus, which gives more general information and disclosure. To the extent the information contained in this prospectus supplement differs from the information contained in the accompanying prospectus, the information in this prospectus supplement shall control. You should read this prospectus supplement and the accompanying prospectus together with the additional information described under the heading, Available Information before investing in our common stock.

TABLE OF CONTENTS

Prospectus Supplement

Prospectus

Table of Contents

Index to Financial Statements

FEES AND EXPENSES

The following table is intended to assist you in understanding the various costs and expenses that an investor in our common stock will bear directly or indirectly. However, we caution you that some of the percentages indicated in the table below are estimates and may vary. The footnotes to the fee table state which items are estimates. Except where the context suggests otherwise, whenever this prospectus contains a reference to fees or expenses paid by you or us or that we will pay fees or expenses, stockholders will indirectly bear such fees or expenses as investors in Hercules Capital, Inc.

Stockholder Transaction Expenses (as a percentage of the public offering price):	
Sales load (as a percentage of offering price)(1)	2.00%
Offering expenses	1.78%(2)
Dividend reinvestment plan fees	(3)
Total stockholder transaction expenses (as a percentage of the public offering price)	3.78%
Annual Expenses (as a percentage of net assets attributable to common stock):(4)	
Operating expenses	6.15%(5)(6)
Interest and fees paid in connection with borrowed funds	4.98%(7)
Total annual expenses	11.13%(8)

(1) Represents the estimated commission with respect to the shares of common stock being sold in this offering. JMP Securities will be entitled to compensation up to 2.00% of the gross proceeds of the sale of any shares of our common stock under the Equity Distribution Agreement, with the exact amount of such compensation to be mutually agreed upon by the Company and JMP Securities from time to time. There is no guarantee that there will be any sales of our common stock pursuant to this prospectus supplement and the accompanying prospectus.

(2) The percentage reflects estimated offering expenses of approximately $1.2 million.

(3) The expenses associated with the administration of our dividend reinvestment plan are included in Operating expenses. We pay all brokerage commissions incurred with respect to open market purchases, if any, made by the administrator under the plan. For more details about the plan, see Dividend Reinvestment Plan in the accompanying prospectus.

(4) Net assets attributable to common stock equals the weighted average net assets for the nine-months ended September 30, 2016, which is approximately $723.3 million.

(5) Operating expenses represent our estimated operating expenses by annualizing our actual operating expenses incurred for the nine-months ended September 30, 2016, including all fees and expenses of our consolidated subsidiaries and excluding interests and fees on indebtedness. This percentage for the year ended December 31, 2015 was 6.45%. See Management s Discussion and Analysis and Results of Operations, Management, and Executive Compensation in the accompanying prospectus.

(6) We do not have an investment adviser and are internally managed by our executive officers under the supervision of our Board of Directors. As a result, we do not pay investment advisory fees, but instead we pay the operating costs associated with employing investment management professionals.

(7) Interest and fees paid in connection with borrowed funds represents our estimated interest, fees and credit facility expenses by annualizing our actual interest, fees and credit facility expenses incurred for the nine-months ended September 30, 2016, including our Wells Facility, Union Bank Facility, the 2019 Notes, the 2024 Notes, the 2021 Asset-Backed Notes and the SBA debentures, each of which is defined herein. This percentage for the year ended December 31, 2015 was 5.10%.

(8) Total annual expenses is the sum of operating expenses, and interest and fees paid in connection with borrowed funds. This percentage for the year ended December 31, 2015 was 11.55%. Total annual expenses is presented as a percentage of weighted average net assets attributable to common stockholders, because the holders of shares of our common stock (and not the holders of our debt securities or preferred stock, if any) bear all of our fees and expenses, including the fees and expenses of our wholly-owned consolidated subsidiaries, all of which are included in this fee table presentation.

Table of Contents

Index to Financial Statements

Example

The following example demonstrates the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a $1,000 hypothetical investment in our common stock, assuming (1) a 2.00% sales load (underwriting discounts and commissions) and offering expenses totaling 1.78%, (2) total net annual expenses of 11.13% of net assets attributable to common shares as set forth in the table above and (3) a 5% annual return. These amounts are based upon our payment of annual operating expenses at the levels set forth in the table above and assume no additional leverage.

	1 Year	3 Years	5 Years	10 Years
You would pay the following expenses on a $1,000 common stock investment, assuming a 5% annual return	$ 142	$ 331	$ 499	$ 838

The example and the expenses in the tables above should not be considered a representation of our future expenses, and actual expenses may be greater or lesser than those shown. Moreover, while the example assumes, as required by the applicable rules of the SEC, a 5% annual return, our performance will vary and may result in a return greater or lesser than 5%. In addition, while the example assumes reinvestment of all dividends and distributions at net asset value, participants in our dividend reinvestment plan may receive shares valued at the market price in effect at that time. This price may be at, above or below net asset value. See Dividend Reinvestment Plan in the accompanying prospectus for additional information regarding our dividend reinvestment plan.

Table of Contents

Index to Financial Statements

FORWARD- LOOKING STATEMENTS

The matters discussed in this prospectus supplement and the accompanying prospectus, as well as in future oral and written statements by management of Hercules Capital, Inc., that are forward-looking statements are based on current management expectations that involve substantial risks and uncertainties which could cause actual results to differ materially from the results expressed in, or implied by, these forward-looking statements. Forward-looking statements relate to future events or our future financial performance. We generally identify forward-looking statements by terminology such as may, will, should, expects, plans, anticipates, could, intends, target, project believes, estimates, predicts, potential or continue or the negative of these terms or other similar expressions. Important assumptions include ability to originate new investments, achieve certain margins and levels of profitability, the availability of additional capital, and the ability to maintain certain debt to asset ratios. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this prospectus should not be regarded as a representation by us that our plans or objectives will be achieved. The forward-looking statements contained in this prospectus supplement and the accompanying prospectus include statements as to:

- our future operating results;
- our business prospects and the prospects of our prospective portfolio companies;
- the impact of investments that we expect to make;
- our informal relationships with third parties including in the venture capital industry;
- the expected market for venture capital investments and our addressable market;
- the dependence of our future success on the general economy and its impact on the industries in which we invest;
- our ability to access debt markets and equity markets;
- the ability of our portfolio companies to achieve their objectives;
- our expected financings and investments;
- our regulatory structure and tax status;
- our ability to operate as a business development company, a small business investment company and a regulated investment company, or RIC;
- the adequacy of our cash resources and working capital;

- the timing of cash flows, if any, from the operations of our portfolio companies;
- the timing, form and amount of any dividend distributions;
- the impact of fluctuations in interest rates on our business;
- the valuation of any investments in portfolio companies, particularly those having no liquid trading market; and
- our ability to recover unrealized losses.

For a discussion of factors that could cause our actual results to differ from forward-looking statements contained in this prospectus supplement and the accompanying prospectus, please see the discussion under Risk Factors in the accompanying prospectus. You should not place undue reliance on these forward-looking statements. The forward-looking statements made in this prospectus relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statement to reflect events or circumstances occurring after the date of this prospectus.

Table of Contents

Index to Financial Statements

Industry and Market Data

We have compiled certain industry estimates presented in this prospectus supplement and the accompanying prospectus from internally generated information and data. While we believe our estimates are reliable, they have not been verified by any independent sources. The estimates are based on a number of assumptions, including increasing investment in venture capital and private equity-backed companies. Actual results may differ from projections and estimates, and this market may not grow at the rates projected, or at all. If this market fails to grow at projected rates, our business and the market price of our securities, including our common stock, could be materially adversely affected.

Table of Contents

Index to Financial Statements

PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights some of the information in this prospectus supplement and may not contain all of the information that is important to you. For a more complete understanding of this offering, we encourage you to read this entire prospectus supplement and the accompanying prospectus and the documents that are referenced in this prospectus supplement and the accompanying prospectus, together with any accompanying supplements. In this prospectus supplement and the accompanying prospectus, unless the context otherwise requires, the Company, Hercules Capital, we, us and our refer to Hercules Capital, Inc. and our wholly-owned subsidiaries and their affiliated securitization trusts.

Our Company

We are a specialty finance company focused on providing senior secured loans to high-growth, innovative venture capital-backed companies in a variety of technology, life sciences, and sustainable and renewable technology industries. Our investment objective is to maximize our portfolio total return by generating current income from our debt investments and capital appreciation from our equity-related investments. We are an internally-managed, non-diversified closed-end investment company that has elected to be regulated as a business development company under the Investment Company Act of 1940, or the 1940 Act.

As of September 30, 2016, our total assets were approximately $1.4 billion, of which our investments comprised $1.3 billion at fair value and $1.4 billion at cost. Since inception through September 30, 2016, we have made debt commitments of over $6.3 billion to our portfolio companies.

We also make investments in qualifying small businesses through our two wholly owned small business investment companies, or SBICs. Our SBIC subsidiaries, Hercules Technology II, L.P., or HT II, and Hercules Technology III, L.P., or HT III, hold approximately $100.4 million and $252.7 million in assets, respectively, and accounted for approximately 5.5% and 14.0% of our total assets, respectively, prior to consolidation at September 30, 2016. As of September 30, 2016, the maximum statutory limit on the dollar amount of combined outstanding SBA guaranteed debentures is $350.0 million, subject to periodic adjustments by the SBA. In aggregate, at September 30, 2016, with our net investment of $118.5 million, HT II and HT III have the capacity to issue a total of $190.2 million of SBA-guaranteed debentures, subject to SBA approval. At September 30, 2016, we have issued $190.2 million in SBA-guaranteed debentures in our SBIC subsidiaries. See Regulation Small Business Administration Regulations in the accompanying prospectus for additional information regarding our SBIC subsidiaries.

As of September 30, 2016, our investment professionals, including Manuel A. Henriquez, our co-founder, Chairman, President and Chief Executive Officer, are currently comprised of 34 professionals who have, on average, more than 15 years of experience in venture capital, structured finance, commercial lending or acquisition finance with the types of technology-related companies that we are targeting. We believe that we can leverage the experience and relationships of our management team to successfully identify attractive investment opportunities, underwrite prospective portfolio companies and structure customized financing solutions.

Table of Contents

Index to Financial Statements

Organizational Chart

The following chart summarizes our organizational structure as of November 7, 2016. This chart is provided for illustrative purposes only.

Our Market Opportunity

We believe that technology-related companies compete in one of the largest and most rapidly growing sectors of the U.S. economy and that continued growth is supported by ongoing innovation and performance improvements in technology products as well as the adoption of technology across virtually all industries in response to competitive pressures. We believe that an attractive market opportunity exists for a specialty finance company focused primarily on investments in structured debt with warrants in technology-related companies for the following reasons:

- Technology-related companies have generally been underserved by traditional lending sources;

- Unfulfilled demand exists for structured debt financing to technology-related companies due to the complexity of evaluating risk in these investments; and

- Structured debt with warrants products are less dilutive and complement equity financing from venture capital and private equity funds.

Technology-Related Companies are Underserved by Traditional Lenders. We believe many viable technology-related companies backed by financial sponsors have been unable to obtain sufficient growth financing from traditional lenders, including financial services companies such as commercial banks and finance companies because traditional lenders have continued to consolidate and have adopted a more risk-averse approach to lending. More importantly, we believe traditional lenders are typically unable to underwrite the risk associated with these companies effectively.

The unique cash flow characteristics of many technology-related companies typically include significant research and development expenditures and high projected revenue growth thus often making such companies difficult to evaluate from a credit perspective. In addition, the balance sheets of these companies often include a disproportionately large amount of intellectual property assets, which can be difficult to value. Finally, the speed of innovation in technology and rapid shifts in consumer demand and market share add to the difficulty in evaluating technology-related companies.

Due to the difficulties described above, we believe traditional lenders generally refrain from entering the structured debt financing marketplace, instead preferring the risk-reward profile of asset based lending. Traditional lenders generally do not have flexible product offerings that meet the needs of technology-related companies. The financing products offered by traditional lenders typically impose on borrowers many restrictive covenants and conditions, including limiting cash outflows and requiring a significant depository relationship to facilitate rapid liquidation.

Unfulfilled Demand for Structured Debt Financing to Technology-Related Companies. Private debt capital in the form of structured debt financing from specialty finance companies continues to be an important source of funding for technology-related companies. We believe that the level of demand for structured debt financing is a function of the level of annual venture equity investment activity.

We believe that demand for structured debt financing is currently underserved. The venture capital market for the technology-related companies in which we invest has been active. Therefore, to the extent we have capital available, we believe this is an opportune time to be active in the structured lending market for technology-related companies.

Structured Debt with Warrants Products Complement Equity Financing From Venture Capital and Private Equity Funds. We believe that technology-related companies and their financial sponsors will continue to view structured debt securities as an attractive source of capital because it augments the capital provided by venture capital and private equity funds. We believe that our structured debt with warrants product provides access to growth capital that otherwise may only be available through incremental investments by existing equity investors. As such, we provide portfolio companies and their financial sponsors with an opportunity to diversify their capital sources. Generally, we believe many technology-related companies at all stages of development target a portion of their capital to be debt in an attempt to achieve a higher valuation through internal growth. In addition, because financial sponsor-backed companies have reached a more mature stage prior to reaching a liquidity event, we believe our investments could provide the debt capital needed to grow or recapitalize during the extended period sometimes required prior to liquidity events.

Our Business Strategy

Our strategy to achieve our investment objective includes the following key elements:

Leverage the Experience and Industry Relationships of Our Management Team and Investment Professionals. We have assembled a team of experienced investment professionals with extensive experience as venture capitalists, commercial lenders, and originators of structured debt and equity investments in technology-related companies.

Mitigate Risk of Principal Loss and Build a Portfolio of Equity-Related Securities. We expect that our investments have the potential to produce attractive risk-adjusted returns through current income, in the form of interest and fee income, as well as capital appreciation from warrant and equity-related securities. We believe

Table of Contents

Index to Financial Statements

that we can mitigate the risk of loss on our debt investments through the combination of loan principal amortization, cash interest payments, relatively short maturities (typically between 24 48 months), security interests in the assets of our portfolio companies, and on select investment covenants requiring prospective portfolio companies to have certain amounts of available cash at the time of our investment and the continued support from a venture capital or private equity firm at the time we make our investment.

Provide Customized Financing Complementary to Financial Sponsors Capital. We offer a broad range of investment structures and possess expertise and experience to effectively structure and price investments in technology-related companies.

Invest at Various Stages of Development. We provide growth capital to technology-related companies at all stages of development, including select publicly listed companies and select special opportunity lower middle market companies that require additional capital to fund acquisitions, recapitalizations and refinancings and established-stage companies.

Benefit from Our Efficient Organizational Structure. We believe that the perpetual nature of our corporate structure enables us to be a long-term partner for our portfolio companies in contrast to traditional investment funds, which typically have a limited life. In addition, because of our access to the equity markets, we believe that we may benefit from a lower cost of capital than that available to private investment funds.

Deal Sourcing Through Our Proprietary Database. We have developed a proprietary and comprehensive SQL database system to track various aspects of our investment process including sourcing, originations, transaction monitoring and post-investment performance.

Recent Developments

Dividend Distribution Declaration

On October 26, 2016, our board of directors (the Board of Directors) declared a cash dividend distribution of $0.31 per share to be paid on November 21, 2016 to stockholders of record as of November 14, 2016. This dividend distribution represents our forty-fifth consecutive dividend declaration since our initial public offering, bringing the total cumulative dividend declared to date to $12.47 per share.

2024 Notes ATM Program

On October 11, 2016, we entered into a debt distribution agreement (the Debt Distribution Agreement) with FBR Capital Markets & Co. as sales agent (the Notes Agent), pursuant to which we may offer for sale, from time to time, up to $150,000,000 in aggregate principal amount of 6.25% notes due 2024 (the Additional 2024 Notes) through the Notes Agent. Sales of the Additional 2024 Notes, if any, may be made in negotiated transactions or transactions that are deemed to be at the market offerings as defined in Rule 415 under the Securities Act of 1933, as amended (the Securities Act), including sales made directly on the NYSE, or similar securities exchange or sales made through a market maker other than on an exchange at prices related to prevailing market prices or at negotiated prices.

The Notes Agent will receive a commission from the Company equal to up to 2.00% of the gross sales of any Additional 2024 Notes sold through the Notes Agent under the Debt Distribution Agreement. The Notes Agent is not required to sell any specific principal amount of Additional 2024 Notes, but will use its commercially reasonable efforts consistent with its sales and trading practices to sell the Additional 2024 Notes.

The Additional 2024 Notes offered pursuant to the Debt Distribution Agreement will be a further issuance of, are fungible with, rank equally in right of payment with, and form a single series for all purposes under the

Table of Contents

Index to Financial Statements

indenture governing the 2024 Notes initially issued by us on July 14, 2014, May 2, 2016, and June 27, 2016, respectively. The 2024 Notes will mature on July 30, 2024. We will pay interest on the Additional 2024 Notes on January 30, April 30, July 30 and October 30 of each year, beginning on October 30, 2016. Any purchaser of the Additional 2024 Notes will pay for any interest accrued from the interest payment date preceding the issuance date of the Additional 2024 Notes up to, but excluding, the issuance date of the Additional 2024 Notes. We may redeem the 2024 Notes in whole or in part at any time or from time to time, at the redemption price set forth under the terms of the indenture. The Additional 2024 Notes will be issued in minimum denominations of $25 and integral multiples of $25 in excess thereof.

The Additional 2024 Notes will be our direct unsecured obligations and rank pari passu, or equally in right of payment, with all outstanding and future unsecured unsubordinated indebtedness issued by Hercules Capital, Inc.

The 2024 Notes are listed on the NYSE, and trade on the NYSE under the symbol HTGX. The Additional 2024 Notes are expected to trade flat, which means that purchasers in the secondary market will not pay, and sellers will not receive, any accrued and unpaid interest on the Additional 2024 Notes that is not reflected in the trading price.

Subsequent to September 30, 2016 and as of November 7, 2016, we sold 140,750 notes through the Notes Agent for approximately $3.6 million in aggregate principal amount. As of November 7, 2016 approximately $146.4 million in aggregate principal amount remains available for issuance and sale under the Debt Distribution Agreement.

ATM Equity Program Issuances

Subsequent to September 30, 2016 and as of November 7, 2016, we sold 786,000 shares of common stock for total accumulated net proceeds of approximately $10.6 million, including $107,000 of offering expenses, under our ATM equity distribution agreement with JMP. As of November 7, 2016 approximately 2.4 million shares remain available for issuance and sale under the equity distribution agreement.

Employee Additions

In September 2016, we hired Paul Gibson as Managing Director in the Technology Group in Hercules Washington DC office. Mr. Gibson is a seasoned executive with more than 20 years of commercial banking experience, including more than 13 years in venture lending, focused on structuring financial transactions for growth technology and life sciences-related companies.

Table of Contents

Index to Financial Statements

Closed and Pending Commitments

As of November 7, 2016, we have:

Closed debt and equity commitments of approximately $50.8 million to new and existing portfolio companies and funded approximately $52.0 million subsequent to September 30, 2016.

Pending commitments (signed non-binding term sheets) of approximately $150.0 million. The table below summarizes our year-to-date closed and pending commitments as follows:

Closed Commitments and Pending Commitments (in millions)	
January 1 September 30, 2016 Closed Commitments	$ 603.0
Q4 2016 Closed Commitments (as of November 7, 2016)[(a)]	$ 50.8
Pending Commitments (as of November 7, 2016)[(b)]	$ 150.0
Closed and Pending Commitments as of November 7, 2016	$ 803.8

a. Closed Commitments may include renewals of existing credit facilities. Not all Closed Commitments result in future cash requirements. Commitments generally fund over the two succeeding quarters from close.
b. Not all pending commitments (signed non-binding term sheets) are expected to close and they do not necessarily represent any future cash requirements.

Portfolio Company Developments

As of November 7, 2016, we held warrants or equity positions in four companies that have filed registration statements on Form S-1 with the SEC in contemplation of potential initial public offerings. All four companies filed confidentially under the Jumpstart Our Business Startups Act of 2012 (the JOBS Act). There can be no assurance that these companies will complete their initial public offerings in a timely manner or at all. In addition, subsequent to September 30, 2016, Napo Pharmaceuticals, a company that focuses on the development and commercialization of proprietary pharmaceuticals for the global marketplace in collaboration with local partners, signed a non-binding letter-of-intent to merge with our portfolio company Jaguar Animal Health, Inc. in October of 2016.

General Information

Our principal executive offices are located at 400 Hamilton Avenue, Suite 310, Palo Alto, California 94301, and our telephone number is (650) 289-3060. We also have offices in Boston, MA, New York, NY, Washington, DC, Santa Monica, CA, Hartford, CT, and San Diego, CA. We maintain a website on the Internet at www.htgc.com. We make available, free of charge, on our website our proxy statement, annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Information contained in our website is not incorporated by reference into this prospectus supplement or the accompanying prospectus, and you should not consider that information to be part of this prospectus supplement or the accompanying prospectus.

We file annual, quarterly and current periodic reports, proxy statements and other information with the SEC under the Securities Exchange Act of 1934, which we refer to as the Exchange Act. This information is available at the SEC s public reference room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information about the operation of the SEC s public reference room by calling the SEC at (202) 551-8090. In addition, the SEC maintains an Internet website, at www.sec.gov, that contains reports, proxy and information statements, and other information regarding issuers, including us, who file documents electronically with the SEC.

Table of Contents

Index to Financial Statements

THE OFFERING

Common stock offered by us	Up to 8,000,000 shares of our common stock
Common stock outstanding prior to this offering	77,178,071 shares
Manner of offering	At the market offering that may be made from time to time through JMP Securities, as sales agent, using commercially reasonable efforts. See Plan of Distribution in this prospectus supplement.
Use of proceeds	We expect to use the net proceeds from this offering to fund investments in debt and equity securities in accordance with our investment objective and for other general corporate purposes.
	Pending such use, we will invest a portion of the net proceeds of this offering in short-term investments, such as cash and cash equivalents, which we expect will earn yields substantially lower than the interest income that we anticipate receiving in respect of investments in accordance with our investment objective. See Use of Proceeds in this prospectus supplement.
Distribution	To the extent that we have income available, we intend to distribute quarterly dividends to our stockholders. The amount of our dividends, if any, will be determined by our Board of Directors. Any dividends to our stockholders will be declared out of assets legally available for distribution. See Price Range of Common Stock and Distributions in the accompanying prospectus.
Taxation	We have elected to be treated for federal income tax purposes as a RIC under Subchapter M of the Internal Revenue Code of 1986, as amended (the Code). As a RIC, we generally do not have to pay corporate-level federal income taxes on any ordinary income or capital gains that we distribute to our stockholders as dividends. To maintain our RIC tax status, we must meet specified source-of-income and asset diversification requirements and distribute annually at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any. See Price Range of Common Stock and Distributions in the accompanying prospectus and Certain United States Federal Income Tax Considerations in the accompanying prospectus.
New York Stock Exchange symbol	HTGC
Risk factors	An investment in our common stock is subject to risks and involves a heightened risk of total loss of investment. In addition, the companies in which we invest are subject to special risks. See Risk Factors beginning on page 11 of the accompanying prospectus to read about factors you should consider, including the risk of leverage, before investing in

our common stock.

Table of Contents

Index to Financial Statements

SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations, Senior Securities and the consolidated financial statements and related notes included elsewhere herein. The selected balance sheet data as of the end of fiscal year 2015, 2014, 2013, 2012 and 2011 and the financial statement of operations data for fiscal years 2015, 2014, 2013, 2012 and 2011 has been derived from our audited financial statements, which have been audited by PricewaterhouseCoopers LLP, our independent registered public accounting firm, but not all of which are presented in this prospectus supplement. The historical data are not necessarily indicative of results to be expected for any future period. The selected financial and other data for the nine months ended September 30, 2016 and other quarterly financial information is derived from our unaudited financial statements, but in the opinion of management, reflects all adjustments (consisting only of normal recurring adjustments) that are necessary to present fairly the results of such interim periods. Interim results as of and for the nine months ended September 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

	For the Nine Months Ended September 30 (unaudited)		For the Year Ended December 31,				
(in thousands, except per share amounts)	**2016**	**2015**	**2015**	**2014**	**2013**	**2012**	**2011**
Investment income:							
Interest	$ 116,047	$ 106,139	$ 140,266	$ 126,618	$ 123,671	$ 87,603	$ 70,346
Fees	11,532	11,612	16,866	17,047	16,042	9,917	9,509
Total investment income	127,579	117,751	157,132	143,665	139,713	97,520	79,855
Operating expenses:							
Interest	23,306	23,243	30,834	28,041	30,334	19,835	13,252
Loan fees	3,698	4,166	6,055	5,919	4,807	3,917	2,635
General and administrative	12,095	12,190	16,658	10,209	9,354	8,108	7,992
Employee Compensation:							
Compensation and benefits	15,637	17,621	20,713	16,604	16,179	13,326	13,260
Stock-based compensation	5,616	7,166	9,370	9,561	5,974	4,227	3,128
Total employee compensation	21,253	24,787	30,083	26,165	22,153	17,553	16,388
Total operating expenses	60,352	64,386	83,630	70,334	66,648	49,413	40,267
Loss on debt extinguishment (Long-term Liabilities Convertible Senior Notes)		(1)	(1)	(1,581)			
Net investment income	67,227	53,364	73,501	71,750	73,065	48,107	39,588
Net realized gain (loss) on investments	3,427	8,424	5,147	20,112	14,836	3,168	2,741
Net change in unrealized appreciation (depreciation) on investments	(16,072)	(33,042)	(35,732)	(20,674)	11,545	(4,516)	4,607
Total net realized and unrealized gain (loss)	(12,645)	(24,618)	(30,585)	(562)	26,381	(1,348)	7,348
Net increase in net assets resulting from operations	$ 54,582	$ 28,746	$ 42,916	$ 71,188	$ 99,446	$ 46,759	$ 46,936
Change in net assets per common share (basic)	$ 0.74	$ 0.40	$ 0.60	$ 1.12	$ 1.67	$ 0.93	$ 1.08
Dividend distributions declared per common share	$ 0.93	$ 0.93	$ 1.24	$ 1.24	$ 1.11	$ 0.95	$ 0.88

Table of Contents

Index to Financial Statements

(in thousands, except per share amounts)	For the Nine Months Ended September 30 (unaudited) 2016	2015	For the Year Ended December 31, 2015	2014	2013	2012	2011
Balance sheet data:							
Investments, at value	$ 1,320,610	$ 1,151,728	$ 1,200,638	$ 1,020,737	$ 910,295	$ 906,300	$ 652,870
Cash and cash equivalents	69,012	147,304	95,196	227,116	268,368	182,994	64,474
Total assets	1,419,424	1,332,731	1,334,761	1,299,223	1,221,715	1,123,643	747,394
Total liabilities	665,835	609,938	617,627	640,359	571,708	607,675	316,353
Total net assets	753,589	722,793	717,134	658,864	650,007	515,968	431,041
Other Data:							
Total debt investments, at value	1,224,121	1,077,606	1,110,209	923,906	821,988	827,540	585,767
Total warrant investments, at value	27,738	21,321	22,987	25,098	35,637	29,550	30,045
Total equity investments, at value	68,751	52,801	67,442	71,733	52,670	49,210	37,058
Unfunded Commitments(2)	73,865	109,611	75,402	147,689	69,091	19,265	76,128
Net asset value per share(1)	$ 9.86	$ 10.02	$ 9.94	$ 10.18	$ 10.51	$ 9.75	$ 9.83

(1) Based on common shares outstanding at period end.

(2) Amount represents unfunded commitments, including undrawn revolving facilities, which are available at the request of the portfolio company. Amount excludes unfunded commitments which are unavailable due to the borrower having not met certain milestones.

The following tables set forth certain quarterly financial information for each of the eight quarters up to and ending December 31, 2015 and the quarters ending March 31, 2016, June 30, 2016 and September 30, 2016. This information was derived from our unaudited consolidated financial statements. Results for any quarter are not necessarily indicative of results for the full year or for any future quarter.

(in thousands, except per share data)	For the Quarter Ended (unaudited) September 30, 2016	June 30, 2016	March 31, 2016
Total investment income	$ 45,102	$ 43,538	$ 38,939
Net investment income before investment gains and losses	23,776	23,354	20,097
Net increase (decrease) in net assets resulting from operations	30,812	9,475	14,295
Change in net assets per common share (basic)	$ 0.41	$ 0.13	$ 0.20

(in thousands, except per share data)	For the Quarter Ended March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015
Total investment income	$ 32,494	$ 38,126	$ 47,132	$ 39,380
Net investment income before investment gains and losses	12,993	16,781	23,590	20,137
Net increase (decrease) in net assets resulting from operations	21,919	2,752	4,075	14,170
Change in net assets per common share (basic)	$ 0.33	$ 0.03	$ 0.05	$ 0.20

(in thousands, except per share data)	For the Quarter Ended March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014
Total investment income	$ 35,770	$ 34,001	$ 37,019	$ 36,875
Net investment income before investment gains and losses	18,304	18,551	18,995	15,899
Net increase (decrease) in net assets resulting from operations	22,185	13,191	15,177	20,635
Change in net assets per common share (basic)	$ 0.36	$ 0.21	$ 0.24	$ 0.32

Table of Contents

Index to Financial Statements

USE OF PROCEEDS

Overview

Sales of our common stock, if any, under this prospectus supplement and the accompanying prospectus may be made in negotiated transactions or transactions that are deemed to be at the market as defined in Rule 415 under the Securities Act, including sales made directly on the NYSE or sales made to or through a market maker other than on an exchange. There is no guarantee that there will be any sales of our common stock pursuant to this prospectus supplement and the accompanying prospectus. Actual sales, if any, of our common stock under this prospectus supplement and the accompanying prospectus may be less than as set forth in this paragraph depending on, among other things, the market price of our common stock at the time of any such sale. As a result, the actual net proceeds we receive may be more or less than the amount of net proceeds estimated in this prospectus supplement. Assuming the sale of the remaining 2,428,814 shares of common stock offered under this prospectus supplement and the accompanying prospectus, at the last reported sale price of $13.17 per share for our common stock on the NYSE as of November 7, 2016, we estimate that the net proceeds of this offering will be approximately $31.2 million after deducting the estimated sales commission payable to JMP Securities and our estimated offering expenses.

We expect to use the net proceeds from this offering to fund investments in debt and equity securities in accordance with our investment objective and for other general corporate purposes.

We intend to seek to invest the net proceeds received in this offering as promptly as practicable after receipt thereof consistent with our investment objective. We anticipate that substantially all of the net proceeds from any offering of our securities will be used as described above within three to six months, depending on market conditions. We anticipate that the remainder will be used for working capital and general corporate purposes, including potential payments or distributions to shareholders. Pending such use, we will invest a portion of the net proceeds of this offering in short-term investments, such as cash and cash equivalents, which we expect will earn yields substantially lower than the interest income that we anticipate receiving in respect of investments in accordance with our investment objective.

Status of the Offering

On August 16, 2013, we established an at-the-market program to which this prospectus supplement relates and through which we may sell, from time to time and at our sole discretion up to 8,000,000 shares of our common stock. On March 7, 2016 and then, again, on August 26, 2016, we amended and restated the equity distribution agreement with JMP Securities to continue the at-the-market program (such agreement, as may be amended from time to time, the Equity Distribution Agreement). During the period from August 16, 2013 through the date of this prospectus supplement, 5,571,186 shares of common stock have been issued and sold pursuant to the Equity Distribution Agreement and 2,428,814 shares of common stock remain available for sale. Gross proceeds raised through the date of this prospectus were approximately $72.8 million based on an average sale price of $13.07 per share, offset by related underwriting fees and offering expenses of approximately $2.6 million for net proceeds of approximately $70.2 million.

Table of Contents

Index to Financial Statements

PRICE RANGE OF COMMON STOCK

Our common stock is traded on the NYSE under the symbol HTGC.

The following table sets forth the range of high and low sales prices of our common stock, the sales price as a percentage of NAV and the dividend distributions declared by us for each fiscal quarter. The stock quotations are interdealer quotations and do not include markups, markdowns or commissions.

		Price Range		Premium/ Discount of High Sales Price to NAV	Premium/ Discount of Low Sales Price to NAV	Cash Dividend Distribution per Share
	NAV(1)	High	Low			
2014						
First quarter	$ 10.58	$ 15.27	$ 13.24	44.3%	25.1%	$ 0.310
Second quarter	$ 10.42	$ 15.54	$ 12.75	49.1%	22.4%	$ 0.310
Third quarter	$ 10.22	$ 16.24	$ 14.16	58.9%	38.6%	$ 0.310
Fourth quarter	$ 10.18	$ 15.82	$ 13.16	55.4%	29.3%	$ 0.310
2015						
First quarter	$ 10.47	$ 15.27	$ 13.47	45.8%	28.7%	$ 0.310
Second quarter	$ 10.26	$ 13.37	$ 11.25	30.3%	9.6%	$ 0.310
Third quarter	$ 10.02	$ 12.23	$ 9.99	22.1%	-0.3%	$ 0.310
Fourth quarter	$ 9.94	$ 12.44	$ 10.23	25.2%	2.9%	$ 0.310
2016						
First quarter	$ 9.81	$ 12.39	$ 10.03	26.3%	2.2%	$ 0.310
Second quarter	$ 9.66	$ 12.43	$ 11.74	28.7%	21.6%	$ 0.310
Third quarter	$ 9.86	$ 14.00	$ 12.42	41.9%	25.9%	$ 0.310
Fourth quarter (through November 7, 2016)	*	$ 13.76	$ 12.90	*	*	**

(1) Net asset value per share is generally determined as of the last day in the relevant quarter and therefore may not reflect the NAV per share on the date of the high and low sales prices. The NAVs shown are based on outstanding shares at the end of each period.

* Net asset value has not yet been calculated for this period.

** Cash dividend distribution per share has not yet been determined for this period.

The last reported price for our common stock on November 7, 2016 was $13.17 per share.

Shares of business development companies may trade at a market price that is less than the value of the net assets attributable to those shares. The possibility that our shares of common stock will trade at a discount from NAV or at premiums that are unsustainable over the long term are separate and distinct from the risk that our NAV will decrease. At times, our shares of common stock have traded at a premium to NAV and at times our shares of common stock have traded at a discount to the net assets attributable to those shares. It is not possible to predict whether the shares offered hereby will trade at, above, or below NAV.

Table of Contents

Index to Financial Statements

RATIO OF EARNINGS TO FIXED CHARGES

The following contains our ratio of earnings to fixed charges for the periods indicated, computed as set forth below. You should read these ratios of earnings to fixed charges in connection with our consolidated financial statements, including the notes to those statements, included in this prospectus supplement:

	For the nine months ended September 30, 2016	For the year ended December 31, 2015	For the year ended December 31, 2014	For the year ended December 31, 2013	For the year ended December 31, 2012	For the year ended December 31, 2011
Earnings to Fixed Charges[(1)]	3.02	2.16	3.10	3.83	2.97	3.95

For purposes of computing the ratios of earnings to fixed charges, earnings represent net increase in stockholders equity resulting from operations plus fixed charges. Fixed charges include interest and credit facility fees expense and amortization of debt issuance costs.

(1) Earnings include net realized and unrealized gains or losses. Net realized and unrealized gains or losses can vary substantially from period to period.

Table of Contents

Index to Financial Statements

CAPITALIZATION

The Equity Distribution Agreement provides that we may offer and sell up to 8,000,000 shares of our common stock from time to time through JMP Securities, as our sales agent for the offer and sale of such common stock. The table below assumes that we will sell the remaining 2,428,814 shares at a price of $13.17 per share (the last reported sale price per share of our common stock on the NYSE on November 7, 2016) but there is no guarantee that there will be any sales of our common stock pursuant to this prospectus supplement and the accompanying prospectus. Actual sales, if any, of our common stock under this prospectus supplement and the accompanying prospectus may be less than as set forth in the table below. In addition, the price per share of any such sale may be greater or less than $13.17, depending on the market price of our common stock at the time of any such sale. The following table sets forth our capitalization as of September 30, 2016:

- on an actual basis; and

- on an as adjusted basis giving effect to the transactions noted above and the assumed sale of 2,428,814 shares of our common stock at a price of $13.17 per share (the last reported sale price per share of our common stock on the NYSE on November 7, 2016) less commissions and expenses.

This table should be read in conjunction with Use of Proceeds in this prospectus supplement and Management s Discussion and Analysis of Financial Condition and Results of Operations and our financial statements and notes thereto included in the accompanying prospectus. The adjusted information is illustrative only.

	As of September 30, 2016	
	Actual	As Adjusted
	(in thousands)	
Investments at fair value	$ 1,320,610	$ 1,320,610
Cash and cash equivalents	$ 69,012	$ 100,176
Debt:		
Accounts payable and accrued liabilities	$ 16,649	$ 16,649
Long-term SBA debentures	187,333	187,333
2019 Notes	108,659	108,659
2021 Asset-Backed Notes	115,531	115,531
2024 Notes	237,663	237,663
Total debt	$ 665,835	$ 665,835
Stockholders equity:		
Common stock, par value $0.001 per share; 200,000,000 shares authorized; 76,399,778 shares issued and outstanding, actual, 78,828,592 shares issued and outstanding, as adjusted, respectively	$ 77	$ 79
Capital in excess of par value	802,521	833,683
Unrealized depreciation on investments	(68,880)	(68,880)
Accumulated realized gains on investments	31,420	31,420
Distributions in excess of investment income	(11,549)	(11,549)
Total stockholders equity	$ 753,589	$ 784,753
Total capitalization	$ 1,419,424	$ 1,450,588

Table of Contents

Index to Financial Statements

PLAN OF DISTRIBUTION

JMP Securities is acting as our sales agent in connection with the offer and sale of shares of our common stock pursuant to this prospectus supplement and the accompanying prospectus. Upon written instructions from us, JMP Securities will use its commercially reasonable efforts consistent with its sales and trading practices to sell, as our sales agent, our common stock under the terms and subject to the conditions set forth in the Equity Distribution Agreement. We will instruct JMP Securities as to the amount of common stock to be sold by it. We may instruct JMP Securities not to sell common stock if the sales cannot be effected at or above the price designated by us in any instruction. The sales price per share of our common stock offered by this prospectus supplement and the accompanying prospectus, less JMP Securities commission, will not be less than the net asset value per share of our common stock at the time of such sale. We or JMP Securities may suspend the offering of shares of common stock upon proper notice and subject to other conditions.

Sales of our common stock, if any, under this prospectus supplement and the accompanying prospectus may be made in negotiated transactions or transactions that are deemed to be at the market, as defined in Rule 415 under the Securities Act, including sales made directly on the NYSE or similar securities exchange or sales made to or through a market maker other than on an exchange at prices related to the prevailing market prices or at negotiated prices.

JMP Securities will provide written confirmation of a sale to us no later than the opening of the trading day on the NYSE following each trading day in which shares of our common stock are sold under the Equity Distribution Agreement. Each confirmation will include the number of shares of common stock sold on the preceding day, the net proceeds to us and the compensation payable by us to JMP Securities in connection with the sales.

JMP Securities will receive a commission from us to be negotiated from time to time but in no event in excess of 2.0% of the gross sales price of any shares of our common stock sold through JMP Securities under the Equity Distribution Agreement. We estimate that the total expenses for the offering, excluding compensation payable to JMP Securities under the terms of the Equity Distribution Agreement, will be approximately $1.2 million (including up to $10,000 in reimbursement of the underwriters counsel fees in connection with the review of the terms of the offering by the Financial Industry Regulatory Authority, Inc.).

Settlement for sales of shares of common stock will occur on the third trading day following the date on which such sales are made, or on some other date that is agreed upon by us and JMP Securities in connection with a particular transaction, in return for payment of the net proceeds to us. There is no arrangement for funds to be received in an escrow, trust or similar arrangement.

We will report at least quarterly the number of shares of our common stock sold through JMP Securities under the Equity Distribution Agreement and the net proceeds to us.

In connection with the sale of the common stock on our behalf, JMP Securities may be deemed to be an underwriter within the meaning of the Securities Act, and the compensation of JMP Securities may be deemed to be underwriting commissions or discounts. We have agreed to provide indemnification and contribution to JMP Securities against certain civil liabilities, including liabilities under the Securities Act.

The offering of our shares of common stock pursuant to the Equity Distribution Agreement will terminate upon the earlier of (i) the sale of all common stock subject to the Equity Distribution Agreement or (ii) the termination of the Equity Distribution Agreement. The Equity Distribution Agreement may be terminated by us in our sole discretion under the circumstances specified in the Equity Distribution Agreement by giving notice to JMP Securities. In addition, JMP Securities may terminate the Equity Distribution Agreement under the circumstances specified in the Equity Distribution Agreement by giving notice to us.

Table of Contents

Index to Financial Statements

Potential Conflicts of Interest

JMP Securities and its affiliates have provided, or may in the future provide, various investment banking, commercial banking, financial advisory, brokerage and other services to us and our affiliates for which services they have received, and may in the future receive, customary fees and expense reimbursement. JMP Securities and its affiliates may, from time to time, engage in transactions with and perform services for us in the ordinary course of their business for which they may receive customary fees and reimbursement of expenses. In the ordinary course of their various business activities, JMP Securities and its 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 and such investment and securities activities may involve securities and/or instruments of our company.

The principal business address of JMP Securities is 600 Montgomery Street, San Francisco, CA 94111.

Table of Contents

Index to Financial Statements

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our consolidated financial statements and related notes and other financial information appearing elsewhere in this prospectus supplement and the accompanying prospectus. In addition to historical information, the following discussion and other parts of this prospectus supplement and the accompanying prospectus contain forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated by such forward-looking information due to the factors discussed under Supplementary Risk Factors in this prospectus supplement and Risk Factors, and Forward-Looking Statements appearing elsewhere herein and the accompanying prospectus. Capitalized terms used and not otherwise defined herein have the meaning given in the accompanying prospectus.

Overview

We are a specialty finance company focused on providing senior secured loans to high-growth, innovative venture capital-backed companies in a variety of technology, life sciences, and sustainable and renewable technology industries. We source our investments through our principal office located in Palo Alto, CA, as well as through our additional offices in Boston, MA, New York, NY, Washington, DC, Santa Monica, CA, Hartford, CT, and San Diego, CA.

Our goal is to be the leading structured debt financing provider for venture capital-backed companies in technology-related industries requiring sophisticated and customized financing solutions. Our strategy is to evaluate and invest in a broad range of technology-related industries including technology, drug discovery and development, biotechnology, life sciences, healthcare, and sustainable and renewable technology and to offer a full suite of growth capital products. We invest primarily in structured debt with warrants and, to a lesser extent, in senior debt and equity investments. We invest primarily in private companies but also have investments in public companies.

We use the term structured debt with warrants to refer to any debt investment, such as a senior or subordinated secured loan, that is coupled with an equity component, including warrants, options or other rights to purchase common or preferred stock. Our structured debt with warrants investments typically are secured by some or all of the assets of the portfolio company.

Our investment objective is to maximize our portfolio total return by generating current income from our debt investments and capital appreciation from our warrant and equity-related investments. Our primary business objectives are to increase our net income, net operating income and net asset value by investing in structured debt with warrants and equity of venture capital-backed companies in technology-related industries with attractive current yields and the potential for equity appreciation and realized gains. Our equity ownership in our portfolio companies may exceed 25% of the voting securities of such companies, which represents a controlling interest under the 1940 Act. In some cases, we receive the right to make additional equity investments in our portfolio companies in connection with future equity financing rounds. Capital that we provide directly to venture capital-backed companies in technology-related industries is generally used for growth and general working capital purposes as well as in select cases for acquisitions or recapitalizations.

We also make investments in qualifying small businesses through our two wholly owned SBICs. Our SBIC subsidiaries, HT II and HT III, hold approximately $100.4 million and $252.7 million in assets, respectively, and accounted for approximately 5.5% and 14.0% of our total assets, respectively, prior to consolidation at September 30, 2016. As of September 30, 2016, the maximum statutory limit on the dollar amount of combined outstanding SBA guaranteed debentures is $350.0 million, subject to periodic adjustments by the SBA. In aggregate, at September 30, 2016, with our net investment of $118.5 million, HT II and HT III have the capacity to issue a total of $190.2 million of SBA-guaranteed debentures, subject to SBA approval. At September 30, 2016, we have issued $190.2 million in SBA-guaranteed debentures in our SBIC subsidiaries.

Table of Contents

Index to Financial Statements

We have qualified as and have elected to be treated for tax purposes as a RIC under Subchapter M of the Code. Pursuant to this election, we generally will not be subject to corporate-level taxes on any income and gains that we distribute as dividends to our stockholders. However, our qualification and election to be treated as a RIC requires that we comply with provisions contained in Subchapter M of the Code. For example, as a RIC we must earn 90% or more of our gross income for each taxable year from qualified earnings, typically referred to as good income, as well as satisfy certain quarterly asset diversification and annual income distribution requirements.

We are an internally managed, non-diversified, closed-end investment company that has elected to be regulated as a business development company under the 1940 Act. As a business development company, we are required to comply with certain regulatory requirements. For instance, we generally have to invest at least 70% of our total assets in qualifying assets, which includes securities of private U.S. companies, cash, cash equivalents and high-quality debt investments that mature in one year or less.

Our portfolio is comprised of, and we anticipate that our portfolio will continue to be comprised of, investments primarily in technology related companies at various stages of their development. Consistent with requirements under the 1940 Act, we invest primarily in United-States based companies and to a lesser extent in foreign companies.

We regularly engage in discussions with third parties with respect to various potential transactions. We may acquire an investment or a portfolio of investments or an entire company or sell a portion of our portfolio on an opportunistic basis. We, our subsidiaries or our affiliates may also agree to manage certain other funds that invest in debt, equity or provide other financing or services to companies in a variety of industries for which we may earn management or other fees for our services. We may also invest in the equity of these funds, along with other third parties, from which we would seek to earn a return and/or future incentive allocations. Some of these transactions could be material to our business. Consummation of any such transaction will be subject to completion of due diligence, finalization of key business and financial terms (including price) and negotiation of final definitive documentation as well as a number of other factors and conditions including, without limitation, the approval of our Board of Directors and required regulatory or third party consents and, in certain cases, the approval of our stockholders. Accordingly, there can be no assurance that any such transaction would be consummated. Any of these transactions or funds may require significant management resources either during the transaction phase or on an ongoing basis depending on the terms of the transaction.

Portfolio and Investment Activity

The total fair value of our investment portfolio was $1.3 billion at September 30, 2016, as compared to $1.2 billion at December 31, 2015. The fair value of our debt investment portfolio at September 30, 2016 was approximately $1.2 billion, compared to a fair value of approximately $1.1 billion at December 31, 2015. The fair value of the equity portfolio at September 30, 2016 was approximately $68.8 million, compared to a fair value of approximately $67.4 million at December 31, 2015. The fair value of the warrant portfolio at September 30, 2016 was approximately $27.7 million, compared to a fair value of approximately $23.0 million at December 31, 2015.

Portfolio Activity

Our investments in portfolio companies take a variety of forms, including unfunded contractual commitments and funded investments. From time to time, unfunded contractual commitments depend upon a portfolio company reaching certain milestones before the debt commitment is available to the portfolio company, which is expected to affect our funding levels. These commitments are subject to the same underwriting and ongoing portfolio maintenance as the on-balance sheet financial instruments that we hold. Debt commitments generally fund over the two succeeding quarters from close. Not all debt commitments represent future cash requirements. Similarly, unfunded contractual commitments may expire without being drawn and thus do not represent future cash requirements.

Table of Contents

Index to Financial Statements

Prior to entering into a contractual commitment, we generally issue a non-binding term sheet to a prospective portfolio company. Non-binding term sheets are subject to completion of our due diligence and final investment committee approval process, as well as the negotiation of definitive documentation with the prospective portfolio companies. These non-binding term sheets generally convert to contractual commitments in approximately 90 days from signing. Not all non-binding term sheets are expected to close and do not necessarily represent future cash requirements.

Our portfolio activity for the nine months ended September 30, 2016 and the year ended December 31, 2015 was comprised of the following:

(in millions)	September 30, 2016	December 31, 2015
Debt Commitments(1)		
New portfolio company	$ 490.0	$ 544.0
Existing portfolio company	105.8	181.7
Total	$ 595.8	$ 725.7
Funded and Restructured Debt Investments(3)		
New portfolio company	$ 363.5	$ 352.5
Existing portfolio company	90.9	341.6
Total	$ 454.4	$ 694.1
Funded Equity Investments		
New portfolio company	$ 5.5	$ 1.0
Existing portfolio company	1.6	17.6
Total	$ 7.1	$ 18.6
Unfunded Contractual Commitments(2)		
Total	$ 73.9	$ 75.4
Non-Binding Term Sheets		
New portfolio company	$ 85.0	$ 81.0
Existing portfolio company	15.0	5.0
Total	$ 100.0	$ 86.0

(1) Includes restructured loans and renewals in addition to new commitments.
(2) Amount represents unfunded commitments, including undrawn revolving facilities, which are available at the request of the portfolio company. Amount excludes unfunded commitments which are unavailable due to the borrower having not met certain milestones.
(3) Funded amounts include borrowings on revolving facilities.

We receive principal payments on our debt investment portfolio based on scheduled amortization of the outstanding balances. In addition, we receive principal repayments for some of our loans prior to their scheduled maturity date. The frequency or volume of these early principal repayments may fluctuate significantly from period to period. During the nine months ended September 30, 2016, we received approximately $334.7 million in aggregate principal repayments. Of the approximately $334.7 million of aggregate principal repayments, approximately $77.9 million were scheduled principal payments and approximately $256.8 million were early principal repayments related to 33 portfolio companies. Of the approximately $256.8 million early principal repayments, approximately $54.9 million were early repayments due to merger and acquisition transactions or initial public offerings (IPOs) for three portfolio companies.

Table of Contents

Index to Financial Statements

Total portfolio investment activity (inclusive of unearned income and excluding activity related to taxes payable, escrow receivables and Citigroup warrant participation) as of and for the nine months ended September 30, 2016 and the year ended December 31, 2015 was as follows:

(in millions)	September 30, 2016	December 31, 2015
Beginning portfolio	$ 1,200.6	$ 1,020.7
New fundings and restructures	461.5	712.3
Warrants not related to current period fundings	0.3	0.1
Principal payments received on investments	(77.8)	(115.1)
Early payoffs	(256.9)	(388.5)
Accretion of loan discounts and paid-in-kind principal	32.1	31.7
Net acceleration of loan discounts and loan fees due to early payoff or restructure	(3.7)	(1.7)
New loan fees	(6.6)	(9.5)
Warrants converted to equity	0.3	0.4
Sale of investments	(3.7)	(5.2)
Loss on investments due to write offs	(9.6)	(7.5)
Net change in unrealized depreciation	(15.9)	(37.1)
Ending portfolio	$ 1,320.6	$ 1,200.6

The following table shows the fair value of our portfolio of investments by asset class as of September 30, 2016 and December 31, 2015:

	September 30, 2016		December 31, 2015	
(in thousands)	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
Senior Secured Debt with Warrants	$ 983,241	74.5%	$ 961,464	80.1%
Senior Secured Debt	268,618	20.3%	171,732	14.3%
Preferred Stock	41,828	3.2%	35,245	2.9%
Common Stock	26,923	2.0%	32,197	2.7%
Total	$ 1,320,610	100.0%	$ 1,200,638	100.0%

A summary of our investment portfolio as of September 30, 2016 and December 31, 2015 at value by geographic location is as follows:

	September 30, 2016		December 31, 2015	
(in thousands)	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
United States	$ 1,259,162	95.4%	$ 1,167,281	97.2%
Netherlands	20,040	1.5%	20,112	1.7%
England	19,640	1.5%	8,884	0.8%
Switzerland	12,305	0.9%		0.0%
Canada	5,662	0.4%	595	0.0%
Israel	3,801	0.3%	3,764	0.3%
India		0.0%	2	0.0%
Total	$ 1,320,610	100.0%	$ 1,200,638	100.0%

As of September 30, 2016, we held warrants or equity positions in four companies that have filed registration statements on Form S-1 with the SEC in contemplation of potential IPOs. All four companies filed

Table of Contents

Index to Financial Statements

confidentially under the JOBS Act. There can be no assurance that companies that have yet to complete their IPOs will do so in a timely manner or at all.

Changes in Portfolio

We generate revenue in the form of interest income, primarily from our investments in debt securities, and commitment and facility fees. Interest income is recognized in accordance with the contractual terms of the loan agreement to the extent that such amounts are expected to be collected. Fees generated in connection with our debt investments are recognized over the life of the loan or, in some cases, recognized as earned. In addition, we generate revenue in the form of capital gains, if any, on warrants or other equity-related securities that we acquire from our portfolio companies. Our investments generally range from $12.0 million to $25.0 million, although we may make investments in amounts above or below that range. As of September 30, 2016, our debt investments have a term of between two and seven years and typically bear interest at a rate ranging from approximately 4.0% to approximately 12.5%. In addition to the cash yields received on our debt investments, in some instances, our debt investments may also include any of the following: exit fees, balloon payment fees, commitment fees, success fees, payment-in-kind (PIK) provisions or prepayment fees which may be required to be included in income prior to receipt.

Interest on debt securities is generally payable monthly, with amortization of principal typically occurring over the term of the investment. In addition, our loans may include an interest-only period ranging from three to eighteen months or longer. In limited instances in which we choose to defer amortization of the loan for a period of time from the date of the initial investment, the principal amount of the debt securities and any accrued but unpaid interest become due at the maturity date.

Loan origination and commitment fees received in full at the inception of a loan are deferred and amortized into fee income as an enhancement to the related loan s yield over the contractual life of the loan. We recognize nonrecurring fees amortized over the remaining term of the loan commencing in the quarter relating to specific loan modifications. We had approximately $37.0 million of unamortized fees at September 30, 2016, of which approximately $34.5 million was included as an offset to the cost basis of our current debt investments and approximately $2.5 million was deferred contingent upon the occurrence of a funding or milestone. At December 31, 2015 we had approximately $26.1 million of unamortized fees, of which approximately $23.6 million was included as an offset to the cost basis of our current debt investments and approximately $2.5 million was deferred contingent upon the occurrence of a funding or milestone.

Loan exit fees to be paid at the termination of the loan are accreted into interest income over the contractual life of the loan. At September 30, 2016 we had approximately $30.8 million in exit fees receivable, of which approximately $28.0 million was included as a component of the cost basis of our current debt investments and approximately $2.8 million was a deferred receivable related to expired commitments. At December 31, 2015 we had approximately $22.7 million in exit fees receivable, of which approximately $17.4 million was included as a component of the cost basis of our current debt investments and approximately $5.3 million was a deferred receivable related to expired commitments.

We have debt investments in our portfolio that contain a PIK provision. The PIK interest, computed at the contractual rate specified in each loan agreement, is recorded as interest income and added to the principal balance of the loan on specified capitalization dates. To maintain our ability to be subject to tax as a RIC, this non-cash source of income must be paid out to stockholders with other sources of income in the form of dividend distributions even though we have not yet collected the cash. Amounts necessary to pay these distributions may come from available cash or the liquidation of certain investments. We recorded approximately $2.1 million and $1.5 million in PIK income in the three months ended September 30, 2016 and 2015, respectively. We recorded approximately $5.7 million and $3.3 million in PIK income in the nine months ended September 30, 2016 and 2015, respectively.

[Table of Contents](#)

[Index to Financial Statements](#)

The core yield on our debt investments, which excludes any benefits from the fees and income related to early loan repayment acceleration of unamortized fees and income as well as prepayment of fees and includes income from expired commitments, was 13.2% and 12.6% during the three months ended September 30, 2016 and 2015, respectively. The effective yield on our debt investments, which includes the effects of fee and income accelerations attributed to early payoffs, restructuring, loan modifications and other one-time events, was 14.6% and 16.4% for the three months ended September 30, 2016 and 2015, respectively. The effective yield is derived by dividing total investment income by the weighted average earning investment portfolio assets outstanding during the quarter, excluding non-interest earning assets such as warrants and equity investments. Both the core yield and effective yield may be higher than what our common stockholders may realize as the core yield and effective yield do not reflect our expenses and any sales load paid by our common stockholders.

The total return for our investors was approximately 19.5% and -27.3% during the nine months ended September 30, 2016 and 2015, respectively. The total return equals the change in the ending market value over the beginning of the period price per share plus dividend distributions paid per share during the period, divided by the beginning price assuming the distribution is reinvested on the date of the distribution. The total return does not reflect any sales load that must be paid by investors.

Portfolio Composition

Our portfolio companies are primarily privately held companies and public companies which are active in the drug discovery and development, sustainable and renewable technology, software, drug delivery, medical devices and equipment, media/content/info, internet consumer and business services, specialty pharmaceuticals, healthcare services, communications and networking, consumer and business products, surgical devices, semiconductors, biotechnology tools, electronics and computer hardware, diagnostic, and information services industry sectors. These sectors are characterized by high margins, high growth rates, consolidation and product and market extension opportunities. Value for companies in these sectors is often vested in intangible assets and intellectual property.

As of September 30, 2016, approximately 73.6% of the fair value of our portfolio was composed of investments in five industries: 27.0% was composed of investments in the drug discovery and development industry, 14.8% was comprised of investments in the sustainable and renewable technology industry, 14.3% was composed of investments in the software industry, 8.8% was composed of investments in the drug delivery industry, and 8.7% was composed of investments in the medical devices and equipment industry.

Table of Contents

Index to Financial Statements

The following table shows the fair value of our portfolio by industry sector at September 30, 2016 and December 31, 2015:

	September 30, 2016		December 31, 2015	
(in thousands)	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
Drug Discovery & Development	$ 356,190	27.0%	$ 284,266	23.7%
Sustainable and Renewable Technology	195,861	14.8%	159,487	13.3%
Software	188,986	14.3%	147,237	12.3%
Drug Delivery	116,450	8.8%	164,665	13.7%
Medical Devices & Equipment	114,588	8.7%	90,560	7.5%
Media/Content/Info	109,603	8.3%	95,488	7.9%
Internet Consumer & Business Services	92,915	7.0%	88,377	7.4%
Specialty Pharmaceuticals	39,466	3.0%	52,088	4.3%
Healthcare Services, Other	30,198	2.3%	15,131	1.3%
Communications & Networking	18,985	1.5%	33,213	2.8%
Consumer & Business Products	18,755	1.4%	26,611	2.2%
Surgical Devices	12,816	1.0%	11,185	0.9%
Semiconductors	10,925	0.8%	22,705	1.9%
Biotechnology Tools	7,228	0.5%	719	0.1%
Electronics & Computer Hardware	7,061	0.5%	6,928	0.6%
Diagnostic	581	0.1%	321	0.0%
Information Services	2	0.0%	1,657	0.1%
Total	$ 1,320,610	100.0%	$ 1,200,638	100.0%

Industry and sector concentrations vary as new loans are recorded and loans pay off. Loan revenue, consisting of interest, fees, and recognition of gains on equity and warrants or other equity-related interests, can fluctuate materially when a loan is paid off or a related warrant or equity interest is sold. Revenue recognition in any given year can be highly concentrated among several portfolio companies.

For the nine months ended September 30, 2016 and the year ended December 31, 2015, our ten largest portfolio companies represented approximately 33.1% and 32.1% of the total fair value of our investments in portfolio companies, respectively. At September 30, 2016 and December 31, 2015, we had three and two investments, respectively, that represented 5% or more of our net assets. At September 30, 2016, we had six equity investments representing approximately 51.9% of the total fair value of our equity investments, and each represented 5% or more of the total fair value of our equity investments. At December 31, 2015, we had four equity investments which represented approximately 53.2% of the total fair value of our equity investments, and each represented 5% or more of the total fair value of our equity investments.

As of September 30, 2016 approximately 92.9% of the debt investment portfolio was priced at floating interest rates or floating interest rates with a Prime or LIBOR-based interest rate floor. As a result, we believe we are well positioned to benefit should market interest rates rise in the near future.

As of September 30, 2016, 91.2% of our debt investments were in a senior secured first lien position with the remaining 8.8% secured by a senior second priority security interest in all of the portfolio company s assets, other than intellectual property. In the majority of cases, we collateralize our investments by obtaining a first priority security interest in a portfolio company s assets, which may include its intellectual property. In other cases, we may obtain a negative pledge covering a company s intellectual property. At September 30, 2016, of the approximately 91.2% of our debt investments in a senior secured first lien position, 42.3% were secured by a first priority security in all of the assets of the portfolio company, including its intellectual property; 45.6% were secured by a first priority security in all of the assets of the portfolio company and the portfolio company was

Table of Contents

Index to Financial Statements

prohibited from pledging or encumbering its intellectual property, or subject to a negative pledge; and 3.3% were secured by a first priority security in all of the assets of the portfolio company, including its intellectual property, with a second lien on the portfolio company s cash and accounts receivable. At September 30, 2016 we had no equipment only liens on material investments in our portfolio companies.

Our investments in senior secured debt with warrants have detachable equity enhancement features, typically in the form of warrants or other equity-related securities designed to provide us with an opportunity for capital appreciation. These features are treated as original issue discount (OID) and are accreted into interest income over the term of the loan as a yield enhancement. Our warrant coverage generally ranges from 3% to 20% of the principal amount invested in a portfolio company, with a strike price generally equal to the most recent equity financing round. As of September 30, 2016, we held warrants in 138 portfolio companies, with a fair value of approximately $27.7 million. The fair value of our warrant portfolio increased by approximately $4.7 million, as compared to a fair value of $23.0 million at December 31, 2015 primarily related to the addition of warrants in 18 new and 11 existing portfolio companies during the period.

Our existing warrant holdings would require us to invest approximately $100.8 million to exercise such warrants as of September 30, 2016. Warrants may appreciate or depreciate in value depending largely upon the underlying portfolio company s performance and overall market conditions. Of the warrants that we have monetized since inception, we have realized multiples in the range of approximately 1.02x to 29.22x based on the historical rate of return on our investments. However, our warrants may not appreciate in value and, in fact, may decline in value. Accordingly, we may experience losses from our warrant portfolio.

As required by the 1940 Act, we classify our investments by level of control. Control investments are defined in the 1940 Act as investments in those companies that we are deemed to control , which, in general, includes a company in which we own 25% or more of the voting securities of such company or have greater than 50% representation on its board. Affiliate investments are investments in those companies that are affiliated companies of ours, as defined in the 1940 Act, which are not control investments. We are deemed to be an affiliate of a company in which we have invested if we own 5% or more, but generally less than 25%, of the voting securities of such company. Non-control/non-affiliate investments are investments that are neither control investments nor affiliate investments.

The following table summarizes our realized and unrealized gain and loss and changes in our unrealized appreciation and depreciation on control and affiliate investments for the three and nine months ended September 30, 2016 and 2015. We did not hold any Control investments at September 30, 2015.

(in thousands)			For the Three Months Ended September 30, 2016				For the Nine Months Ended September 30, 2016			
Portfolio Company	**Type**	**Fair Value at September 30, 2016**	**Investment Income**	**Net Change in Unrealized Appreciation/ (Depreciation)**	**Reversal of Unrealized Appreciation / (Depreciation)**	**Realized Gain/ (Loss)**	**Investment Income**	**Net Change in Unrealized Appreciation/ (Depreciation)**	**Reversal of Unrealized Appreciation / (Depreciation)**	**Realized Gain/ (Loss)**
Control Investments										
SkyCross, Inc.	Control	$	$	$	$	$	$	$ (3,421)	$	$
Achilles Technology Management Co II, Inc.	Control	4,991	16				16			
Total Control Investments		$ 4,991	$ 16	$	$	$	$ 16	$ (3,421)	$	$
Affiliate Investments										
Optiscan BioMedical, Corp.	Affiliate	$ 5,102	$	$ 553	$	$	$ 12	$ (2,833)	$	$
Stion Corporation	Affiliate	821	30				133	539	648	
Total Affiliate Investments		$ 5,923	$ 30	$ 553	$	$	$ 145	$ (2,294)	$ 648	$
Total Control & Affiliate Investments		$ 10,914	$ 46	$ 553	$	$	$ 161	$ (5,715)	$ 648	$

Table of Contents

Index to Financial Statements

(in thousands)		For the Three Months Ended September 30, 2015					For the Nine Months Ended September 30, 2015			
Portfolio Company	Type	Fair Value at September 30, 2015	Investment Income	Net Change in Unrealized Appreciation/ (Depreciation)	Reversal of Unrealized Appreciation / (Depreciation)	Realized Gain/ (Loss)	Investment Income	Net Change in Unrealized Appreciation/ (Depreciation)	Reversal of Unrealized Appreciation / (Depreciation)	Realized Gain/ (Loss)
Gelesis, Inc.	Affiliate	$ 1,398	$	$ (837)	$	$	$	$ 1,071	$	$
Optiscan BioMedical, Corp.	Affiliate	6,186		(432)				113		
Stion Corporation	Affiliate	1,600	83	420			279	359		
Total Affiliate Investments		$ 9,184	$ 83	$ (849)	$	$	$ 279	$ 1,543	$	$

In June 2016 our investments in SkyCross, Inc. became classified as a control investment as a result of obtaining more than 50% representation on the portfolio company s board. In June 2016 we also acquired 100% ownership of the equity of Achilles Technology Management Co II, Inc. and classified it as a control investment in accordance with the requirements of the 1940 Act. In June 2016, Achilles Technology Management Co II, Inc. acquired the assets of a global antenna company that produces radio frequency system solutions as part of an article 9 consensual foreclosure and public auction for total consideration in the amount of $4.0 million. In September 2016 we made a $1.0 million debt investment in Achilles Technology Management II to provide working capital under the terms of a loan servicing agreement. Our investments in Achilles Technology Management Co II, Inc. are carried on the consolidated statement of assets and liabilities at fair value.

As of December 31, 2015, changes to the capitalization structure of the portfolio company Gelesis, Inc. reduced our investment below the threshold for classification as an affiliate investment.

Portfolio Grading

We use an investment grading system, which grades each debt investment on a scale of 1 to 5 to characterize and monitor our expected level of risk on the debt investments in our portfolio with 1 being the highest quality. The following table shows the distribution of our outstanding debt investments on the 1 to 5 investment grading scale at fair value as of September 30, 2016 and December 31, 2015, respectively:

(in thousands)	September 30, 2016			December 31, 2015		
Investment Grading	Number of Companies	Debt Investments at Fair Value	Percentage of Total Portfolio	Number of Companies	Debt Investments at Fair Value	Percentage of Total Portfolio
1	14	$ 269,767	22.0%	18	$ 215,202	19.4%
2	35	516,504	42.3%	47	759,274	68.4%
3	26	371,968	30.4%	6	44,837	4.0%
4	7	40,788	3.3%	4	34,153	3.1%
5	7	25,094	2.0%	10	56,743	5.1%
	89	$ 1,224,121	100.0%	85	$ 1,110,209	100.0%

As of September 30, 2016, our debt investments had a weighted average investment grading of 2.32, as compared to 2.16 at December 31, 2015. Our policy is to lower the grading on our portfolio companies as they approach the point in time when they will require additional equity capital. Additionally, we may downgrade our portfolio companies if they are not meeting our financing criteria or are underperforming relative to their respective business plans. Various companies in our portfolio will require additional funding in the near term or have not met their business plans and therefore have been downgraded until their funding is complete or their operations improve.

The decline in weighted average investment grading at September 30, 2016 from December 31, 2015 is primarily due to the net increase of rated 3 portfolio companies due to underperformance or near term funding requirements. This decline is partially offset by a net reduction in the number of rated 5 companies due to performance improvements or settlement of positions that were rated 5 at December 31, 2015. During the nine months ended September 30, 2016, a net of twenty existing portfolio companies were downgraded to a 3 rating. During the nine months ended September 30, 2016, a net of three portfolio companies were upgraded that were rated 5 at December 31, 2015.

Table of Contents

Index to Financial Statements

At September 30, 2016, we had six debt investments on non-accrual with a cumulative investment cost and fair value of approximately $46.2 million and $9.3 million, respectively. At December 31, 2015, we had five debt investments on non-accrual with cumulative investment cost and fair value of approximately $47.4 million and $23.2 million, respectively. In addition, at December 31, 2015, we had one debt investment with an investment cost and fair value of approximately $20.1 million and $14.9 million, respectively, for which only the PIK interest was on non-accrual. During the nine months ended September 30, 2016, we recognized a realized loss of approximately $6.2 million on the settlement of one debt investment that was on non-accrual at December 31, 2015. In addition, we recognized realized losses of $419,000 and $430,000 on the liquidation and partial write off, respectively, of two debt investments that were on non-accrual as of December 31, 2015.

Results of Operations

Comparison of the three and nine months ended September 30, 2016 and 2015

Investment Income

Total investment income for the three months ended September 30, 2016 was approximately $45.1 million as compared to approximately $47.1 million for the three months ended September 30, 2015. Total investment income for the nine months ended September 30, 2016 was approximately $127.6 million as compared to approximately $117.8 million for the nine months ended September 30, 2015.

Interest income for the three months ended September 30, 2016 totaled approximately $40.0 million as compared to approximately $40.3 million for the three months ended September 30, 2015. Interest income for the nine months ended September 30, 2016 totaled approximately $116.1 million as compared to approximately $106.1 million for nine months ended September 30, 2015. The decrease in interest income for the three months ended September 30, 2016 as compared to the same period ended September 30, 2015 is primarily attributable to a decrease in the acceleration of interest income due to early loan repayments, offset by an increase in interest income related to the weighted average balance of principal outstanding on our debt investments. The increase in interest income for the nine months ended September 30, 2016 as compared to the same period ended September 30, 2015 is primarily attributable to debt investment portfolio growth, specifically an increase in the weighted average principal outstanding between the periods.

Of the $40.0 million in interest income for the three months ended September 30, 2016, approximately $38.2 million represents recurring income from the contractual servicing of our loan portfolio and approximately $1.8 million represents income related to the acceleration of income due to early loan repayments and other one-time events during the period. Income from recurring interest and the acceleration of interest income due to early loan repayments represented $34.5 million and $5.8 million, respectively, of the $40.3 million interest income for the three months ended September 30, 2015.

Of the $116.1 million in interest income for the nine months ended September 30, 2016, approximately $111.8 million represents recurring income from the contractual servicing of our loan portfolio and approximately $4.3 million represents income related to the acceleration of income due to early loan repayments and other one-time events during the period. Income from recurring interest and the acceleration of interest income due to early loan repayments represented $100.0 million and $6.1 million, respectively, of the $106.1 million interest income for the nine months ended September 30, 2015.

Income from commitment, facility and loan related fees for the three months ended September 30, 2016 totaled approximately $5.1 million as compared to approximately $6.8 million for the three months ended September 30, 2015. Income from commitment, facility and loan related fees for the nine months ended September 30, 2016 totaled approximately $11.5 million as compared to approximately $11.6 million for the nine months ended September 30, 2015. The decrease in fee income for the three and nine months ended September 30, 2016 is primarily attributable to a decrease in the acceleration of unamortized fees due to early repayments and one-time fees between periods.

Table of Contents

Index to Financial Statements

Of the $5.1 million in income from commitment, facility and loan related fees for the three months ended September 30, 2016, approximately $2.5 million represents income from recurring fee amortization and approximately $2.6 million represents income related to the acceleration of unamortized fees due to early repayments and one-time fees for the period. Income from recurring fee amortization and the acceleration of unamortized fees due to early loan repayments represented $1.9 million and $4.9 million, respectively, of the $6.8 million income for the three months ended September 30, 2015.

Of the $11.5 million in income from commitment, facility and loan related fees for the nine months ended September 30, 2016, approximately $7.2 million represents income from recurring fee amortization and approximately $4.3 million represents income related to the acceleration of unamortized fees due to early repayments and one-time fees for the period. Income from recurring fee amortization and the acceleration of unamortized fees due to early loan repayments represented $5.1 million and $6.5 million, respectively, of the $11.6 million income for the nine months ended September 30, 2015.

The following table shows the PIK-related activity for the nine months ended September 30, 2016 and 2015, at cost:

(in thousands)	Nine Months Ended September 30, 2016	2015
Beginning PIK interest receivable balance	$ 5,149	$ 6,250
PIK interest income during the period	5,676	3,336
PIK accrued (capitalized) to principal but not recorded as income during the period	(2,146)	
Payments received from PIK loans	(438)	(3,041)
Realized loss	(266)	(223)
Ending PIK interest receivable balance	$ 7,975	$ 6,322

The increase in PIK interest income during the nine months ended September 30, 2016 as compared to the nine months ended September 30, 2015 is due to an increase in the weighted average principal outstanding of loans which bear PIK interest. The increase is primarily due to new originations and compounding interest, along with a decrease in the number of PIK loans which paid off during the period.

In certain investment transactions, we may earn income from advisory services; however, we had no income from advisory services in the three and nine months ended September 30, 2016 or 2015.

Operating Expenses

Our operating expenses are comprised of interest and fees on our borrowings, general and administrative expenses and employee compensation and benefits. Our operating expenses totaled approximately $21.3 million and $23.5 million during the three months ended September 30, 2016 and 2015, respectively. Our operating expenses totaled approximately $60.4 million and $64.4 million during the nine months ended September 30, 2016 and 2015, receptively.

Interest and Fees on our Borrowings

Interest and fees on our borrowings totaled approximately $10.1 million and $8.9 million for the three months ended September 30, 2016 and 2015, respectively and approximately $27.0 million and $27.4 million for the nine months ended September 30, 2016 and 2015, respectively. Interest and fee expense for the three months ended September 30, 2016 as compared to September 30, 2015 increased due to higher weighted average principal balances outstanding on our 2024 Notes along with higher debt issuance cost amortization on our Asset

Table of Contents

Index to Financial Statements

Backed Notes, offset by a reduction in interest expense on our credit facilities and Convertible Notes. The slight decrease in interest and fee expense for the nine months ended September 30, 2016 as compared to September 30, 2015 was attributable to the payoff of our Convertible Notes, 2017 Asset Backed Notes and a reduction in the weighted average principal balance outstanding on our Credit Facilities between periods.

We had a weighted average cost of debt, comprised of interest and fees and loss on debt extinguishment (long-term liabilities convertible senior notes), of approximately 6.0% and 5.6% for the three months ended September 30, 2016 and 2015, respectively, and a weighted average cost of debt of approximately 5.8% and 5.9% for the nine months ended September 30, 2016 and 2015, respectively. The increase in the weighted average cost of debt for the three months ended September 30, 2016 as compared to the same period ended September 30, 2015 is primarily attributable to the acceleration of unamortized fee expense related to pay downs on our Asset Backed Notes, and the incremental issuance of our 2024 Notes in the prior period. The decrease between the nine months ended September 30, 2016 and September 30, 2015 was primarily driven by a reduction in the weighted average principal outstanding on our higher yielding debt instruments compared to the prior period, specifically due to redemptions of our 2019 Notes and Convertible Notes, offset by the incremental issuance of our 2024 Notes.

General and Administrative Expenses

General and administrative expenses include legal fees, consulting fees, accounting fees, printer fees, insurance premiums, rent, expenses associated with the workout of underperforming investments and various other expenses. Our general and administrative expenses decreased to $4.1 million from $4.5 million for the three months ended September 30, 2016 and 2015. Our general and administrative expenses decreased slightly to $12.1 million from $12.2 million for the nine months ended September 30, 2016 and 2015. The decrease for the three and nine months ended September 30, 2016 was primarily attributable to a reduction in costs related to strategic hiring objectives, slightly offset by an increase in corporate legal and other expenses between periods.

Employee Compensation

Employee compensation and benefits totaled $5.6 million for the three months ended September 30, 2016 as compared to $8.0 million for the three months ended September 30, 2015, and $15.6 million for the nine months ended September 30, 2016 as compared to $17.6 million for the nine months ended September 30, 2015. The decrease for the three and nine-month comparative period was primarily due to changes in variable compensation expenses related to general and originator performance factors.

Employee stock-based compensation totaled $1.4 million for the three months ended September 30, 2016 as compared to $2.2 million for the three months ended September 30, 2015 and $5.6 million for the nine months ended September 30, 2016 as compared to $7.2 million for the nine months ended September 30, 2015. The decrease between both comparative periods was primarily related to restricted stock award vesting, specifically the final vesting of retention grants issued in 2014.

Loss on Extinguishment of Convertible Senior Notes

Our Convertible Senior Notes were fully settled on or before their contractual maturity date of April 15, 2016. Throughout the life of the Convertible Senior Notes, holders of approximately $74.8 million of our Convertible Senior Notes exercised their conversion rights. These Convertible Senior Notes were settled with a combination of cash equal to the outstanding principal amount of the Convertible Senior Notes and approximately 1.6 million shares of our common stock, or $24.3 million.

We recorded a loss on extinguishment of debt for the proportionate amount of unamortized debt issuance costs and original issue discount. The loss was partially offset by a gain in the amount of the difference between the outstanding principal balance of the converted notes and the fair value of the debt instrument. The net loss on extinguishment of debt we recorded for the year ended December 31, 2015 was $1,000. We did not record a loss on extinguishment of debt in the three and nine months ended September 30, 2016. The loss on extinguishment of debt was classified as a component of net investment income in our Consolidated Statement of Operations.

Net Investment Realized Gains and Losses and Net Unrealized Appreciation and Depreciation

Realized gains or losses are measured by the difference between the net proceeds from the repayment or sale and the cost basis of an investment without regard to unrealized appreciation or depreciation previously recognized, and includes investments written off during the period, net of recoveries. Net change in unrealized appreciation or depreciation primarily reflects the change in portfolio investment values during the reporting period, including the reversal of previously recorded unrealized appreciation or depreciation when gains or losses are realized.

A summary of realized gains and losses for the three and nine months ended September 30, 2016 and 2015 is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	**2016**	**2015**	**2016**	**2015**
Realized gains	$ 9,423	$ 6,790	$ 13,634	$ 11,614
Realized losses	(1,553)	(424)	(10,207)	(3,190)
Net realized gains	$ 7,870	$ 6,366	$ 3,427	$ 8,424

During the three months ended September 30, 2016 and 2015, we recognized net realized gains of $7.9 and $6.4 million, respectively. During the three months ended September 30, 2016, we recorded gross realized gains of $9.4 million primarily from the sale or acquisition of our holdings in three portfolio companies, including Box, Inc. ($7.8 million), Touchcommerce, Inc. ($698,000), and ReachLocal ($610,000). These gains were offset by gross realized losses of $1.5 million primarily from the write off of our warrant and equity investments in one portfolio company and our debt investment in one portfolio company.

During the three months ended September 30, 2015, we recorded gross realized gains of $6.8 million primarily from the sale of investments in three portfolio companies, including Box, Inc. ($2.7 million), Atrenta, Inc. ($2.6 million), and Egalet Corporation ($652,000), and approximately $871,000 from subsequent recoveries received on two previously written-off debt investments. These gains were offset by gross realized losses of $424,000 from the liquidation of our investments in one portfolio company.

During the nine months ended September 30, 2016 and 2015, we recognized net realized gains of $3.4 million and $8.4 million, respectively. During the nine months ended September 30, 2016, we recorded gross realized gains of $13.6 million primarily from the sale or acquisition of our investments in five portfolio companies, including Box, Inc. ($8.9 million), Celator Pharmaceuticals, Inc. ($1.5 million), Ping Identity Corporation ($1.3 million), Touchcommerce, Inc. ($698,000) and ReachLocal ($610,000). These gains were offset by gross realized losses of $10.2 million primarily from the liquidation or write off of our warrant and equity investments in six portfolio companies and of our debt investments in four portfolio companies, including the settlement of our outstanding debt investment in The Neat Company ($6.2 million).

During the nine months ended September 30, 2015 we recorded gross realized gains of $11.6 million primarily from the sale of investments in seven portfolio companies, including Box, Inc. ($2.7 million), Atrenta, Inc. ($2.6 million), Cempra, Inc. ($2.0 million), Celladon Corporation ($1.4 million), Egalet Corporation ($652,000), Everyday Health, Inc. ($387,000) and Identiv, Inc. ($304,000). These gains were partially offset by gross realized losses of $3.2 million from the liquidation of our investments in nine portfolio companies.

Table of Contents

Index to Financial Statements

The net unrealized appreciation and depreciation of our investments is based on the fair value of each investment determined in good faith by our Board of Directors. The following table summarizes the change in net unrealized appreciation (depreciation) of investments for the three and nine months ended September 30, 2016 and 2015:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	**2016**	**2015**	**2016**	**2015**
Gross unrealized appreciation on portfolio investments	$ 25,903	$ 19,515	$ 55,428	$ 55,369
Gross unrealized depreciation on portfolio investments	(21,309)	(40,366)	(76,801)	(82,479)
Reversal of prior period net unrealized appreciation upon a realization event	(7,161)	(5,162)	(7,421)	(8,816)
Reversal of prior period net unrealized depreciation upon a realization event	1,550		12,803	2,162
Net unrealized appreciation (depreciation) attributable to taxes payable	217	63	(78)	660
Net unrealized appreciation (depreciation) on escrow receivables				
Citigroup warrant participation	(34)	69	(3)	62
Net unrealized appreciation (depreciation) on portfolio investments	$ (834)	$ (25,881)	$ (16,072)	$ (33,042)

During the three months ended September 30, 2016, we recorded approximately $834,000 of net unrealized depreciation, of which $1.0 million was net unrealized depreciation from our debt, equity and warrant investments. Approximately $7.7 million was attributed to net unrealized depreciation on our debt investments related to $14.1 million of unrealized depreciation for collateral based impairments on eleven portfolio companies offset by the reversal of $1.3 million of unrealized depreciation for prior period collateral based impairments on one portfolio company and $4.8 million of unrealized appreciation from our current market yield analysis related to industry performance. This net unrealized depreciation was partially offset by approximately $4.0 million of net unrealized appreciation on our equity investments, which primarily relates to $6.5 million of unrealized appreciation on our public equity portfolio and $2.3 million of unrealized appreciation on our private portfolio companies related to portfolio company performance, offset by the reversal of approximately $4.7 million of net unrealized appreciation upon being realized as a gain on sales of Box, Inc. An additional $2.7 million of net unrealized appreciation on our warrant investments was primarily due to $5.8 million of unrealized appreciation on our private portfolio companies related to portfolio company performance offset by the reversal of approximately $2.0 million of unrealized appreciation upon being realized as a gain due to the acquisition of our warrant investments in two portfolio companies.

Net unrealized depreciation was further offset by $217,000 as a result of decreased estimated taxes payable for the three months ended September 30, 2016.

Net unrealized depreciation increased by $34,000 as a result of net depreciation of fair value on the pool of warrants collateralized under the warrant participation agreement during the three months ended September 30, 2016.

During the three months ended September 30, 2015, we recorded approximately $25.9 million of net unrealized depreciation, of which $26.1 million was net unrealized depreciation from our debt, equity and warrant investments. Approximately $18.1 million was attributed to net unrealized depreciation on our equity investments which primarily related to $9.8 million of unrealized depreciation on our public equity portfolio with the largest concentration in our investment in Box, Inc., $3.8 million of unrealized depreciation on our private portfolio companies related to declining industry performance, and the reversal of $4.5 million of unrealized appreciation upon being realized as a gain on sale of Box, Inc. and the acquisition proceeds received from Atrenta, Inc. Approximately $9.4 million was attributed to net unrealized depreciation on our warrant

Table of Contents

Index to Financial Statements

investments which primarily related to approximately $2.1 million of unrealized depreciation on our public warrant portfolio related to portfolio company performance and $6.1 million of unrealized depreciation on our private portfolio companies related to declining industry performance. This net unrealized depreciation was partially offset by approximately $1.4 million of net unrealized appreciation on our debt investments which primarily related to the reversal of $3.1 million of unrealized depreciation on a previous collateral based impairment offset by $1.0 million of unrealized depreciation for collateral based impairments on twelve portfolio companies.

Net unrealized depreciation was offset by $63,000 as a result of decreased estimated taxes payable for the three months ended September 30, 2015.

Net unrealized depreciation was further offset by $69,000 as a result of net depreciation of fair value on the pool of warrants collateralized under the warrant participation agreement and as a result of the acquisition proceeds we received on our Atrenta, Inc. equity, which was exercised from warrants subject to the agreement during the three months ended September 30, 2015.

The following table summarizes the change in net unrealized appreciation (depreciation) in the investment portfolio by category, excluding net unrealized appreciation (depreciation) on taxes payable, escrow receivables and Citigroup warrant participation, for the three months ended September 30, 2016 and 2015:

	Three Months Ended September 30, 2016			
(in millions)	**Debt**	**Equity**	**Warrants**	**Total**
Collateral Based Impairments	$ (14.1)	$ (0.1)	$ (0.3)	$ (14.5)
Reversals of Prior Period Collateral Based Impairments	1.3			1.3
Reversals due to Debt Payoffs & Warrant/Equity Sales	0.3	(4.7)	(2.0)	(6.4)
Fair Value Market/Yield Adjustments*				
Level 1 & 2 Assets	0.3	6.5	(0.8)	6.0
Level 3 Assets	4.5	2.3	5.8	12.6
Total Fair Value Market/Yield Adjustments	4.8	8.8	5.0	18.6
Total Unrealized Appreciation/(Depreciation)	$ (7.7)	$ 4.0	$ 2.7	$ (1.0)

	Three Months Ended September 30, 2015			
(in millions)	**Debt**	**Equity**	**Warrants**	**Total**
Collateral Based Impairments	$ (1.0)	$	$ (0.4)	$ (1.4)
Reversals of Prior Period Collateral Based Impairments	3.1			3.1
Reversals due to Debt Payoffs & Warrant/Equity Sales	0.2	(4.5)	(0.8)	(5.1)
Fair Value Market/Yield Adjustments*				
Level 1 & 2 Assets		(9.8)	(2.1)	(11.9)
Level 3 Assets	(0.9)	(3.8)	(6.1)	(10.8)
Total Fair Value Market/Yield Adjustments	(0.9)	(13.6)	(8.2)	(22.7)
Total Unrealized Appreciation/(Depreciation)	$ 1.4	$ (18.1)	$ (9.4)	$ (26.1)

* Level 1 assets are generally equities listed in active markets and level 2 assets are generally warrants held in a public company. Observable market prices are typically the primary input in valuing level 1 and 2 assets. Level 3 asset valuations require inputs that are both significant and unobservable. Generally, level 3 assets are debt investments and warrants and equities held in a private company. See Note 2 to the financial statements discussing ASC Topic 820 (Fair Value Measurements).

Table of Contents

Index to Financial Statements

During the nine months ended September 30, 2016, we recorded approximately $16.1 million of net unrealized depreciation, of which $15.9 million was net unrealized depreciation from our debt, equity and warrant investments. Approximately $9.7 million was attributed to net unrealized depreciation on our debt investments which was primarily related to $34.7 million of unrealized depreciation for collateral based impairments on eleven portfolio companies offset by the reversal of $12.5 million of unrealized depreciation upon payoff or settling of our debt investments and the reversal of $7.0 million of unrealized depreciation for prior period collateral based impairments on five portfolio companies. Approximately $8.5 million was attributed to net unrealized depreciation on our equity investments which primarily relates to $3.9 million of unrealized depreciation on our public equity portfolio with the largest concentration in our investment in Box, Inc. and the reversal of $4.6 million of net unrealized appreciation upon being realized as a gain on sales of Box, Inc. and the write off of three portfolio company investments. This unrealized depreciation was partially offset by approximately $2.3 million of net unrealized appreciation on our warrant investments primarily related to $5.4 million of net unrealized appreciation on our private portfolio companies related to portfolio company performance offset by the reversal of approximately $1.2 million of unrealized appreciation upon being realized as a gain due to the acquisition of our warrant investments in two portfolio companies and the write off of five portfolio company investments.

Net unrealized depreciation increased by $78,000 as a result of increased estimated taxes payable for the nine months ended September 30, 2016.

Net unrealized appreciation was further increased by $3,000 as a result of net depreciation of fair value on the pool of warrants collateralized under the warrant participation agreement and a decrease in the liability for the acquisition proceeds received on our Ping Identity Corporation equity investment, which had been exercised from warrants that were included in the collateral pool, during the nine months ended September 30, 2016.

During the nine months ended September 30, 2015, we recorded approximately $33.0 million of net unrealized depreciation, of which $33.8 million was net unrealized depreciation from our debt, equity and warrant investments. Approximately $3.5 million was attributed to net unrealized depreciation on our debt investments which was primarily related to $10.2 million of unrealized depreciation for collateral based impairments on twelve portfolio companies offset by the reversal of $5.6 million of unrealized depreciation for prior period collateral based impairments on three portfolio companies. Approximately $22.8 million was attributed to net unrealized depreciation on our equity investments which primarily related to approximately $11.9 million of unrealized depreciation on our public equity portfolio with the largest concentration in our investment in Box, Inc. and the reversal of $8.2 million of prior period net unrealized appreciation upon being realized as a gain for our sale of shares of Box, Inc., Cempra, Inc. Celladon Corporation, Everyday Health, and Identiv, Inc. as discussed above. Finally approximately $7.5 million is attributed to net unrealized depreciation on our warrant investments which primarily related to $7.4 million of unrealized depreciation on our private portfolio companies related to declining industry performance.

Net unrealized depreciation was offset by $660,000 as a result of decreased estimated taxes payable for the nine months ended September 30, 2015.

Net unrealized depreciation was further offset by $62,000 as a result of net depreciation of fair value on the pool of warrants collateralized under the warrant participation as a result of the acquisition proceeds we received on our Atrenta, Inc. equity, which was exercised from warrants subject to the agreement during nine months ended September 30, 2015.

Table of Contents

Index to Financial Statements

The following table summarizes the change in net unrealized appreciation (depreciation) in the investment portfolio by category, excluding net unrealized appreciation (depreciation) on taxes payable, escrow receivables and Citigroup warrant participation, for the nine months ended September 30, 2016 and 2015:

	Nine Months Ended September 30, 2016			
(in millions)	**Debt**	**Equity**	**Warrants**	**Total**
Collateral Based Impairments	$ (34.7)	$ (0.1)	$ (0.4)	$ (35.2)
Reversals of Prior Period Collateral Based Impairments	7.0			7.0
Reversals due to Debt Payoffs & Warrant/Equity Sales	12.5	(4.6)	(1.2)	6.7
Fair Value Market/Yield Adjustments*				
Level 1 & 2 Assets	0.3	(3.9)	(1.5)	(5.1)
Level 3 Assets	5.2	0.1	5.4	10.7
Total Fair Value Market/Yield Adjustments	5.5	(3.8)	3.9	5.6
Total Unrealized Appreciation/(Depreciation)	$ (9.7)	$ (8.5)	$ 2.3	$ (15.9)

	Nine Months Ended September 30, 2015			
(in millions)	**Debt**	**Equity**	**Warrants**	**Total**
Collateral Based Impairments	$ (10.2)	$	$ (0.4)	$ (10.6)
Reversals of Prior Period Collateral Based Impairments	5.6		0.4	6.0
Reversals due to Debt Payoffs & Warrant/Equity Sales	0.4	(8.2)	1.1	(6.7)
Fair Value Market/Yield Adjustments*				
Level 1 & 2 Assets		(11.9)	(1.2)	(13.1)
Level 3 Assets	0.7	(2.7)	(7.4)	(9.4)
Total Fair Value Market/Yield Adjustments	0.7	(14.6)	(8.6)	(22.5)
Total Unrealized Appreciation/(Depreciation)	$ (3.5)	$ (22.8)	$ (7.5)	$ (33.8)

* Level 1 assets are generally equities listed in active markets and level 2 assets are generally warrants held in a public company. Observable market prices are typically the primary input in valuing level 1 and 2 assets. Level 3 asset valuations require inputs that are both significant and unobservable. Generally, level 3 assets are debt investments and warrants and equities held in a private company. See Note 2 to the financial statements discussing ASC Topic 820 (Fair Value Measurements).

Income and Excise Taxes

We account for income taxes in accordance with the provisions of Topic 740 of the Financial Accounting Standards Board s (FASB s) Accounting Standards Codification, as amended (ASC), Income Taxes, under which income taxes are provided for amounts currently payable and for amounts deferred based upon the estimated future tax effects of differences between the financial statement and tax basis of assets and liabilities given the provisions of the enacted tax law. Valuation allowances may be used to reduce deferred tax assets to the amount likely to be realized. Based upon our previous election and anticipated continued qualification to be subject to taxation as a RIC, we are typically not subject to a material level of federal income taxes. We intend to distribute approximately $8.2 million of spillover earnings from ordinary income from the year ended December 31, 2015 to our stockholders in 2016.

Net Increase in Net Assets Resulting from Operations and Earnings Per Share

For the three months ended September 30, 2016 and 2015, the net increase in net assets resulting from operations totaled approximately $30.8 million and approximately $4.1 million, respectively. For the nine months ended September 30, 2016 and 2015, the net increase in net assets resulting from operations totaled approximately $54.6 million and approximately $28.7 million, respectively.

Table of Contents

Index to Financial Statements

Both the basic and fully diluted net change in net assets per common share were $0.41 per share and $0.74 per share, respectively, for the three and nine months ended September 30, 2016 and both the basic and fully diluted net change in net assets per common share for the three and nine months ended September 30, 2015 were $0.05 per share and $0.40 per share, respectively.

For the purpose of calculating diluted earnings per share for three and nine months ended September 30, 2015, the dilutive effect of the Convertible Senior Notes under the treasury stock method was included in this calculation as our share price was greater than the conversion price in effect ($11.12 as of September 30, 2015) for the Convertible Senior Notes for such periods. The Convertible Senior Notes were fully settled on or before their contractual maturity date of April 15, 2016, as such there is no potential additional dilutive effect for the three and nine months ended September 30, 2016.

Financial Condition, Liquidity, and Capital Resources

Our liquidity and capital resources are derived from our Credit Facilities, SBA debentures, 2019 Notes, 2024 Notes, 2021 Asset-Backed Notes and cash flows from operations, including investment sales and repayments, and income earned. Our primary use of funds from operations includes investments in portfolio companies and payments of fees and other operating expenses we incur. We have used, and expect to continue to use, our borrowings and the proceeds from the turnover of our portfolio and from public and private offerings of securities to finance our investment objectives. We may raise additional equity or debt capital through both registered offerings off a shelf registration, At-The-Market , or ATM, and private offerings of securities, by securitizing a portion of our investments or borrowing, including from the SBA through our SBIC subsidiaries.

On August 16, 2013, we entered into the Equity Distribution Agreement with JMP Securities and on March 7, 2016 we renewed the Equity Distribution Agreement. The Equity Distribution Agreement provides that we may offer and sell up to 8.0 million shares of our common stock from time to time through JMP Securities, as our sales agent. Sales of our common stock, if any, may be made in negotiated transactions or transactions that are deemed to be at the market, as defined in Rule 415 under the Securities Act including sales made directly on the NYSE or similar securities exchange or sales made to or through a market maker other than on an exchange, at prices related to the prevailing market prices or at negotiated prices.

During the three and nine months ended September 30, 2016 we sold 2.1 million and 4.1 million shares of common stock for total accumulated net proceeds of approximately $26.5 million and $50.2 million, respectively, including $986,000 and $1.8 million of offering expenses, respectively. We did not sell any shares under the program during the year ended December 31, 2015. We generally use the net proceeds from these offerings to make investments, repurchase or pay down liabilities and for general corporate purposes. As of September 30, 2016, approximately 3.2 million shares remained available for issuance and sale under the ATM.

On February 24, 2015, our Board of Directors authorized a stock repurchase plan permitting us to repurchase up to $50.0 million of our common stock. This plan expired on August 24, 2015. On August 27, 2015, our Board of Directors authorized a replacement stock repurchase plan permitting us to repurchase up to $50.0 million of our common stock and on February 17, 2016, our Board of Directors extended the program until August 23, 2016, after which the plan expired. During nine months ended September 30, 2016 we repurchased 449,588 shares of our common stock at an average price per share of $10.64 per share and a total cost of approximately $4.8 million. We did not make any repurchases during the three months ended September 30, 2016. See Item 2. Unregistered Sales of Equity Securities and Use of Proceeds for further information on the repurchases made during the period.

At the 2015 Annual Meeting of Stockholders on July 7, 2015, our common stockholders approved a proposal to allow us to issue common stock at a discount from our then current NAV per share, which was effective until the 2016 annual meeting of stockholders on July 7, 2016. Such authorization was not sought at the

Table of Contents

Index to Financial Statements

2016 annual meeting of stockholders. During the three and nine months ended September 30, 2016 and the year ended December 31, 2015 we did not issue common stock at a discount to NAV.

Our Convertible Senior Notes were fully settled on or before their contractual maturity date of April 15, 2016. Throughout the life of the Convertible Senior Notes, holders of approximately $74.8 million of our Convertible Senior Notes exercised their conversion rights. These Convertible Senior Notes were settled with a combination of cash equal to the outstanding principal amount of the converted notes and approximately 1.6 million shares of our common stock, or $24.3 million.

On May 2, 2016, we closed an underwritten public offering of an additional $72.9 million in aggregate principal amount of our 6.25% unsecured notes due 2024 (the 2024 Notes). The $72.9 million in aggregate principal amount includes $65.4 million from the initial offering on April 21, 2016 and $7.5 million as a result of underwriters exercising a portion of their option to purchase up to an additional $9.8 million in aggregate principal to cover overallotments on April 29, 2016.

On May 5, 2016, we, through a special purpose wholly-owned subsidiary, Hercules Funding III, as borrower, entered into the Union Bank Facility with MUFG Union Bank, as the arranger and administrative agent, and the lenders party to thereto from time to time. The Union Bank Facility replaced our credit facility (the Prior Union Bank Facility) entered into on August 14, 2014 (as amended and restated from time to time) with MUFG Union Bank, as the arranger and administrative agent, and the lenders party to the Prior Union Bank Facility from time to time. Any references to amounts related to the Union Bank Facility prior to May 5, 2016 were incurred and relate to the Prior Union Bank Facility.

On June 27, 2016, we closed an underwritten public offering of an additional $60.0 million in aggregate principal amount of the 2024 Notes. On June 30, 2016, the underwriters exercised their option to purchase up to an additional $9.0 million in aggregate principal to cover overallotments, resulting in total aggregate principal of $69.0 million from the offering. The 2024 Notes rank equally in right of payment and form a single series of notes. The 2024 Notes will bear interest at a rate of 6.25% per year payable quarterly on January 30, April 30, July 30 and October 30, of each year, beginning July 30, 2016. We intend to invest the net proceeds of these public offerings to fund investments in debt and equity securities in accordance with its investment objective and for other general corporate purposes.

At September 30, 2016, we had $110.4 million of 2019 Notes, $244.9 million of 2024 Notes, $117.0 million of 2021 Asset-Backed Notes, and $190.2 million of SBA debentures payable. We had no borrowings outstanding under the Wells Facility or the Union Bank Facility. See Subsequent Events.

At September 30, 2016, we had $264.0 million in available liquidity, including $69.0 million in cash and cash equivalents. We had available borrowing capacity of approximately $120.0 million under the Wells Facility after the March 2016 expansion of the available facility to $120.0 million and we had available borrowing capacity of $75.0 million under the Union Bank Facility, both subject to existing terms and advance rates and regulatory requirements. We primarily invest cash on hand in interest bearing deposit accounts.

At September 30, 2016, we had $118.5 million of capital outstanding in restricted accounts related to our SBIC that we may use to fund new investments in the SBIC. With our net investments of $44.0 million and $74.5 million in HT II and HT III, respectively, we have the combined capacity to issue a total of $190.2 million of SBA guaranteed debentures, subject to SBA approval. At September 30, 2016, we have issued $190.2 million in SBA guaranteed debentures in our SBIC subsidiaries.

At September 30, 2016, we had approximately $9.0 million of restricted cash, which consists of collections of interest and principal payments on assets that are securitized. In accordance with the terms of the related securitized 2021 Asset-Backed Notes, based on current characteristics of the securitized debt investment portfolios, the restricted funds may be used to pay monthly interest and principal on the securitized debt and are not distributed to us or available for our general operations. During the nine months ended September 30, 2016, we principally funded our operations from (i) cash receipts from interest, dividend and fee income from our investment portfolio and (ii) cash proceeds from the realization of portfolio investments through the repayments of debt investments and the sale of debt and equity investments.

During the nine months ended September 30, 2016, our operating activities used $58.5 million of cash and cash equivalents, compared to $78.5 million used during the nine months ended September 30, 2015. This $20.0 million decrease in cash used by operating activities is primarily related to a decrease in investment purchases of approximately $70.3 million offset by a decrease in investment repayments of $38.7 million.

During the nine months ended September 30, 2016, our investing activities used approximately $16,000 of cash, compared to approximately $7.1 million provided during the nine months ended September 30, 2015. This $7.2 million decrease in cash provided by investing activities was primarily due to a reduction of approximately $7.1 million in cash, classified as restricted cash, on assets that are securitized.

During the nine months ended September 30, 2016, our financing activities provided $32.3 million of cash, compared to $8.4 million used during the nine months ended September 30, 2015. The $40.7 million increase in cash provided by financing activities was primarily due to the proceeds received from the issuance of $141.9 million of 2024 Notes during the nine months ended September 30, 2016, partially offset by a decrease in proceeds generated from the issuance of common stock of $49.9 million and in repayments on our credit facilities.

As of September 30, 2016, net assets totaled $753.6 million, with a NAV per share of $9.86. We intend to continue to operate so as to generate cash flows from operations, including income earned from investments in our portfolio companies. Our primary use of funds will be investments in portfolio companies and cash distributions to holders of our common stock.

As required by the 1940 Act, our asset coverage must be at least 200% after each issuance of senior securities. As of September 30, 2016 our asset coverage ratio under our regulatory requirements as a business development company was 259.6% excluding our SBA debentures as a result of our exemptive order from the SEC that allows us to exclude all SBA leverage from our asset coverage ratio. As a result of the SEC exemptive order, our ratio of total assets on a consolidated basis to outstanding indebtedness may be less than 200%, which while providing increased investment flexibility, also may increase our exposure to risks associated with leverage. Total leverage when including our SBA debentures was 213.7% at September 30, 2016.

Table of Contents

Index to Financial Statements

Outstanding Borrowings

At September 30, 2016 and December 31, 2015, we had the following available borrowings and outstanding amounts:

	September 30, 2016			December 31, 2015		
(in thousands)	**Total Available**	**Principal**	**Carrying Value(1)**	**Total Available**	**Principal**	**Carrying Value(1)**
SBA Debentures(2)	$ 190,200	$ 190,200	$ 187,333	$ 190,200	$ 190,200	$ 186,829
2019 Notes	110,364	110,364	108,659	110,364	110,364	108,179
2024 Notes	244,945	244,945	237,663	103,000	103,000	100,128
2021 Asset-Backed Notes	117,004	117,004	115,531	129,300	129,300	126,995
Convertible Senior Notes (3)				17,604	17,604	17,478
Wells Facility (4)	120,000			75,000	50,000	50,000
Union Bank Facility (4)	75,000			75,000		
Total	$ 857,513	$ 662,513	$ 649,186	$ 700,468	$ 600,468	$ 589,609

(1) Except for the Wells Facility and Union Bank Facility, all carrying values represent the principal amount outstanding less the remaining unamortized debt issuance costs and unaccreted discount, if any, associated with the loan as of the balance sheet date. See below for the amount of debt issuance cost associated with each borrowing.
(2) At both September 30, 2016 and December 31, 2015, the total available borrowings under the SBA debentures were $190.2 million, of which $41.2 million was available in HT II and $149.0 million was available in HT III.
(3) The Convertible Senior Notes were fully settled on or before their contractual maturity date of April 15, 2016.
(4) Availability subject to us meeting the borrowing base requirements. As the Union Bank Facility was replaced on May 5, 2016, amounts included above prior to May 5, 2016 relate to the Prior Union Bank Facility.

Debt issuance costs are fees and other direct incremental costs we incur in obtaining debt financing and are recognized as prepaid expenses and amortized over the life of the related debt instrument using the effective yield method or the straight line method, which closely approximates the effective yield method. In accordance with Accounting Standards Update (ASU) 2015-03 Simplifying the Presentation of Debt Issuance Costs and ASU 2015-15 Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements , debt issuance costs are presented as a reduction to the associated liability balance on the Consolidated Statement of Assets and Liabilities, except for debt issuance costs associated with line-of-credit arrangements. Debt issuance costs, net of accumulated amortization, as of September 30, 2016 and December 31, 2015 were as follows:

(in thousands)	**September 30, 2016**	**December 31, 2015**
SBA Debentures	$ 2,867	$ 3,371
2019 Notes	1,705	2,185
2024 Notes	7,282	2,872
2021 Asset-Backed Notes	1,473	2,305
Convertible Senior Notes		44
Wells Facility(1)	608	669
Union Bank Facility(1)	880	229
Total	$ 14,815	$ 11,675

(1) As the Wells Facility and Union Bank Facility are line-of-credit arrangements, the debt issuance costs associated with these instruments are presented separately as an asset on the Consolidated Statement of Assets and Liabilities in accordance with ASU 2015-15. As the Union Bank Facility was replaced on

May 5, 2016, amounts included above prior to May 5, 2016 relate to the Prior Union Bank Facility.

As of January 1, 2016, we adopted ASU 2015-03 and ASU 2015-15, which require debt issuance costs to be presented in the balance sheet as a direct deduction from the associated debt liability, except for debt issuance costs associated with line-of-credit arrangements. Adoption of these standards results in the reclassification of debt issuance costs from Other Assets and the presentation of our SBA Debentures, 2019 Notes, 2024 Notes, 2021 Asset-Backed Notes, and Convertible Senior Notes net of the associated debt issuance costs for each

Table of Contents

Index to Financial Statements

instrument in the liabilities section on the Consolidated Statement of Assets and Liabilities. There is no impact to the Consolidated Statement of Operations. In addition, there is no change to the presentation of the Wells Facility or Union Bank Facility as debt issuance costs are presented separately as an asset on the Consolidated Statement of Assets and Liabilities. Refer to Critical Accounting Policies .

Commitments

In the normal course of business, we are party to financial instruments with off-balance sheet risk. These consist primarily of unfunded contractual commitments to extend credit, in the form of loans, to our portfolio companies. Unfunded contractual commitments to provide funds to portfolio companies are not reflected on our balance sheet. Our unfunded contractual commitments may be significant from time to time. A portion of these unfunded contractual commitments are dependent upon the portfolio company reaching certain milestones before the debt commitment becomes available. Furthermore, our credit agreements contain customary lending provisions which allow us relief from funding obligations for previously made commitments in instances where the underlying company experiences materially adverse events that affect the financial condition or business outlook for the company. These commitments will be subject to the same underwriting and ongoing portfolio maintenance as are the on-balance sheet financial instruments that we hold. Since these commitments may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. As such, our disclosure of unfunded contractual commits includes only those which are available at the request of the portfolio company and unencumbered by milestones.

At September 30, 2016, we had approximately $73.9 million of unfunded commitments, including undrawn revolving facilities, which were available at the request of the portfolio company and unencumbered by milestones. We intend to use cash flow from normal and early principal repayments, and proceeds from borrowings and notes to fund these commitments.

We also had approximately $100.0 million of non-binding term sheets outstanding to three new and existing companies, which generally convert to contractual commitments within approximately 90 days of signing. Non-binding outstanding term sheets are subject to completion of our due diligence and final investment committee approval process, as well as the negotiation of definitive documentation with the prospective portfolio companies. Not all non-binding term sheets are expected to close and do not necessarily represent future cash requirements.

The fair value of our unfunded commitments are considered to be immaterial as the yield determined at the time of underwriting is expected to be materially consistent with the yield upon funding, given that interest rates are generally pegged to a market indices and given the existence of milestones, conditions and/or obligations imbedded in the borrowing agreements.

As of September 30, 2016, our unfunded contractual commitments available at the request of the portfolio company, including undrawn revolving facilities, and unencumbered by milestones are as follows:

(in thousands)

Portfolio Company	**Unfunded Commitments[(1)]**
Paratek Pharmaceuticals, Inc.	$ 20,000
NewVoiceMedia Limited	15,000
Evernote Corporation	14,000
Aquantia Corp.	11,500
Genocea Biosciences, Inc.	5,000
Edge Therapeutics, Inc.	5,000
Druva, Inc.	3,000
RedSeal Inc.	365
Total	$ 73,865

(1) Amount represents unfunded commitments, including undrawn revolving facilities, which are available at the request of the portfolio company. Amount excludes unfunded commitments which are unavailable due to the borrower having not met certain milestones.

Table of Contents

Index to Financial Statements

Contractual Obligations

The following table shows our contractual obligations as of September 30, 2016:

	Payments due by period (in thousands)				
Contractual Obligations (1)(2)	**Total**	**Less than 1 year**	**1 - 3 years**	**3 - 5 years**	**After 5 years**
Borrowings(3)(4)	$ 662,513	$	$ 249,168	$ 83,150	$ 330,195
Operating Lease Obligations(5)	3,707	1,658	1,931	118	
Total	$ 666,220	$ 1,658	$ 251,099	$ 83,268	$ 330,195

(1) Excludes commitments to extend credit to our portfolio companies.
(2) We also have a warrant participation agreement with Citigroup. See Note 4 to our consolidated financial statements.
(3) Includes $190.2 million in principal outstanding under the SBA debentures, $110.4 million of the 2019 Notes, $244.9 million of the 2024 Notes, and $117.0 million of the 2021 Asset-Backed Notes as of September 30, 2016.
(4) Amounts represent future principal repayments and not the carrying value of each liability. See Note 4 to our consolidated financial statements.
(5) Long-term facility leases.

Certain premises are leased under agreements which expire at various dates through March 2020. Total rent expense amounted to approximately $420,000 and $1.3 million during the three and nine months ended September 30, 2016, respectively. Total rent expense amounted to approximately $414,000 and $1.2 million during the same periods ended September 30, 2015.

Indemnification Agreements

We have entered into indemnification agreements with our directors. The indemnification agreements are intended to provide our directors the maximum indemnification permitted under Maryland law and the 1940 Act. Each indemnification agreement provides that we shall indemnify the director who is a party to the agreement, or an Indemnitee, including the advancement of legal expenses, if, by reason of his or her corporate status, the Indemnitee is, or is threatened to be, made a party to or a witness in any threatened, pending, or completed proceeding, to the maximum extent permitted by Maryland law and the 1940 Act.

We and our executives and directors are covered by Directors and Officers Insurance, with the directors and officers being indemnified by us to the maximum extent permitted by Maryland law subject to the restrictions in the 1940 Act.

Borrowings

Long-Term SBA Debentures

On September 27, 2006, HT II received a license to operate as a SBIC under the SBIC program and is able to borrow funds from the SBA against eligible investments and additional contributions to regulatory capital. Under the Small Business Investment Company Act and current SBA policy applicable to SBICs, a SBIC can have outstanding at any time SBA guaranteed debentures up to twice the amount of its regulatory capital. With the Company s net investment of $44.0 million in HT II as of September 30, 2016, HT II has the capacity to issue a total of $41.2 million of SBA guaranteed debentures, subject to SBA approval, of which $41.2 million was outstanding as of September 30, 2016. As of September 30, 2016, HT II has paid the SBA commitment fees and facility fees of approximately $1.5 million and $3.6 million, respectively. As of September 30, 2016 the Company held investments in HT II in 36 companies with a fair value of approximately $68.7 million, accounting for approximately 5.2% of the Company s total portfolio at September 30, 2016. HT II held approximately $100.4 million in assets and accounted for approximately 5.5% of the Company s total assets prior to consolidation at September 30, 2016.

Table of Contents

Index to Financial Statements

On May 26, 2010, HT III received a license to operate as a SBIC under the SBIC program and is able to borrow funds from the SBA against eligible investments and additional contributions to regulatory capital. With the Company s net investment of $74.5 million in HT III as of September 30, 2016, HT III has the capacity to issue a total of $149.0 million of SBA guaranteed debentures, of which $149.0 million was outstanding as of September 30, 2016. As of September 30, 2016, HT III has paid the SBA commitment fees and facility fees of approximately $1.5 million and $3.6 million, respectively. As of September 30, 2016, the Company held investments in HT III in 51 companies with a fair value of approximately $230.7 million, accounting for approximately 17.5% of the Company s total portfolio at September 30, 2016. HT III held approximately $252.7 million in assets and accounted for approximately 14.0% of the Company s total assets prior to consolidation at September 30, 2016.

SBICs are designed to stimulate the flow of private equity capital to eligible small businesses. Under present SBA regulations, eligible small businesses include businesses that have a tangible net worth not exceeding $19.5 million and have average annual fully taxed net income not exceeding $6.5 million for the two most recent fiscal years. In addition, SBICs must devote 25.0% of its investment activity to smaller enterprises as defined by the SBA. A smaller enterprise is one that has a tangible net worth not exceeding $6.0 million and has average annual fully taxed net income not exceeding $2.0 million for the two most recent fiscal years. SBA regulations also provide alternative size standard criteria to determine eligibility, which depend on the industry in which the business is engaged and are based on such factors as the number of employees and gross sales. According to SBA regulations, SBICs may make long-term loans to small businesses, invest in the equity securities of such businesses and provide them with consulting and advisory services. Through the Company s wholly owned subsidiaries HT II and HT III, the Company plans to provide long-term loans to qualifying small businesses, and in connection therewith, make equity investments.

HT II and HT III are periodically examined and audited by the SBA s staff to determine their compliance with SBA regulations. If HT II or HT III fails to comply with applicable SBA regulations, the SBA could, depending on the severity of the violation, limit or prohibit HT II s or HT III s use of debentures, declare outstanding debentures immediately due and payable, and/or limit HT II or HT III from making new investments. In addition, HT II or HT III may also be limited in their ability to make distributions to the Company if they do not have sufficient capital in accordance with SBA regulations. Such actions by the SBA would, in turn, negatively affect the Company because HT II and HT III are the Company s wholly owned subsidiaries. HT II and HT III were in compliance with the terms of the SBIC s leverage as of September 30, 2016 as a result of having sufficient capital as defined under the SBA regulations.

The rates of borrowings under various draws from the SBA beginning in March 2009 are set semiannually in March and September and range from 2.25% to 4.62% excluding annual fees. Interest payments on SBA debentures are payable semiannually. There are no principal payments required on these issues prior to maturity and no prepayment penalties. Debentures under the SBA generally mature ten years after being borrowed. Based on the initial draw down date of March 2009, the initial maturity of SBA debentures will occur in March 2019. In addition, the SBA charges a fee that is set annually, depending on the Federal fiscal year the leverage commitment was delegated by the SBA, regardless of the date that the leverage was drawn by the SBIC. The annual fees related to HT II debentures that pooled on September 22, 2010 were 0.406% and 0.285%, depending upon the year in which the underlying commitment was closed. The annual fees on other debentures have been set at 0.906%. The annual fees related to HT III debentures that pooled on March 27, 2013 were 0.804%. The annual fees on other debentures have been set at 0.515%. The rates of borrowings on the Company s SBA debentures range from 3.05% to 5.53% when including these annual fees.

The average amount of debentures outstanding for the three months ended September 30, 2016 for HT II was approximately $41.2 million with an average interest rate of approximately 4.52%. The average amount of debentures outstanding for the three months ended September 30, 2016 for HT III was approximately $149.0 million with an average interest rate of approximately 3.43%. The average amount of debentures outstanding for the nine months ended September 30, 2016 for HT II was approximately 41.2 million with an average interest rate of approximately 4.52%. The average amount of debentures outstanding for the nine months

Table of Contents

Index to Financial Statements

ended September 30, 2016 for HT III was approximately $149.0 million with an average interest rate of approximately 3.43%.

For the three and nine months ended September 30, 2016 and 2015, the components of interest expense and related fees and cash paid for interest expense for the SBA debentures are as follows:

(in thousands)	Three Months Ended September 30, 2016	2015	Nine Months Ended September 30, 2016	2015
Interest expense	$ 1,757	$ 1,757	$ 5,231	$ 5,212
Amortization of debt issuance cost (loan fees)	168	168	504	499
Total interest expense and fees	$ 1,925	$ 1,925	$ 5,735	$ 5,711
Cash paid for interest expense and fees	$ 3,499	$ 3,499	$ 6,961	$ 6,942

As of September 30, 2016, the maximum statutory limit on the dollar amount of combined outstanding SBA guaranteed debentures is $350.0 million, subject to periodic adjustments by the SBA. In aggregate, at September 30, 2016, with the Company s net investment of $118.5 million, HT II and HT III have the capacity to issue a total of $190.2 million of SBA-guaranteed debentures, subject to SBA approval. At September 30, 2016, the Company has issued $190.2 million in SBA-guaranteed debentures in the Company s SBIC subsidiaries.

The Company reported the following SBA debentures outstanding principal balances as of September 30, 2016 and December 31, 2015:

(in thousands) Issuance/Pooling Date	Maturity Date	Interest Rate(1)	September 30, 2016	December 31, 2015
March 25, 2009	March 1, 2019	5.53%	$ 18,400	$ 18,400
September 23, 2009	September 1, 2019	4.64%	3,400	3,400
September 22, 2010	September 1, 2020	3.62%	6,500	6,500
September 22, 2010	September 1, 2020	3.50%	22,900	22,900
March 29, 2011	March 1, 2021	4.37%	28,750	28,750
September 21, 2011	September 1, 2021	3.16%	25,000	25,000
March 21, 2012	March 1, 2022	3.28%	25,000	25,000
March 21, 2012	March 1, 2022	3.05%	11,250	11,250
September 19, 2012	September 1, 2022	3.05%	24,250	24,250
March 27, 2013	March 1, 2023	3.16%	24,750	24,750
Total SBA Debentures			$ 190,200	$ 190,200

(1) Interest rate includes annual charge

2019 Notes

On March 6, 2012, the Company and U.S. Bank National Association (the 2019 Trustee) entered into an indenture (the Base Indenture). On April 17, 2012, the Company and the 2019 Trustee entered into the First Supplemental Indenture to the Base Indenture (the First Supplemental Indenture), dated April 17, 2012, relating to the Company s issuance, offer and sale of $43.0 million aggregate principal amount of 7.00% notes due 2019 (the April 2019 Notes).

In July 2012, the Company reopened the Company s April 2019 Notes and issued an additional $41.5 million in aggregate principal amount of April 2019 Notes, which included the exercise of an over-allotment option, bringing the total amount of the April 2019 Notes issued to approximately $84.5 million in aggregate principal amount.

Table of Contents

Index to Financial Statements

On September 24, 2012, the Company and the 2019 Trustee, entered into the Second Supplemental Indenture to the Base Indenture (the Second Supplemental Indenture), dated as of September 24, 2012, relating to the Company s issuance, offer and sale of $75.0 million aggregate principal amount of 7.00% notes due 2019 (the September 2019 Notes).

In October 2012, the underwriters exercised their over-allotment option for an additional $10.9 million of the September 2019 Notes, bringing the total amount of the September 2019 Notes issued to approximately $85.9 million in aggregate principal outstanding.

In April 2015, the Company redeemed $20.0 million of the $84.5 million issued and outstanding aggregate principal amount of April 2019 Notes, as previously approved by the Board of Directors. In December 2015 the Company redeemed $40.0 million of the $85.9 million issued and outstanding aggregate principal amount of September 2019 Notes, as previously approved by the Board of Directors.

As of September 30, 2016 and December 31, 2015, the 2019 Notes payable outstanding principal balance consists of:

(in thousands)	September 30, 2016	December 31, 2015
April 2019 Notes	$ 64,490	$ 64,490
September 2019 Notes	45,874	45,874
Total 2019 Notes Principal Outstanding	$ 110,364	$ 110,364

April 2019 Notes

The April 2019 Notes will mature on April 30, 2019 and may be redeemed in whole or in part at the Company s option at any time or from time to time on or after April 30, 2015, upon not less than 30 days nor more than 60 days written notice by mail prior to the date fixed for redemption thereof, at a redemption price of 100% of the outstanding principal amount thereof plus accrued and unpaid interest payments otherwise payable for the then-current quarterly interest period accrued to but not including the date fixed for redemption. The April 2019 Notes bear interest at a rate of 7.00% per year payable quarterly on January 30, April 30, July 30 and October 30 of each year, commencing on July 30, 2012, and trade on the NYSE under the trading symbol HTGZ.

The April 2019 Notes are the Company s direct unsecured obligations and rank: (i) *pari passu* with the Company s other outstanding and future senior unsecured indebtedness; (ii) senior to any of the Company s future indebtedness that expressly provides it is subordinated to the April 2019 Notes; (iii) effectively subordinated to all the Company s existing and future secured indebtedness (including indebtedness that is initially unsecured to which the Company subsequently grant security), to the extent of the value of the assets securing such indebtedness; (iv) structurally subordinated to all existing and future indebtedness and other obligations of any of the Company s subsidiaries.

The Base Indenture, as supplemented by the First Supplemental Indenture, contains certain covenants including covenants requiring the Company s compliance with (regardless of whether it is subject to) the asset coverage requirements set forth in Section 18(a)(1)(A) of the 1940 Act as modified by Section 61(a)(1) of the 1940 Act to comply with the restrictions on dividends, distributions and purchase of capital stock set forth in Section 18(a)(1)(B) of the 1940 Act as modified by Section 61(a)(1) of the 1940 Act and to provide financial information to the holders of the April 2019 Notes and the 2019 Trustee if the Company should no longer be subject to the reporting requirements under the Exchange Act. These covenants are subject to important limitations and exceptions that are described in the Base Indenture, as supplemented by the First Supplemental Indenture. The Base Indenture provides for customary events of default and further provides that the 2019 Trustee or the holders of 25% in aggregate principal amount of the outstanding April 2019 Notes in a series may declare such April 2019 Notes immediately due and payable upon the occurrence of any event of default after expiration of any applicable grace period.

Table of Contents

Index to Financial Statements

September 2019 Notes

The September 2019 Notes will mature on September 30, 2019 and may be redeemed in whole or in part at the Company s option at any time or from time to time on or after September 30, 2015, upon not less than 30 days nor more than 60 days written notice by mail prior to the date fixed for redemption thereof, at a redemption price of 100% of the outstanding principal amount thereof plus accrued and unpaid interest payments otherwise payable for the then-current quarterly interest period accrued to but not including the date fixed for redemption. The September 2019 Notes bear interest at a rate of 7.00% per year payable quarterly on March 30, June 30, September 30 and December 30 of each year, commencing on December 30, 2012, and trade on the NYSE under the trading symbol HTGY.

The September 2019 Notes are the Company s direct unsecured obligations and rank: (i) *pari passu* with the Company s other outstanding and future senior unsecured indebtedness; (ii) senior to any of the Company s future indebtedness that expressly provides it is subordinated to the September 2019 Notes; (iii) effectively subordinated to all the Company s existing and future secured indebtedness (including indebtedness that is initially unsecured to which the Company subsequently grants security), to the extent of the value of the assets securing such indebtedness; (iv) structurally subordinated to all existing and future indebtedness and other obligations of any of the Company s subsidiaries.

The Base Indenture, as supplemented by the Second Supplemental Indenture, contains certain covenants including covenants requiring the Company to comply with (regardless of whether it is subject to) the asset coverage requirements set forth in Section 18 (a)(1)(A) of the 1940 Act as modified by Section 61(a)(1) of the 1940 Act to comply with the restrictions on dividends, distributions and purchase of capital stock set forth in Section 18(a)(1)(B) of the 1940 Act as modified by Section 61(a)(1) of the 1940 Act and to provide financial information to the holders of the September 2019 Notes and the 2019 Trustee if the Company should no longer be subject to the reporting requirements under the Exchange Act. These covenants are subject to important limitations and exceptions that are described in the Base Indenture, as supplemented by the Second Supplemental Indenture. The Base Indenture provides for customary events of default and further provides that the 2019 Trustee or the holders of 25% in aggregate principal amount of the outstanding September 2019 Notes in a series may declare such September 2019 Notes immediately due and payable upon the occurrence of any event of default after expiration of any applicable grace period.

For the three and nine months ended September 30, 2016 and 2015, the components of interest expense and related fees and cash paid for interest expense for the April 2019 Notes and September 2019 Notes are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	**2016**	**2015**	**2016**	**2015**
Interest expense	$ 1,931	$ 2,631	$ 5,794	$ 8,361
Amortization of debt issuance cost (loan fees)	160	211	480	1,163
Total interest expense and fees	$ 2,091	$ 2,842	$ 6,274	$ 9,524
Cash paid for interest expense and fees	$ 1,931	$ 2,631	$ 5,794	$ 8,594

As of September 30, 2016, the Company was in compliance with the terms of the Base Indenture, and respective supplemental indentures thereto, governing the April 2019 Notes and September 2019 Notes.

2024 Notes

On July 14, 2014, the Company and U.S. Bank, N.A. (the 2024 Trustee), entered into the Third Supplemental Indenture (the Third Supplemental Indenture) to the Base Indenture between the Company and the 2024 Trustee, dated July 14, 2014, relating to the Company s issuance, offer and sale of $100.0 million aggregate principal amount of the 2024 Notes. On August 6, 2014, the underwriters issued notification to exercise their over-allotment option for an additional $3.0 million in aggregate principal amount of the 2024 Notes.

Table of Contents

Index to Financial Statements

On May 2, 2016, the Company closed an underwritten public offering of an additional $72.9 million in aggregate principal amount of the 2024 Notes. The $72.9 million in aggregate principal amount includes $65.4 million from the initial offering on April 21, 2016 and $7.5 million as a result of underwriters exercising a portion of their option to purchase up to an additional $9.8 million in aggregate principal to cover overallotments on April 29, 2016.

On June 27, 2016, the Company closed an underwritten public offering of an additional $60.0 million in aggregate principal amount of the 2024 Notes. On June 30, 2016, the underwriters exercised their option to purchase up to an additional $9.0 million in aggregate principal to cover overallotments, resulting in total aggregate principal of $69.0 million from the offering.

All issuances of 2024 Notes rank equally in right of payment and form a single series of notes.

The 2024 Notes will mature on July 30, 2024 and may be redeemed in whole or in part at the Company s option at any time or from time to time on or after July 30, 2017, upon not less than 30 days nor more than 60 days written notice by mail prior to the date fixed for redemption thereof, at a redemption price of 100% of the outstanding principal amount thereof plus accrued and unpaid interest payments otherwise payable for the then-current quarterly interest period accrued to but not including the date fixed for redemption. The 2024 Notes bear interest at a rate of 6.25% per year payable quarterly on January 30, April 30, July 30 and October 30 of each year, commencing on July 30, 2014, and trade on the NYSE under the trading symbol HTGX.

The 2024 Notes are the Company s direct unsecured obligations and rank: (i) *pari passu* with the Company s other outstanding and future senior unsecured indebtedness; (ii) senior to any of the Company s future indebtedness that expressly provides it is subordinated to the 2024 Notes; (iii) effectively subordinated to all the Company s existing and future secured indebtedness (including indebtedness that is initially unsecured to which the Company subsequently grants security), to the extent of the value of the assets securing such indebtedness; (iv) structurally subordinated to all existing and future indebtedness and other obligations of any of the Company s subsidiaries.

The Base Indenture, as supplemented by the Third Supplemental Indenture, contains certain covenants including covenants requiring the Company to comply with (regardless of whether it is subject to) the asset coverage requirements set forth in Section 18(a)(1)(A) of the 1940 Act as modified by Section 61(a)(1) of the 1940 Act and to comply with the restrictions on dividends, distributions and purchase of capital stock set forth in Section 18(a)(1)(B) of the 1940 Act as modified by Section 61(a)(1) of the 1940 Act. These covenants are subject to important limitations and exceptions that are described in the Base Indenture, as supplemented by the Third Supplemental Indenture. The Base Indenture, as supplemented by the Third Supplemental Indenture, also contains certain reporting requirements, including a requirement that the Company provide financial information to the holders of the 2024 Notes and the 2024 Trustee if the Company should no longer be subject to the reporting requirements under the Exchange Act. The Base Indenture provides for customary events of default and further provides that the 2024 Trustee or the holders of 25% in aggregate principal amount of the outstanding 2024 Notes in a series may declare such 2024 Notes immediately due and payable upon the occurrence of any event of default after expiration of any applicable grace period. As of September 30, 2016, the Company was in compliance with the terms of the Base Indenture as supplemented by the Third Supplemental Indenture.

At September 30, 2016 and December 31, 2015, the 2024 Notes had an outstanding principal balance of $244.9 million and $103.0 million, respectively.

Table of Contents

Index to Financial Statements

For the three and nine months ended September 30, 2016 and 2015, the components of interest expense and related fees and cash paid for interest expense for the 2024 Notes are as follows:

(in thousands)	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Interest expense	$ 3,926	$ 1,609	$ 7,910	$ 4,828
Amortization of debt issuance cost (loan fees)	229	83	448	250
Total interest expense and fees	$ 4,155	$ 1,692	$ 8,358	$ 5,078
Cash paid for interest expense and fees	$ 3,827	$ 1,609	$ 7,046	$ 4,828

2021 Asset-Backed Notes

On November 13, 2014, the Company completed a $237.4 million term debt securitization in connection with which an affiliate of the Company made an offer of $129.3 million in aggregate principal amount of fixed rate asset-backed notes (the 2021 Asset-Backed Notes), which were rated A(sf) by Kroll Bond Rating Agency, Inc. (KBRA). The 2021 Asset-Backed Notes were sold by Hercules Capital Funding Trust 2014-1 pursuant to a note purchase agreement, dated as of November 13, 2014, by and among the Company, the 2014 Trust Depositor, the 2014 Securitization Issuer, and Guggenheim Securities, LLC, as initial purchaser, and are backed by a pool of senior loans made to certain of the Company s portfolio companies and secured by certain assets of those portfolio companies and are to be serviced by the Company. The securitization has an 18-month reinvestment period during which time principal collections may be reinvested into additional eligible loans. Interest on the 2021 Asset-Backed Notes will be paid, to the extent of funds available, at a fixed rate of 3.524% per annum. The 2021 Asset-Backed Notes have a stated maturity of April 16, 2021.

As part of this transaction, the Company entered into a sale and contribution agreement with the 2014 Trust Depositor under which the Company has agreed to sell or have contributed to the 2014 Trust Depositor the 2014 Loans. The Company has made customary representations, warranties and covenants in the sale and contribution agreement with respect to the 2014 Loans as of the date of their transfer to the 2014 Trust Depositor.

In connection with the issuance and sale of the 2021 Asset-Backed Notes, the Company has made customary representations, warranties and covenants in the note purchase agreement. The 2021 Asset-Backed Notes are secured obligations of the 2014 Securitization Issuer and are non-recourse to the Company. The 2014 Securitization Issuer also entered into an indenture governing the 2021 Asset-Backed Notes, which includes customary representations, warranties and covenants. The 2021 Asset-Backed Notes were sold without being registered under the Securities Act (A) in the United States to qualified institutional buyers as defined in Rule 144A under the Securities Act and to institutional accredited investors (as defined in Rules 501(a)(1), (2), (3) or (7) under the Securities Act) who in each case, are qualified purchasers as defined in Sec. 2(a)(51)(A) of the 1940 Act and pursuant to an exemption under the Securities Act and (B) to non-U.S. purchasers acquiring interest in the 2021 Asset-Backed Notes outside the United States in accordance with Regulation S under the Securities Act. The 2014 Securitization Issuer is not registered under the 1940 Act in reliance on an exemption provided by Section 3(c)(7) thereof and Rule 3a-7 thereunder. In addition, the 2014 Trust Depositor entered into an amended and restated trust agreement in respect of the 2014 Securitization Issuer, which includes customary representation, warranties and covenants.

The 2014 Loans are serviced by the Company pursuant to a sale and servicing agreement, which contains customary representations, warranties and covenants. The Company performs certain servicing and administrative functions with respect to the 2014 Loans. The Company is entitled to receive a monthly fee from the 2014 Securitization Issuer for servicing the 2014 Loans. This servicing fee is equal to the product of one-twelfth (or in the case of the first payment date, a fraction equal to the number of days from and including October 5, 2014 through and including December 5, 2014 over 360) of 2.00% and the aggregate outstanding principal balance of the 2014 Loans plus collections on deposit in the 2014 Securitization Issuer s collections account, as of the first day of the related collection period (the period from the 5th day of the immediately

Table of Contents

Index to Financial Statements

preceding calendar month through the 4th day of the calendar month in which a payment date occurs, and for the first payment date, the period from and including October 5, 2014, to the close of business on December 5, 2014). The Company also serves as administrator to the 2014 Securitization Issuer under an administration agreement, which includes customary representations, warranties and covenants.

At September 30, 2016 and December 31, 2015, the 2021 Asset-Backed Notes had an outstanding principal balance of $117.0 million.

For the three and nine months ended September 30, 2016 and 2015, the components of interest expense and related fees and cash paid for interest expense for the 2021 Asset-Backed Notes are as follows:

(in thousands)	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Interest expense	$ 1,103	$ 1,139	$ 3,381	$ 3,417
Amortization of debt issuance cost (loan fees)	366	227	832	673
Total interest expense and fees	$ 1,469	$ 1,366	$ 4,213	$ 4,090
Cash paid for interest expense and fees	$ 1,110	$ 1,139	$ 3,388	$ 3,417

Under the terms of the 2021 Asset-Backed Notes, the Company is required to maintain a reserve cash balance, funded through interest and principal collections from the underlying securitized debt portfolio, which may be used to pay monthly interest and principal payments on the 2021 Asset-Backed Notes. The Company has segregated these funds and classified them as restricted cash. There was approximately $9.0 million and $9.2 million of restricted cash as of September 30, 2016 and December 31, 2015, respectively, funded through interest collections.

Convertible Senior Notes

In April 2011, the Company issued $75.0 million in aggregate principal amount of the Convertible Senior Notes. The Convertible Senior Notes were fully settled on or before their contractual maturity date of April 15, 2016.

Prior to the close of business on October 14, 2015, holders were able to convert their Convertible Senior Notes only under certain circumstances set forth in the indenture governing the Convertible Senior Notes. On or after October 15, 2015 until the close of business on the scheduled trading day immediately preceding the maturity date, holders were able to convert their Convertible Senior Notes at any time. Throughout the life of the Convertible Senior Notes, holders of approximately $74.8 million of the Convertible Senior Notes exercised their conversion rights. These Convertible Senior Notes were settled with a combination of cash equal to the outstanding principal amount of the Convertible Senior Notes and approximately 1.6 million shares of the Company s common stock, or $24.3 million.

The Company recorded a loss on extinguishment of debt for the proportionate amount of unamortized debt issuance costs and original issue discount. The loss was partially offset by a gain in the amount of the difference between the outstanding principal balance of the Convertible Senior Notes and the fair value of the debt instrument. The net loss on extinguishment of debt the Company recorded for the year ended December 31, 2015 was $1,000. The Company did not record a loss on extinguishment of debt in the three and nine months ended September 30, 2016. The loss on extinguishment of debt was classified as a component of net investment income in the Company s Consolidated Statement of Operations.

The Convertible Senior Notes were accounted for in accordance with ASC Subtopic 470-20 (Debt Instruments with Conversion and Other Options). In accounting for the Convertible Senior Notes, the Company estimated at the time of issuance that the values of the debt and the embedded conversion feature of the Convertible Senior Notes were approximately 92.8% and 7.2%, respectively. The original issue discount of 7.2% attributable to the conversion feature of the Convertible Senior Notes was recorded in capital in excess of par

Table of Contents

Index to Financial Statements

value in the Consolidated Statement of Assets and Liabilities. As a result, the Company recorded interest expense comprised of both stated interest expense as well as accretion of the original issue discount resulting in an estimated effective interest rate of approximately 8.1%.

As December 31, 2015, the components of the carrying value of the Convertible Senior Notes were as follows:

(in thousands)	December 31, 2015
Principal amount of debt	$ 17,604
Unamortized debt issuance cost	(44)
Original issue discount, net of accretion	(82)
Carrying value of Convertible Senior Notes	$ 17,478

For the three and nine months ended September 30, 2016 and 2015, the components of interest expense, fees and cash paid for interest expense for the Convertible Senior Notes were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2016	2015	2016	2015
Interest expense	$	$ 264	$ 352	$ 743
Accretion of original issue discount		61	82	185
Amortization of debt issuance cost (loan fees)		33	44	98
Total interest expense and fees	$	$ 358	$ 478	$ 1,026
Cash paid for interest expense and fees	$	$	$ 440	$ 529

The estimated effective interest rate of the debt component of the Convertible Senior Notes, equal to the stated interest of 6.0% plus the accretion of the original issue discount, was approximately 8.1% for the three and nine months ended September 30, 2016 and 2015.

Wells Facility

On June 29, 2015, the Company, through a special purpose wholly owned subsidiary, Hercules Funding II, entered into the Wells Facility with Wells Fargo Capital Finance, LLC, as a lender and as the arranger and the administrative agent, and the lenders party thereto from time to time.

The Wells Facility matures on August 2, 2019, unless terminated sooner in accordance with its terms.

Under the Wells Facility, Wells Fargo Capital Finance, LLC made commitments of $75.0 million, Alostar Bank of Commerce made commitments of $20.0 million, and Everbank Commercial Finance Inc. made commitments of $25.0 million. The Wells Facility contains an accordion feature, in which the Company can increase the credit line up to an aggregate of $300.0 million, funded by additional lenders and with the agreement of Wells Fargo and subject to other customary conditions. The Company expects to continue discussions with various other potential lenders to join the facility; however, there can be no assurances that additional lenders will join the Wells Facility. Borrowings under the Wells Facility generally bear interest at a rate per annum equal to LIBOR plus 3.25%, and the Wells Facility has an advance rate of 50% against eligible debt investments. The Wells Facility is secured by all of the assets of Hercules Funding II. The Wells Facility requires payment of a non-use fee on a scale of 0.0% to 0.50% depending on the average monthly outstanding balance under the facility relative to the maximum amount of commitments at such time. For the three and nine months ended September 30, 2016, this non-use fee was approximately $155,000 and $336,000, respectively. For the three and nine months ended September 30, 2015, this non-use fee was approximately $41,000 and $229,000, respectively.

The Wells Facility also includes various financial and other covenants applicable to the Company and the Company s subsidiaries, in addition to those applicable to Hercules Funding II, including covenants relating to certain changes of control of the Company and Hercules Funding II. Among other things, these covenants also require the Company to maintain certain financial ratios, including a maximum debt to worth ratio, minimum

interest coverage ratio, minimum portfolio funding liquidity, and a minimum tangible net worth in an amount, when added to outstanding subordinated indebtedness, that is in excess of $500.0 million plus 90% of the cumulative amount of equity raised after June 30, 2014. As of September 30, 2016, the minimum tangible net worth covenant increased to $637.2 million as a result of the March 2015 follow-on public offering of 7.6 million shares of common stock for total gross proceeds of approximately $100.4 million and the 2.1 million shares of common stock issued under the Equity Distribution Agreement with JMP Securities for gross proceeds of $24.5 million during the nine months ended September 30, 2016. The Wells Facility provides for customary events of default, including, without limitation, with respect to payment defaults, breach of representations and covenants, certain key person provisions, cross acceleration provisions to certain other debt, lien and judgment limitations, and bankruptcy.

On June 20, 2011 the Company paid $1.1 million in structuring fees in connection with the original Wells Facility. In connection with an amendment to the original Wells Facility in August 2014, the Company paid an additional $750,000 in structuring fees and in connection with the amendment in December 2015, the Company paid an additional $188,000 in structuring fees. These fees are being amortized through the end of the term of the Wells Facility.

The Company had aggregate draws of $168.3 million on the available facility during the nine months ended September 30, 2016 offset by repayments of $218.3 million. At December 31, 2015 there was $50.0 million, respectively, of borrowings outstanding on this facility. There were no borrowings outstanding on the facility as of September 30, 2016.

For the three and nine months ended September 30, 2016 and 2015, the components of interest expense and related fees and cash paid for interest expense for the Wells Facility are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	**2016**	**2015**	**2016**	**2015**
Interest expense	$	$ 356	$ 501	$ 356
Amortization of debt issuance cost (loan fees)	115	92	341	264
Total interest expense and fees	$ 115	$ 448	$ 842	$ 620
Cash paid for interest expense and fees	$	$ 289	$ 577	$ 289

Union Bank Facility

On May 5, 2016, the Company, through a special purpose wholly owned subsidiary, Hercules Funding III, as borrower, entered into the Union Bank Facility with MUFG Union Bank, as the arranger and administrative agent, and the lenders party to the Union Bank Facility from time to time. The Union Bank Facility replaced the Prior Union Bank Facility. Any references to amounts related to the Union Bank Facility prior to May 5, 2016 were incurred and relate to the Prior Union Bank Facility.

Under the Union Bank Facility, MUFG Union Bank made commitments of $75.0 million. The Union Bank Facility contains an accordion feature, in which the Company can increase the credit line up to an aggregate of $200.0 million, funded by additional lenders and with the agreement of MUFG Union Bank and subject to other customary conditions. There can be no assurances that additional lenders will join the Union Bank Facility to increase available borrowings. Borrowings under the Union Bank Facility generally bear interest at either (i) if such borrowing is a base rate loan, a base rate per annum equal to the federal funds rate plus 1.00%, LIBOR plus 1.00% or MUFG Union Bank s prime rate, in each case, plus a margin of 1.25% or (ii) if such borrowing is a LIBOR loan, a rate per annum equal to LIBOR plus 3.25%, and the Union Bank Facility generally has an advance rate of 50% against eligible debt investments. The Union Bank Facility is secured by all of the assets of HT III.

Table of Contents

Index to Financial Statements

The Union Bank Facility requires payment of a non-use fee during the revolving credit availability period on a scale of 0.25% to 0.50% depending on the average monthly outstanding balance under the facility relative to the maximum amount of commitments at such time. The Company paid a one-time $562,500 structuring fee in connection with the Union Bank Facility. Although the Company did not incur any non-use fees under the Union Bank Facility prior to May 5, 2016, for the three and nine months ended September 30, 2016, the company incurred non-use fees under the existing and previous Union Bank Facility of approximately $96,000 and $277,000, respectively. For the three and nine months ended September 30, 2015, the non-use fee was approximately $96,000 and $284,000, respectively.

The Union Bank Facility also includes various financial and other covenants applicable to the Company and the Company s subsidiaries, in addition to those applicable to HT III, including covenants relating to certain changes of control of the Company and HT III. Among other things, these covenants also require the Company to maintain certain financial ratios, including a maximum debt to worth ratio, minimum interest coverage ratio, minimum portfolio funding liquidity, and a minimum tangible net worth in an amount that is in excess of $500.0 million plus 90% of the cumulative amount of equity raised after June 30, 2014. As of September 30, 2016, the minimum tangible net worth covenant increased to $658.2 million as a result of the March 2015 follow-on public offering of 7.6 million shares of common stock for total net proceeds of approximately $100.1 million and the 4.1 million shares of common stock issued under the Equity Distribution Agreement with JMP Securities for net proceeds of $50.2 million during the nine months ended September 30, 2016. The Union Bank Facility provides for customary events of default, including with respect to payment defaults, breach of representations and covenants, servicer defaults, certain key person provisions, cross default provisions to certain other debt, lien and judgment limitations, and bankruptcy.

The Union Bank Facility matures on May 5, 2020, unless sooner terminated in accordance with its terms.

In connection with the Union Bank Facility, the Company and HT III also entered into the Sale and Servicing Agreement, dated as of May 5, 2016 (the Sale Agreement), by and among HT III, as borrower, the Company, as originator and servicer, and MUFG Union Bank, as agent. Under the Sale Agreement, the Company agrees to (i) sell or transfer certain loans to HT III under the Union Bank Facility and (ii) act as servicer for the loans sold or transferred.

The Company had aggregate draws of $25.0 million on the available facility during the nine months ended September 30, 2016 offset by repayments of $25.0 million. At September 30, 2016 there were no borrowings outstanding on the Union Bank Facility.

For the three and nine months ended September 30, 2016 and 2015, the components of interest expense and related fees and cash paid for interest expense for the previous and current Union Bank Facility are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	**2016**	**2015**	**2016**	**2015**
Interest expense	$	$	$ 55	$
Amortization of debt issuance cost (loan fees)	112	15	244	45
Total interest expense and fees	$ 112	$ 15	$ 299	$ 45
Cash paid for interest expense and fees	$	$	$ 38	$

Citibank Credit Facility

The Company, through Hercules Funding Trust I, an affiliated statutory trust, entered into Citibank Credit Facility with Citigroup, which expired under normal terms. During the first quarter of 2009, the Company paid off all principal and interest owed under the Citibank Credit Facility. Citigroup has an equity participation right

Table of Contents

Index to Financial Statements

through a warrant participation agreement on the pool of debt investments and warrants collateralized under the Citibank Credit Facility. Pursuant to the warrant participation agreement, the Company granted to Citigroup a 10% participation in all warrants held as collateral. However, no additional warrants were included in collateral subsequent to the facility amendment on May 2, 2007. As a result, Citigroup is entitled to 10% of the realized gains on the warrants until the realized gains paid to Citigroup pursuant to the agreement equal to the Maximum Participation Limit. The obligations under the warrant participation agreement continue even after the Citibank Credit Facility is terminated until the Maximum Participation Limit has been reached.

During the nine months ended September 30, 2016, the Company reduced its realized gain by approximately $146,000 for Citigroup s participation from the acquisition proceeds received on equity exercised from warrants that were included in the collateral pool. The Company also recorded a decrease in participation liability and an increase in unrealized appreciation by a net amount of approximately $3,000 primarily due to depreciation of fair value on the pool of warrants collateralized under the warrant participation and the acquisition proceeds received on the Company s Ping Identity Corporation equity investment. The remaining value of Citigroup s participation right on unrealized gains in the related equity investments is approximately $114,000 as of September 30, 2016 and is included in accrued liabilities. There can be no assurances that the unrealized appreciation of the warrants will not be higher or lower in future periods due to fluctuations in the value of the warrants, thereby increasing or reducing the effect on the cost of borrowing. Since inception of the agreement, the Company has paid Citigroup approximately $2.4 million under the warrant participation agreement thereby reducing realized gains by this amount. The Company will continue to pay Citigroup under the warrant participation agreement until the Maximum Participation Limit is reached or the warrants expire. The remaining warrants subject to the Citigroup participation agreement are set to expire in January 2017.

Table of Contents

Index to Financial Statements

Dividend Distributions

The following table summarizes our dividend distributions declared and paid, to be paid, or reinvested on all shares, including restricted stock, to date:

Date Declared	Record Date	Payment Date	Amount Per Share
October 27, 2005	November 1, 2005	November 17, 2005	$ 0.03
December 9, 2005	January 6, 2006	January 27, 2006	0.30
April 3, 2006	April 10, 2006	May 5, 2006	0.30
July 19, 2006	July 31, 2006	August 28, 2006	0.30
October 16, 2006	November 6, 2006	December 1, 2006	0.30
February 7, 2007	February 19, 2007	March 19, 2007	0.30
May 3, 2007	May 16, 2007	June 18, 2007	0.30
August 2, 2007	August 16, 2007	September 17, 2007	0.30
November 1, 2007	November 16, 2007	December 17, 2007	0.30
February 7, 2008	February 15, 2008	March 17, 2008	0.30
May 8, 2008	May 16, 2008	June 16, 2008	0.34
August 7, 2008	August 15, 2008	September 19, 2008	0.34
November 6, 2008	November 14, 2008	December 15, 2008	0.34
February 12, 2009	February 23, 2009	March 30, 2009	0.32*
May 7, 2009	May 15, 2009	June 15, 2009	0.30
August 6, 2009	August 14, 2009	September 14, 2009	0.30
October 15, 2009	October 20, 2009	November 23, 2009	0.30
December 16, 2009	December 24, 2009	December 30, 2009	0.04
February 11, 2010	February 19, 2010	March 19, 2010	0.20
May 3, 2010	May 12, 2010	June 18, 2010	0.20
August 2, 2010	August 12, 2010	September 17,2010	0.20
November 4, 2010	November 10, 2010	December 17, 2010	0.20
March 1, 2011	March 10, 2011	March 24, 2011	0.22
May 5, 2011	May 11, 2011	June 23, 2011	0.22
August 4, 2011	August 15, 2011	September 15, 2011	0.22
November 3, 2011	November 14, 2011	November 29, 2011	0.22
February 27, 2012	March 12, 2012	March 15, 2012	0.23
April 30, 2012	May 18, 2012	May 25, 2012	0.24
July 30, 2012	August 17, 2012	August 24, 2012	0.24
October 26, 2012	November 14, 2012	November 21, 2012	0.24
February 26, 2013	March 11, 2013	March 19, 2013	0.25
April 29, 2013	May 14, 2013	May 21, 2013	0.27
July 29, 2013	August 13, 2013	August 20, 2013	0.28
November 4, 2013	November 18, 2013	November 25, 2013	0.31
February 24, 2014	March 10, 2014	March 17, 2014	0.31
April 28, 2014	May 12, 2014	May 19, 2014	0.31
July 28, 2014	August 18, 2014	August 25, 2014	0.31
October 29, 2014	November 17, 2014	November 24, 2014	0.31
February 24, 2015	March 12, 2015	March 19, 2015	0.31
May 4, 2015	May 18, 2015	May 25, 2015	0.31
July 29, 2015	August 17, 2015	August 24, 2015	0.31
October 28, 2015	November 16, 2015	November 23, 2015	0.31
February 17, 2016	March 7, 2016	March 14, 2016	0.31
April 27, 2016	May 16, 2016	May 23, 2016	0.31
July 27, 2016	August 15, 2016	August 22, 2016	0.31
October 26, 2016	November 14, 2016	November 21, 2016	0.31

	$	12.47

* Dividend distribution paid in cash and stock.

Table of Contents

Index to Financial Statements

On October 26, 2016 the Board of Directors declared a cash dividend distribution of $0.31 per share to be paid on November 21, 2016 to stockholders of record as of November 14, 2016. This distribution represents our forty-fifth consecutive dividend declaration since our IPO, bringing the total cumulative dividend declared to date $12.47 per share.

Our Board of Directors maintains a variable dividend distribution policy with the objective of distributing four quarterly distributions in an amount that approximates 90 - 100% of our taxable quarterly income or potential annual income for a particular taxable year. In addition, at the end of our taxable year, our Board of Directors may choose to pay an additional special dividend distribution, or fifth dividend, so that we may distribute approximately all of our annual taxable income in the taxable year in which it was earned, or may elect to maintain the option to spill over our excess taxable income into the following taxable year as part of any future dividend distribution payments.

Distributions in excess of our current and accumulated earnings and profits would generally be treated first as a return of capital to the extent of a stockholder s tax basis in our shares, and any distributions paid in excess of a stockholder s tax basis in our shares would be treated as a capital gain. The determination of the tax attributes of our distributions is made annually as of the end of our taxable year and is generally based upon our taxable income for the full taxable year and distributions paid for the full taxable year. As a result, any determination of the tax attributes of our distributions made on a quarterly basis may not be representative of the actual tax attributes of the Company s distributions for a full taxable year. Of the dividend distributions declared during the year ended December 31, 2015, 100% were distributions derived from our current and accumulated earnings and profits.

During the three months ended September 30, 2016, we declared a distribution of $0.31 per share. If we had determined the tax attributes of our distributions year-to-date as of September 30, 2016, 100% would be from our current and accumulated earnings and profits. However, there can be no certainty to stockholders that this determination is representative of what the tax attributes of our 2016 distributions to stockholders will actually be.

Shortly after the close of each calendar year information identifying the source of the distribution (i.e., paid from ordinary income, paid from net capital gains on the sale of securities, and/or a return of paid-in-capital surplus which is a nontaxable distribution, if any) will be provided to our stockholders subject to information reporting. To the extent our taxable earnings fall below the total amount of our distributions for any taxable year, a portion of those distributions may be deemed a tax return of capital to our stockholders.

We expect to continue our qualification to be subject to tax as a RIC under Subchapter M of the Code. In order to be subject to tax as a RIC, we are required to satisfy certain gross income and asset composition tests, as well as distribute dividends to our stockholders each taxable year of an amount at least equal to 90% of the sum of our investment company taxable income, determined without regard to any deduction for dividends paid, and our net tax-exempt income, if any. Upon being eligible to be subject to tax as a RIC, we would be entitled to deduct dividend distributions we pay to our stockholders in determining our taxable income. Included in taxable income are taxable interest, dividend and fee income, reduced by certain deductions, as well as taxable net realized securities gains. Taxable income generally differs from net income for financial reporting purposes due to temporary and permanent differences in the recognition of income and expenses and generally excludes net unrealized appreciation or depreciation as such gains or losses are not included in taxable income until they are realized. In connection with maintaining our ability to be subject to tax as a RIC, among other things, we have made and intend to continue to make the requisite distributions to our stockholders each taxable year, which generally should relieve us from corporate-level U.S. federal income taxes.

As a RIC, we will be subject to a 4% nondeductible U.S. federal excise tax on certain undistributed income and gains unless we distribute dividends in respect of each calendar year in a timely manner to our stockholders

Table of Contents

Index to Financial Statements

of an amount generally at least equal to the sum of (1) 98% of our ordinary income (subject to certain deferrals and elections) for each calendar year, (2) 98.2% of our capital gain net income (adjusted for certain ordinary losses) for the 1-year period ending October 31 in that calendar year and (3) any income realized, but not distributed, in the preceding year. We will not be subject to excise taxes on amounts on which we are required to pay corporate income tax (such as retained net capital gains).

Depending on the level of taxable income earned in a taxable year, we may choose to carry over taxable income in excess of current taxable year dividend distributions from such taxable income into the next taxable year and incur a 4% excise tax on such taxable income, as required. The maximum amount of such excess taxable income that may be carried over for distribution as dividend distributions in the next taxable year under the Code is the total amount of dividend distributions paid in the following taxable year, subject to certain declaration and payment guidelines. To the extent we choose to carry over taxable income into the next taxable year, dividends declared and paid by us in a taxable year may differ from our taxable income for that taxable year as such dividend distributions may include the distribution of current taxable year taxable income, the distribution of prior taxable year taxable income carried over into and distributed in the current taxable year, or returns of capital.

We can offer no assurance that we will achieve results that will permit the payment of any cash distributions and, if we issue senior securities, we will be prohibited from making distributions if doing so causes us to fail to maintain the asset coverage ratios stipulated by the 1940 Act or if distributions are limited by the terms of any of our borrowings. Our ability to make distributions will be limited by the asset coverage requirements under the 1940 Act.

We intend to distribute approximately $8.2 million of spillover earnings from ordinary income from the year ended December 31, 2015 to our stockholders in 2016.

We maintain an opt-out dividend reinvestment plan for our common stockholders. As a result, if we declare a dividend distribution, cash dividends will be automatically reinvested in additional shares of our common stock unless the stockholder specifically opts out of the dividend reinvestment plan and chooses to receive cash dividend distributions.

Critical Accounting Policies

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and revenues and expenses during the period reported. On an ongoing basis, our management evaluates its estimates and assumptions, which are based on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ from those estimates. Changes in our estimates and assumptions could materially impact our results of operations and financial condition.

Reclassification

Certain balances from prior years have been reclassified in order to conform to the current year presentation.

Change in Accounting Principle

As of January 1, 2016, we adopted ASU 2015-03 and ASU 2015-15, which collectively require debt issuance costs to be presented on the balance sheet as a direct deduction from the associated debt liability, except for debt issuance costs associated with line-of-credit arrangements. Adoption of these standards results in the reclassification of debt issuance costs from Other Assets and the presentation of our SBA Debentures, 2019 Notes, 2024 Notes, 2021 Asset-Backed Notes, and Convertible Senior Notes net of the associated debt issuance

Table of Contents

Index to Financial Statements

costs for each instrument in the liabilities section on the Consolidated Statement of Assets and Liabilities. In addition, the comparative Consolidated Statement of Assets and Liabilities as of December 31, 2015 has been adjusted to apply the change in accounting principle retrospectively. Specifically, the presentation of our Other Assets, SBA Debentures, 2019 Notes, 2024 Notes, 2021 Asset-Backed Notes, and Convertible Senior Notes line items were adjusted by the amount of unamortized debt issuance costs for each instrument. There is no impact to the Consolidated Statement of Operations. In addition, there is no change to the presentation of the Wells Facility or Union Facility as debt issuance costs are presented separately as an asset on the Consolidated Statement of Assets and Liabilities. Refer to Outstanding Borrowings for the amount of unamortized debt issuance costs for each instrument.

Valuation of Investments

The most significant estimate inherent in the preparation of our consolidated financial statements is the valuation of investments and the related amounts of unrealized appreciation and depreciation of investments recorded.

At September 30, 2016, approximately 93.0% of our total assets represented investments in portfolio companies whose fair value is determined in good faith by the Board of Directors. Value, as defined in Section 2(a)(41) of the 1940 Act, is (i) the market price for those securities for which a market quotation is readily available and (ii) for all other securities and assets, fair value is as determined in good faith by the Board of Directors. Our investments are carried at fair value in accordance with the 1940 Act and ASC Topic 946 and measured in accordance with ASC Topic 820. Our debt securities are primarily invested in venture capital-backed companies in technology-related industries including technology, drug discovery and development, biotechnology, life sciences, healthcare and sustainable and renewable technology at all stages of development. Given the nature of lending to these types of businesses, substantially all of our investments in these portfolio companies are considered Level 3 assets under ASC Topic 820 because there is no known or accessible market or market indices for these investment securities to be traded or exchanged. As such, we value substantially all of our investments at fair value as determined in good faith pursuant to a consistent valuation policy by our Board of Directors in accordance with the provisions of ASC Topic 820 and the 1940 Act. Due to the inherent uncertainty in determining the fair value of investments that do not have a readily available market value, the fair value of our investments determined in good faith by our Board of Directors may differ significantly from the value that would have been used had a readily available market existed for such investments, and the differences could be material.

We may from time to time engage an independent valuation firm to provide us with valuation assistance with respect to certain of our portfolio investments. We engage independent valuation firms on a discretionary basis. Specifically, on a quarterly basis, we will identify portfolio investments with respect to which an independent valuation firm will assist in valuing. We select these portfolio investments based on a number of factors, including, but not limited to, the potential for material fluctuations in valuation results, credit quality and the time lapse since the last valuation of the portfolio investment by an independent valuation firm.

We intend to continue to engage an independent valuation firm to provide us with assistance regarding our determination of the fair value of selected portfolio investments each quarter unless directed by the Board of Directors to cancel such valuation services. The scope of the services rendered by an independent valuation firm is at the discretion of the Board of Directors. Our Board of Directors is ultimately, and solely, responsible for determining the fair value of our investments in good faith.

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) our quarterly valuation process begins with each portfolio company being initially valued by the investment professionals responsible for the portfolio investment;

Table of Contents

Index to Financial Statements

(2) preliminary valuation conclusions are then documented and business based assumptions are discussed with our investment committee;

(3) the Audit Committee of the Board of Directors reviews the preliminary valuation of the investments in the portfolio company as provided by the investment committee, which incorporates the results of the independent valuation firm as appropriate; and

(4) the Board of Directors, upon the recommendation of the Audit Committee, discusses valuations and determines the fair value of each investment in our portfolio in good faith based on the input of, where applicable, the respective independent valuation firm and the investment committee.

ASC Topic 820 establishes a framework for measuring the fair value of assets and liabilities and outlines a fair value hierarchy which prioritizes the inputs used to measure fair value and the effect of fair value measures on earnings. ASC Topic 820 also requires disclosure for fair value measurements based on the level within the hierarchy of the information used in the valuation. ASC Topic 820 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

We have categorized all investments recorded at fair value in accordance with ASC Topic 820 based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels, defined by ASC Topic 820 and directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities, are as follows:

Level 1 Inputs are unadjusted, quoted prices in active markets for identical assets at the measurement date. The types of assets carried at Level 1 fair value generally are equities listed in active markets.

Level 2 Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset in connection with market data at the measurement date and for the extent of the instrument s anticipated life. Fair valued assets that are generally included in this category are publically held debt investments and warrants held in a public company.

Level 3 Inputs reflect management s best estimate of what market participants would use in pricing the asset at the measurement date. It includes prices or valuations that require inputs that are both significant to the fair value measurement and unobservable. Generally, assets carried at fair value and included in this category are the debt investments and warrants and equities held in a private company.

Investments measured at fair value on a recurring basis are categorized in the tables below based upon the lowest level of significant input to the valuations as of September 30, 2016 and as of December 31, 2015. We transfer investments in and out of Level 1, 2 and 3 as of the beginning balance sheet date, based on changes in the use of observable and unobservable inputs utilized to perform the valuation for the period. During the nine months ended September 30, 2016, there were no transfers between Levels 1 or 2.

(in thousands) **Description**	**Balance September 30, 2016**	**Quoted Prices In Active Markets For Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Senior Secured Debt	$ 1,224,121	$	$ 5,981	$ 1,218,140
Preferred Stock	41,828			41,828
Common Stock	26,923	21,225		5,698
Warrants	27,738		3,572	24,166
Escrow Receivable	1,180			1,180
Total	$ 1,321,790	$ 21,225	$ 9,553	$ 1,291,012

S-58

Table of Contents

Index to Financial Statements

(in thousands) Description	Balance December 31, 2015	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Senior Secured Debt	$ 1,110,209	$	$ 7,813	$ 1,102,396
Preferred Stock	35,245			35,245
Common Stock	32,197	30,670		1,527
Warrants	22,987		4,422	18,565
Escrow Receivable	2,967			2,967
Total	$ 1,203,605	$ 30,670	$ 12,235	$ 1,160,700

The table below presents a reconciliation for all financial assets and liabilities measured at fair value on a recurring basis, excluding accrued interest components, using significant unobservable inputs (Level 3) for the nine months ended September 30, 2016 and the year ended December 31, 2015.

(in thousands)	Balance January 1, 2016	Net Realized Gains (Losses)[1]	Net Change in Unrealized Appreciation (Depreciation)[2]	Purchases[5]	Sales	Repayments[6]	Gross Transfers into Level 3[3]	Gross Transfers out of Level 3[3]	Balance September 30, 2016
Senior Debt	$ 1,102,396	$ (6,868)	$ (9,948)	$ 475,551	$	$ (338,430)	$	$ (4,561)	$ 1,218,140
Preferred Stock	35,245	(334)	1,599	6,820	(1,367)		626	(761)	41,828
Common Stock	1,527		(590)				4,761		5,698
Warrants	18,565	(283)	4,270	3,084	(906)			(564)	24,166
Escrow Receivable	2,967			1,729	(3,516)				1,180
Total	$ 1,160,700	$ (7,485)	$ (4,669)	$ 487,184	$ (5,789)	$ (338,430)	$ 5,387	$ (5,886)	$ 1,291,012

(in thousands)	Balance January 1, 2015	Net Realized Gains (Losses)[1]	Net Change in Unrealized Appreciation (Depreciation)[2]	Purchases[5]	Sales	Repayments[6]	Gross Transfers into Level 3[4]	Gross Transfers out of Level 3[4]	Balance December 31, 2015
Senior Debt	$ 923,906	$ (2,295)	$ (12,930)	$ 699,555	$	$ (505,274)	$	$ (566)	$ 1,102,396
Preferred Stock	57,548	2,598	(1,539)	15,076	(4,542)		685	(34,581)	35,245
Common Stock	1,387	(298)	743		(305)				1,527
Warrants	21,923	(3,849)	(4,749)	5,311	1,220			(1,291)	18,565
Escrow Receivable	3,598	71		511	(1,032)	(181)			2,967
Total	$ 1,008,362	$ (3,773)	$ (18,475)	$ 720,453	$ (4,659)	$ (505,455)	$ 685	$ (36,438)	$ 1,160,700

(1) Included in net realized gains or losses in the accompanying Consolidated Statement of Operations.
(2) Included in net change in unrealized appreciation (depreciation) in the accompanying Consolidated Statement of Operations.
(3) Transfers out of Level 3 during the nine months ended September 30, 2016 relate to the exercise of warrants in TPI Composites, Inc. and Touchcommerce, Inc. to common stock in an IPO and acquisition, respectively; the exercise of warrants in Ping Identity Corporation to preferred stock; the conversion of debt to equity in Optiscan Biomedical Corp and Achilles Technology Management Co II, Inc. and the conversion of the Company s preferred shares to common

shares in SCIEnergy, Inc. Transfers into Level 3 during the nine months ended September 30, 2016 relate to the acquisition of preferred stock as a result of the exercise of warrants in Ping Identity Corporation, the conversion of debt to equity in Optiscan Biomedical Corp and Achilles Technology Management Co II, Inc. and the conversion of the Company s preferred shares to common shares in SCIEnergy, Inc.

(4) Transfers out of Level 3 during the year ended December 31, 2015 relate to the IPOs of Box, Inc., ZP Opco, Inc. (p.k.a. Zosano Pharma, Inc.), Neos Therapeutics, Edge Therapeutics Inc., ViewRay, Inc., and Cerecor, Inc. in addition to the exercise of warrants in both Forescout, Inc. and Atrenta, Inc. to preferred stock. Transfers into Level 3 during the year ended December 31, 2015 relate to the acquisition of preferred stock as a result of the exercise of warrants in both Forescout, Inc. and Atrenta, Inc. and the conversion of debt to equity in Home Dialysis Plus and Gynesonics.

(5) Amounts listed above are inclusive of loan origination fees received at the inception of the loan which are deferred and amortized into fee income as well as the accretion of existing loan discounts and fees during the period. Escrow receivable purchases may include additions due to proceeds held in escrow from the liquidation of level 3 investments.

(6) Amounts listed above include the acceleration and payment of loan discounts and loan fees due to early payoffs or restructures.

Table of Contents

Index to Financial Statements

For nine months ended September 30, 2016, approximately $315,000 in net unrealized appreciation and $590,000 in net unrealized depreciation was recorded for preferred stock and common stock Level 3 investments, respectively, relating to assets still held at the reporting date. For the same period, approximately $22.8 million in net unrealized depreciation and $3.5 million in net unrealized appreciation was recorded for debt and warrant Level 3 investments, respectively, relating to assets still held at the reporting date.

For the year ended December 31, 2015, approximately $179,000 in net unrealized depreciation and $745,000 in net unrealized appreciation was recorded for preferred stock and common stock Level 3 investments, respectively, relating to assets still held at the reporting date. For the same period, approximately $13.7 million and $5.9 million in net unrealized depreciation was recorded for debt and warrant Level 3 investments, respectively, relating to assets still held at the reporting date.

The following tables provides quantitative information about our Level 3 fair value measurements as of September 30, 2016. In addition to the techniques and inputs noted in the table below, according to our valuation policy we may also use other valuation techniques and methodologies when determining our fair value measurements. The tables below are not intended to be all-inclusive, but rather provide information on the significant Level 3 inputs as they relate to our fair value measurements.

The significant unobservable input used in the fair value measurement of our escrow receivables is the amount recoverable at the contractual maturity date of the escrow receivable.

Table of Contents

Index to Financial Statements

Investment Type - Level Three Debt Investments	**Fair Value at September 30, 2016 (in thousands)**	**Valuation Techniques/ Methodologies**	**Unobservable Input[(a)]**	**Range**	**Weighted Average[(b)]**
Pharmaceuticals	$ 96,647	Originated Within 6 Months	Origination Yield	12.24% - 15.39%	13.70%
	420,472	Market Comparable Companies	Hypothetical Market Yield	8.96% - 20.56%	12.61%
			Premium/(Discount)	0.00% - 0.75%	
	2,224	Liquidation[(c)]	Probability weighting of alternative outcomes	25.00% - 100.00%	
Technology	87,063	Originated Within 6 Months	Origination Yield	9.75% - 21.90%	14.66%
	247,989	Market Comparable Companies	Hypothetical Market Yield	10.49% - 16.60%	12.35%
			Premium/(Discount)	(0.50%) - 0.25%	
	36,349	Liquidation[(c)]	Probability weighting of alternative outcomes	15.00% - 100.00%	
Sustainable and Renewable Technology	24,916	Originated Within 6 Months	Origination Yield	15.60%	15.60%
	152,520	Market Comparable Companies	Hypothetical Market Yield	6.81% - 22.75%	14.44%
			Premium/(Discount)	(0.25%) - 0.25%	
Medical Devices	17,082	Originated Within 6 Months	Origination Yield	14.64% - 18.13%	15.58%
	74,506	Market Comparable Companies	Hypothetical Market Yield	10.35% - 16.44%	13.75%
			Premium/(Discount)	(0.25%) - 0.50%	
	2,255	Liquidation[(c)]	Probability weighting of alternative outcomes	100.00%	
Lower Middle Market	5,436	Market Comparable Companies	Hypothetical Market Yield	13.33% - 14.58%	14.02%
			Premium/(Discount)	0.25% - 0.50%	
	24,542	Liquidation[(c)]	Probability weighting of alternative outcomes	2.50% - 100.00%	
		Debt Investments Where Fair Value Approximates Cost			
		Imminent Payoffs[(d)]			
	26,139	Debt Investments Maturing in Less than One Year			
	$ 1,218,140	**Total Level Three Debt Investments**			

(a) The significant unobservable inputs used in the fair value measurement of our debt securities are hypothetical market yields and premiums/(discounts). The hypothetical market yield is defined as the exit price of an investment in a hypothetical market to hypothetical market participants where buyers and sellers are willing participants. The premiums (discounts) relate to company specific characteristics such as underlying investment performance, security liens, and other characteristics of the investment. Significant increases (decreases) in the inputs in isolation may result in a significantly lower (higher) fair value measurement, depending on the materiality of the investment. Debt investments in the industries noted in our Consolidated Schedule of Investments are included in the industries noted above as follows:

Pharmaceuticals, above, is comprised of debt investments in the Specialty Pharmaceuticals, Drug Discovery and Development, Drug Delivery and Biotechnology Tools industries in the Consolidated Schedule of Investments.

Technology, above, is comprised of debt investments in the Software, Semiconductors, Internet Consumer and Business Services, Consumer and Business Products, Information Services, and Communications and Networking industries in the Consolidated Schedule of Investments.

Sustainable and Renewable Technology, above, aligns with the Sustainable and Renewable Technology Industry in the Consolidated Schedule of Investments.

Medical Devices, above, is comprised of debt investments in the Surgical Devices and Medical Devices and Equipment industries in the Consolidated Schedule of Investments.

Lower Middle Market, above, is comprised of debt investments in the Communications and Networking, Electronics and Computer Hardware, Healthcare Services Other, Information Services, Internet Consumer and Business Services, Media/Content/Info, and Specialty Pharmaceuticals industries in the Consolidated Schedule of Investments.

(b) The weighted averages are calculated based on the fair market value of each investment.

(c) The significant unobservable input used in the fair value measurement of impaired debt securities is the probability weighting of alternative outcomes.

(d) Imminent payoffs represent debt investments that we expect to be fully repaid within the next three months, prior to their scheduled maturity date.

Table of Contents

Index to Financial Statements

Investment Type - Level Three Debt Investments		Fair Value at December 31, 2015 (in thousands)	Valuation Techniques/ Methodologies	Unobservable Input[(a)]	Range	Weighted Average[(b)]
Pharmaceuticals	$	72,981	Originated Within 6 Months	Origination Yield	10.35% - 16.16%	12.29%
		406,590	Market Comparable Companies	Hypothetical Market Yield	9.55% - 16.75%	12.67%
				Premium/(Discount)	(0.75%) - 0.00%	
Technology		6,873	Originated Within 6 Months	Origination Yield	15.19%	15.19%
		283,045	Market Comparable Companies	Hypothetical Market Yield	6.57% - 23.26%	13.22%
				Premium/(Discount)	(0.25%) - 0.50%	
		36,815	Liquidation[(c)]	Probability weighting of alternative outcomes	10.00% - 100.00%	
Sustainable and Renewable Technology		11,045	Originated Within 6 Months	Origination Yield	19.74%	19.74%
		105,382	Market Comparable Companies	Hypothetical Market Yield	10.62% - 27.31%	15.91%
				Premium/(Discount)	0.00%	
		1,013	Liquidation[(c)]	Probability weighting of alternative outcomes	100.00%	
Medical Devices		80,530	Market Comparable Companies	Hypothetical Market Yield	11.65% - 19.90%	15.26%
				Premium/(Discount)	0.00% - 0.50%	
		3,764	Liquidation[(c)]	Probability weighting of alternative outcomes	50.00%	
Lower Middle Market		17,811	Originated Within 6 Months	Origination Yield	12.70% - 14.50%	13.00%
		15,151	Liquidation[(c)]	Probability weighting of alternative outcomes	25.00% - 75.00%	
			Debt Investments Where Fair Value Approximates Cost			
		12,434	Imminent Payoffs[(d)]			
		48,962	Debt Investments Maturing in Less than One Year			
	$	1,102,396	**Total Level Three Debt Investments**			

(a) The significant unobservable inputs used in the fair value measurement of our debt securities are hypothetical market yields and premiums/(discounts). The hypothetical market yield is defined as the exit price of an investment in a hypothetical market to hypothetical market participants where buyers and sellers are willing participants. The premiums (discounts) relate to company specific characteristics such as underlying investment performance, security liens, and other characteristics of the investment. Significant increases (decreases) in the inputs in isolation may result in a significantly lower (higher) fair value measurement, depending on the materiality of the investment. Debt investments in the industries noted in our Consolidated Schedule of Investments are included in the industries noted above as follows:

Pharmaceuticals, above, is comprised of debt investments in the Specialty Pharmaceuticals, Drug Discovery and Development, and Drug Delivery industries in the Consolidated Schedule of Investments.

Technology, above, is comprised of debt investments in the Software, Semiconductors, Internet Consumer and Business Services, Consumer and Business Products, Information Services, and Communications and Networking industries in the Consolidated Schedule of Investments.

Sustainable and Renewable Technology, above, aligns with the Sustainable and Renewable Technology Industry in the Consolidated Schedule of Investments.

Medical Devices, above, is comprised of debt investments in the Surgical Devices and Medical Devices and Equipment industries in the Consolidated Schedule of Investments.

Lower Middle Market, above, is comprised of debt investments in the Communications and Networking, Electronics and Computer Hardware, Healthcare Services Other, Information Services, Internet Consumer and Business Services, Media/Content/Info, and Specialty Pharmaceuticals industries in the Consolidated Schedule of Investments.

(b) The weighted averages are calculated based on the fair market value of each investment.

(c) The significant unobservable input used in the fair value measurement of impaired debt securities is the probability weighting of alternative outcomes.

(d) Imminent payoffs represent debt investments that we expect to be fully repaid within the next three months, prior to their scheduled maturity date.

Table of Contents

Index to Financial Statements

Investment Type -Level Three Equity and Warrant Investments	Fair Value at September 30, 2016 (in thousands)	Valuation Techniques/ Methodologies	Unobservable Input[a]	Range	Weighted Average[e]
Equity Investments	$ 6,114	Market Comparable Companies	EBITDA Multiple[b]	5.2x - 21.3x	7.9x
			Revenue Multiple[b]	0.8x - 4.3x	1.9x
			Discount for Lack of Marketability[c]	13.67% - 26.30%	15.03%
			Average Industry Volatility[d]	49.01% - 119.05%	58.35%
			Risk-Free Interest Rate	0.55% - 0.66%	0.56%
			Estimated Time to Exit (in months)	10 - 17	11
	31,981	Market Adjusted OPM Backsolve	Average Industry Volatility[d]	29.83% - 98.58%	67.74%
			Risk-Free Interest Rate	0.20% - 1.30%	0.69%
			Estimated Time to Exit (in months)	1 - 41	14
	9,431	Other[f]			
Warrant Investments	6,565	Market Comparable Companies	EBITDA Multiple[b]	2.0x - 63.1x	12.5x
			Revenue Multiple[b]	0.3x - 6.4x	2.7x
			Discount for Lack of Marketability[c]	13.67% - 28.57%	20.21%
			Average Industry Volatility[d]	37.90% - 104.61%	64.62%
			Risk-Free Interest Rate	0.55% - 0.99%	0.71%
			Estimated Time to Exit (in months)	10 - 48	22
	17,601	Market Adjusted OPM Backsolve	Average Industry Volatility[d]	29.83% - 119.05%	59.99%
			Risk-Free Interest Rate	0.20% - 1.43%	0.68%
			Estimated Time to Exit (in months)	1 - 43	16
Total Level Three Warrant and Equity Investments	$ 71,692				

(a) The significant unobservable inputs used in the fair value measurement of our warrant and equity-related securities are revenue and/or EBITDA multiples and discounts for lack of marketability. Additional inputs used in the Black Scholes option pricing model (OPM) include industry volatility, risk free interest rate and estimated time to exit. Significant increases (decreases) in the inputs in isolation may result in a significantly higher (lower) fair value measurement, depending on the materiality of the investment. For some investments, additional consideration may be given to data from the last round of financing or merger/acquisition events near the measurement date.
(b) Represents amounts used when we have determined that market participants would use such multiples when pricing the investments.
(c) Represents amounts used when we have determined market participants would take into account these discounts when pricing the investments.
(d) Represents the range of industry volatility used by market participants when pricing the investment.
(e) Weighted averages are calculated based on the fair market value of each investment.
(f) The fair market value of these investments is derived based on recent private market transaction prices.

Table of Contents

Index to Financial Statements

Investment Type - Level Three Equity and Warrant Investments	Fair Value at December 31, 2015 (in thousands)	Valuation Techniques/ Methodologies	Unobservable Input[(a)]	Range	Weighted Average[(e)]
Equity Investments	$ 5,898	Market Comparable Companies	EBITDA Multiple[(b)]	3.3x - 19.5x	7.6x
			Revenue Multiple[(b)]	0.7x - 3.7x	2.1x
			Discount for Lack of Marketability[(c)]	14.31% - 25.11%	18.05%
			Average Industry Volatility[(d)]	37.72% - 109.64%	60.27%
			Risk-Free Interest Rate	0.61% - 1.09%	0.74%
			Estimated Time to Exit (in months)	10 - 26	15
	30,874	Market Adjusted OPM Backsolve	Average Industry Volatility[(d)]	28.52% - 86.41%	65.40%
			Risk-Free Interest Rate	0.36% - 1.51%	0.80%
			Estimated Time to Exit (in months)	10 - 47	17
Warrant Investments	7,904	Market Comparable Companies	EBITDA Multiple[(b)]	5.1x - 57.9x	16.0x
			Revenue Multiple[(b)]	0.4x - 9.6x	3.0x
			Discount for Lack of Marketability[(c)]	10.09% - 31.37%	23.11%
			Average Industry Volatility[(d)]	39.51% - 73.36%	41.19%
			Risk-Free Interest Rate	0.32% - 1.51%	0.87%
			Estimated Time to Exit (in months)	4 - 47	23
	10,661	Market Adjusted OPM Backsolve	Average Industry Volatility[(d)]	28.52% - 109.64%	64.31%
			Risk-Free Interest Rate	0.36% - 1.45%	0.85%
			Estimated Time to Exit (in months)	10 - 44	20
Total Level Three Warrant and Equity Investments	$ 55,337				

(a) The significant unobservable inputs used in the fair value measurement of our warrant and equity-related securities are revenue and/or EBITDA multiples and discounts for lack of marketability. Additional inputs used in the Black Scholes OPM include industry volatility, risk free interest rate and estimated time to exit. Significant increases (decreases) in the inputs in isolation may result in a significantly higher (lower) fair value measurement, depending on the materiality of the investment. For some investments, additional consideration may be given to data from the last round of financing or merger/acquisition events near the measurement date.
(b) Represents amounts used when we have determined that market participants would use such multiples when pricing the investments.
(c) Represents amounts used when we have determined market participants would take into account these discounts when pricing the investments.
(d) Represents the range of industry volatility used by market participants when pricing the investment.
(e) Weighted averages are calculated based on the fair market value of each investment.

Debt Investments

We follow the guidance set forth in ASC Topic 820 which establishes a framework for measuring the fair value of assets and liabilities and outlines a fair value hierarchy which prioritizes the inputs used to measure fair value and the effect of fair value measures on earnings. Our debt securities are primarily invested in venture capital-backed companies in technology-related markets including technology, drug discovery and development, biotechnology, life sciences, healthcare, and sustainable and renewable technology at all stages of development. Given the nature of lending to these types of businesses, substantially all of our investments in these portfolio companies are considered Level 3 assets under ASC Topic 820 because there is no known or accessible market or market indices for debt instruments for these investment securities to be traded or exchanged. In addition, we may, from time to time, invest in public debt of companies that meet our investment objectives. These investments are considered Level 2 assets.

In making a good faith determination of the value of our investments, we generally start with the cost basis of the investment, which includes the value attributed to the OID, if any, and PIK interest or other receivables which have been accrued as earned. We then apply the valuation methods as set forth below.

We apply a procedure for debt investments that assumes the sale of each investment in a hypothetical market to a hypothetical market participant where buyers and sellers are willing participants. The hypothetical market does not include scenarios where the underlying security was simply repaid or extinguished, but includes an exit concept. We determine the yield at inception for each debt investment. We then use senior secured, leveraged loan yields provided by third party providers to determine the change in market yields between inception of the debt security and the measurement date. Industry specific indices and other relevant market data are used to benchmark/assess market based movements.

Under this process, we also evaluate the collateral for recoverability of the debt investments. We consider each portfolio company s credit rating, security liens and other characteristics of the investment to adjust the baseline yield to derive a credit adjusted hypothetical yield for each investment as of the measurement date. The anticipated future cash flows from each investment are then discounted at the hypothetical yield to estimate each investment s fair value as of the measurement date.

Our process includes, among other things, the underlying investment performance, the current portfolio company s financial condition and market changing events that impact valuation, estimated remaining life, current market yields and interest rate spreads of similar securities as of the measurement date. We value our syndicated debt investments using broker quotes and bond indices amongst other factors. If there is a significant deterioration of the credit quality of a debt investment, we may consider other factors than those a hypothetical market participant would use to estimate fair value, including the proceeds that would be received in a liquidation analysis.

We record unrealized depreciation on investments when we believe that an investment has decreased in value, including where collection of a debt investment is doubtful or, if under the in-exchange premise, when the value of a debt security is less than the amortized cost of the investment. Conversely, where appropriate, we record unrealized appreciation if we believe that the underlying portfolio company has appreciated in value and, therefore, that our investment has also appreciated in value or, if under the in-exchange premise, the value of a debt security is greater than amortized cost.

When originating a debt instrument, we generally receive warrants or other equity-related securities from the borrower. We determine the cost basis of the warrants or other equity-related securities received based upon their respective fair values on the date of receipt in proportion to the total fair value of the debt and warrants or other equity-related securities received. Any resulting discount on the debt investment from recordation of the warrant or other equity instruments is accreted into interest income over the life of the loan.

Debt investments that are traded on a public exchange are valued at the prevailing market price at period end.

Equity-Related Securities and Warrants

Securities that are traded in the over-the-counter markets or on a stock exchange will be valued at the prevailing bid price at period end. We have a limited amount of equity securities in public companies. In accordance with the 1940 Act, unrestricted publicly traded securities for which market quotations are readily available are valued at the closing market quote on the measurement date.

We estimate the fair value of warrants using a Black Scholes OPM. At each reporting date, privately held warrant and equity related securities are valued based on an analysis of various factors including, but not limited to, the portfolio company s operating performance and financial condition and general market conditions, price to enterprise value or price to equity ratios, discounted cash flow, valuation comparisons to comparable public companies or other industry benchmarks. When an external event occurs, such as a purchase transaction, public offering, or subsequent equity sale, the pricing indicated by that external event is utilized to corroborate our valuation of the warrant and equity related securities. We periodically review the valuation of our portfolio companies that have not been involved in a qualifying external event to determine if the enterprise value of the portfolio company may have increased or decreased since the last valuation measurement date.

Table of Contents

Index to Financial Statements

Escrow Receivables

Escrow receivables are collected in accordance with the terms and conditions of the escrow agreement. Escrow balances are typically distributed over a period greater than one year and may accrue interest during the escrow period. Escrow balances are measured for collectability on at least a quarterly basis and fair value is determined based on the amount of the estimated recoverable balances and the contractual maturity date. As of September 30, 2016 there were no material past due escrow receivables.

Income Recognition

See Changes in Portfolio for a discussion of our income recognition policies and results during the three and nine months ended September 30, 2016. See Results of Operations for a comparison of investment income for the three and nine months ended September 30, 2016 and 2015.

Stock-Based Compensation

We have issued and may, from time to time, issue additional stock options and restricted stock to employees under our 2004 Equity Incentive Plan and Board members under our 2006 Equity Incentive Plan. We follow ASC Topic 718, Compensation Stock Compensation formerly known as FASB Statement 123R *Share-Based Payments* to account for stock options granted. Under ASC Topic 718, compensation expense associated with stock-based compensation is measured at the grant date based on the fair value of the award and is recognized over the vesting period. Determining the appropriate fair value model and calculating the fair value of stock-based awards at the grant date requires judgment, including estimating stock price volatility, forfeiture rate and expected option life.

Recent Accounting Pronouncements

In January 2016, the FASB issued ASU 2016-01, Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which, among other things, requires that (i) all equity investments, other than equity-method investments, in unconsolidated entities generally be measured at fair value through earnings and (ii) an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. Additionally, the ASU changes the disclosure requirements for financial instruments. ASU 2016-01 is effective for annual reporting periods, and the interim periods within those periods, beginning after December 15, 2017. Early adoption is permitted for certain provisions. We are currently evaluating the impact that ASU 2016-01 will have on our consolidated financial statements and disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which, among other things, requires recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. Additionally, the ASU requires the classification of all cash payments on leases within operating activities in the Consolidated Statement of Cash Flows. ASU 2016-02 is effective for annual reporting periods, and the interim periods within those periods, beginning after December 15, 2018. Early adoption is permitted. We are currently evaluating the impact that ASU 2016-02 will have on our consolidated financial statements and disclosures.

In March 2016, the FASB issued ASU 2016-09, Compensation Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, which, among other things, simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for annual reporting periods, and the interim periods within those periods, beginning after December 15, 2016. Early adoption is permitted. We are currently evaluating the impact that ASU 2016-09 will have on our consolidated financial statements and disclosures.

Table of Contents

Index to 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, which addresses eight specific cash flow issues including, among other things, the classification of debt prepayment or debt extinguishment costs. ASU 2016-15 is effective for annual reporting periods, and the interim periods within those periods, beginning after December 15, 2017. Early adoption is permitted. We are currently evaluating the impact that ASU 2016-15 will have on its consolidated financial statements and disclosures.

Subsequent Events

Dividend Distribution Declaration

On October 26, 2016 our Board of Directors declared a cash dividend distribution of $0.31 per share to be paid on November 21, 2016 to stockholders of record as of November 14, 2016. This dividend distribution represents our forty-fifth consecutive dividend declaration since our IPO, bringing the total cumulative dividend declared to date to $12.47 per share.

2024 Notes ATM Program

On October 11, 2016, we entered into a debt distribution agreement (the Debt Distribution Agreement) with FBR Capital Markets & Co. as sales agent (the Notes Agent), pursuant to which we may offer for sale, from time to time, up to $150,000,000 in aggregate principal amount of 6.25% notes due 2024 (the Additional 2024 Notes) through the Notes Agent . Sales of the Additional 2024 Notes, if any, may be made in negotiated transactions or transactions that are deemed to be at the market offerings as defined in Rule 415 under the Securities Act, including sales made directly on the NYSE, or similar securities exchange or sales made through a market maker other than on an exchange at prices related to prevailing market prices or at negotiated prices.

The Notes Agent will receive a commission from the Company equal to up to 2.00% of the gross sales of any Additional 2024 Notes sold through the Notes Agent under the Debt Distribution Agreement. The Notes Agent is not required to sell any specific principal amount of Additional 2024 Notes, but will use its commercially reasonable efforts consistent with its sales and trading practices to sell the Additional 2024 Notes.

The Additional 2024 Notes offered pursuant to the Debt Distribution Agreement will be a further issuance of, are fungible with, rank equally in right of payment with, and form a single series for all purposes under the indenture governing the 2024 Notes initially issued by us on July 14, 2014, May 2, 2016, and June 27, 2016, respectively. The 2024 Notes will mature on July 30, 2024. We will pay interest on the Additional 2024 Notes on January 30, April 30, July 30 and October 30 of each year, beginning on October 30, 2016. Any purchaser of the Additional 2024 Notes will pay for any interest accrued from the interest payment date preceding the issuance date of the Additional 2024 Notes up to, but excluding, the issuance date of the Additional 2024 Notes. We may redeem the 2024 Notes in whole or in part at any time or from time to time, at the redemption price set forth under the terms of the indenture. The Additional 2024 Notes will be issued in minimum denominations of $25 and integral multiples of $25 in excess thereof.

The Additional 2024 Notes will be our direct unsecured obligations and rank pari passu, or equally in right of payment, with all outstanding and future unsecured unsubordinated indebtedness issued by Hercules Capital, Inc.

The 2024 Notes are listed on the NYSE, and trade on the NYSE under the symbol HTGX. The Additional 2024 Notes are expected to trade flat, which means that purchasers in the secondary market will not pay, and sellers will not receive, any accrued and unpaid interest on the Additional 2024 Notes that is not reflected in the trading price.

Subsequent to September 30, 2016 and as of November 7, 2016, we sold 140,750 notes through the Notes Agent for approximately $3.6 million in aggregate principal amount. As of November 7, 2016 approximately $146.4 million in aggregate principal amount remains available for issuance and sale under the Debt Distribution Agreement.

Table of Contents

Index to Financial Statements

ATM Equity Program Issuances

Subsequent to September 30, 2016 and as of November 7, 2016, we sold 786,000 shares of common stock for total accumulated net proceeds of approximately $10.6 million, including $107,000 of offering expenses, under our ATM equity distribution agreement with JMP. As of November 7, 2016 approximately 2.4 million shares remain available for issuance and sale under the equity distribution agreement.

Employee Additions

In September 2016, we hired Paul Gibson as Managing Director in the Technology Group in Hercules Washington DC office. Mr. Gibson is a seasoned executive with more than 20 years of commercial banking experience, including more than 13 years in venture lending, focused on structuring financial transactions for growth technology and life sciences-related companies.

Closed and Pending Commitments

As of November 7, 2016, we have:

Closed debt and equity commitments of approximately $50.8 million to new and existing portfolio companies and funded approximately $52.0 million subsequent to September 30, 2016.

Pending commitments (signed non-binding term sheets) of approximately $150.0 million. The table below summarizes our year-to-date closed and pending commitments as follows:

Closed Commitments and Pending Commitments (in millions)	
January 1 September 30, 2016 Closed Commitments	$ 603.0
Q4 2016 Closed Commitments (as of November 7, 2016)[(a)]	$ 50.8
Pending Commitments (as of November 7, 2016)[(b)]	$ 150.0
Closed and Pending Commitments as of November 7, 2016	$ 803.8

a. Closed Commitments may include renewals of existing credit facilities. Not all Closed Commitments result in future cash requirements. Commitments generally fund over the two succeeding quarters from close.
b. Not all pending commitments (signed non-binding term sheets) are expected to close and they do not necessarily represent any future cash requirements.

Portfolio Company Developments

As of November 7, 2016, we held warrants or equity positions in four companies that have filed registration statements on Form S-1 with the SEC in contemplation of potential IPOs. All four companies filed confidentially under the JOBS Act. There can be no assurance that these companies will complete their IPOs in a timely manner or at all. In addition, subsequent to September 30, 2016, Napo Pharmaceuticals, a company that focuses on the development and commercialization of proprietary pharmaceuticals for the global marketplace in collaboration with local partners, signed a non-binding letter-of-intent (LOI) to merge with our portfolio company Jaguar Animal Health, Inc. in October of 2016.

Quantitative and Qualitative Disclosures about Market Risk

We are subject to financial market risks, including changes in interest rates. Interest rate risk is defined as the sensitivity of our current and future earnings to interest rate volatility, variability of spread relationships, the difference in re-pricing intervals between our assets and liabilities and the effect that interest rates may have on our cash flows. Changes in interest rates may affect both our cost of funding and our interest income from portfolio investments, cash and cash equivalents and idle funds investments. Our investment income will be affected by changes in various interest rates, including LIBOR and Prime rates, to the extent our debt investments include variable interest rates. As of September 30, 2016, approximately 92.9% of the loans in our portfolio had variable rates based on floating Prime or LIBOR rates with a floor. Changes in interest rates can also affect, among other things, our ability to acquire and originate loans and securities and the value of our investment portfolio.

Table of Contents

Index to Financial Statements

Based on our Consolidated Statement of Assets and Liabilities as of September 30, 2016, the following table shows the approximate annualized increase (decrease) in components of net assets resulting from operations of hypothetical base rate changes in interest rates, assuming no changes in our investments and borrowings.

(in thousands)

Basis Point Change	Interest Income	Interest Expense	Net Income
(100)	$ (963)	$	$ (963)
100	$ 7,391	$	$ 7,391
200	$ 17,693	$	$ 17,693
300	$ 29,107	$	$ 29,107
400	$ 40,654	$	$ 40,654
500	$ 52,337	$	$ 52,337

We do not currently engage in any hedging activities. However, we may, in the future, hedge against interest rate fluctuations (and foreign currency) by using standard hedging instruments such as futures, options, and forward contracts. While hedging activities may insulate us against changes in interest rates (and foreign currency), they may also limit our ability to participate in the benefits of lower interest rates with respect to our borrowed funds and higher interest rates with respect to our portfolio of investments. During the nine months ended September 30, 2016 we did not engage in interest rate (or foreign currency) hedging activities.

Although we believe that the foregoing analysis is indicative of our sensitivity to interest rate changes, it does not adjust for potential changes in the credit market, credit quality, size and composition of the assets in our portfolio. It also does not adjust for other business developments, including borrowings under our Credit Facilities, SBA debentures, 2019 Notes, 2024 Notes and 2021 Asset-Backed Notes that could affect the net increase in net assets resulting from operations, or net income. It also does not assume any repayments from borrowers. Accordingly, no assurances can be given that actual results would not differ materially from the statement above.

Because we currently borrow, and plan to borrow in the future, money to make investments, our net investment income is dependent upon the difference between the rate at which we borrow funds and the rate at which we invest the funds borrowed. Accordingly, 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. In periods of rising interest rates, our cost of funds would increase, which could reduce our net investment income if there is not a corresponding increase in interest income generated by variable rate assets in our investment portfolio.

For additional information regarding the interest rate associated with each of our Credit Facilities, SBA debentures, 2019 Notes, 2024 Notes and 2021 Asset-Backed Notes, please refer to Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations Financial Condition, Liquidity and Capital Resources Outstanding Borrowings in this prospectus supplement.

Disclosure Controls and Procedures

Our chief executive and chief financial officers, under the supervision and with the participation of our management, conducted an evaluation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. As of the end of the period covered by this prospectus supplement, our chief executive and chief financial officers have concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive and chief financial officers, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financing reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act that occurred during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

Index to Financial Statements

SENIOR SECURITIES

Information about our senior securities is shown in the following table for the periods as of December 31, 2015, 2014, 2013, 2012, 2011, 2010, 2009, 2008, 2007 and 2006 and as of September 30, 2016. The information as of December 31, 2015, 2014, 2013, 2012, 2011 and 2010 has been derived from our audited financial statements for these periods, which have been audited by PricewaterhouseCoopers LLP, our independent registered public accounting firm. The report of PricewaterhouseCoopers LLP on the senior securities table as of December 31, 2015 is attached as an exhibit to the registration statement of which this prospectus is a part. The N/A indicates information that the SEC expressly does not require to be disclosed for certain types of senior securities.

Class and Year	Total Amount Outstanding Exclusive of Treasury Securities(1)	Asset Coverage per Unit(2)	Average Market Value per Unit(3)
Securitized Credit Facility with Wells Fargo Capital Finance			
December 31, 2006	$ 41,000,000	$ 7,230	N/A
December 31, 2007	$ 79,200,000	$ 6,755	N/A
December 31, 2008	$ 89,582,000	$ 6,689	N/A
December 31, 2009(6)			N/A
December 31, 2010(6)			N/A
December 31, 2011	$ 10,186,830	$ 73,369	N/A
December 31, 2012(6)			N/A
December 31, 2013(6)			N/A
December 31, 2014(6)			N/A
December 31, 2015	$ 50,000,000	$ 26,352	N/A
December 31, 2016 (as of September 30, 2016, unaudited)(6)			N/A
Securitized Credit Facility with Union Bank, NA			
December 31, 2009(6)			N/A
December 31, 2010(6)			N/A
December 31, 2011(6)			N/A
December 31, 2012(6)			N/A
December 31, 2013(6)			N/A
December 31, 2014(6)			N/A
December 31, 2015(6)			N/A
December 31, 2016 (as of September 30, 2016, unaudited)(6)			N/A
Small Business Administration Debentures (HT II)(4)			
December 31, 2007	$ 55,050,000	$ 9,718	N/A
December 31, 2008	$ 127,200,000	$ 4,711	N/A
December 31, 2009	$ 130,600,000	$ 3,806	N/A
December 31, 2010	$ 150,000,000	$ 3,942	N/A
December 31, 2011	$ 125,000,000	$ 5,979	N/A
December 31, 2012	$ 76,000,000	$ 14,786	N/A
December 31, 2013	$ 76,000,000	$ 16,075	N/A
December 31, 2014	$ 41,200,000	$ 31,535	N/A
December 31, 2015	$ 41,200,000	$ 31,981	N/A
December 31, 2016 (as of September 30, 2016, unaudited)	$ 41,200,000	$ 34,371	N/A
Small Business Administration Debentures (HT III)(5)			
December 31, 2010	$ 20,000,000	$ 29,564	N/A
December 31, 2011	$ 100,000,000	$ 7,474	N/A
December 31, 2012	$ 149,000,000	$ 7,542	N/A
December 31, 2013	$ 149,000,000	$ 8,199	N/A
December 31, 2014	$ 149,000,000	$ 8,720	N/A
December 31, 2015	$ 149,000,000	$ 8,843	N/A
December 31, 2016 (as of September 30, 2016, unaudited)	$ 149,000,000	$ 9,504	N/A

Table of Contents

Index to Financial Statements

Class and Year	Total Amount Outstanding Exclusive of Treasury Securities[1]	Asset Coverage per Unit[2]	Average Market Value per Unit[3]
Senior Convertible Notes			
December 31, 2011	$ 75,000,000	$ 10,623	$ 885
December 31, 2012	$ 75,000,000	$ 15,731	$ 1,038
December 31, 2013	$ 75,000,000	$ 16,847	$ 1,403
December 31, 2014	$ 17,674,000	$ 74,905	$ 1,290
December 31, 2015	$ 17,604,000	$ 74,847	$ 1,110
December 31, 2016 (as of September 30, 2016, unaudited)			
April 2019 Notes			
December 31, 2012	$ 84,489,500	$ 13,300	$ 986
December 31, 2013	$ 84,489,500	$ 14,460	$ 1,021
December 31, 2014	$ 84,489,500	$ 15,377	$ 1,023
December 31, 2015	$ 64,489,500	$ 20,431	$ 1,017
December 31, 2016 (as of September 30, 2016, unaudited)	$ 64,489,500	$ 21,959	$ 1,022
September 2019 Notes			
December 31, 2012	$ 85,875,000	$ 13,086	$ 1,003
December 31, 2013	$ 85,875,000	$ 14,227	$ 1,016
December 31, 2014	$ 85,875,000	$ 15,129	$ 1,026
December 31, 2015	$ 45,875,000	$ 28,722	$ 1,009
December 31, 2016 (as of September 30, 2016, unaudited)	$ 45,875,000	$ 30,869	$ 1,019
2024 Notes			
December 31, 2014	$ 103,000,000	$ 12,614	$ 1,010
December 31, 2015	$ 103,000,000	$ 12,792	$ 1,014
December 31, 2016 (as of September 30, 2016, unaudited)	$ 244,945,050	$ 5,781	$ 1,026
2017 Asset-Backed Notes			
December 31, 2012	$ 129,300,000	$ 8,691	$ 1,000
December 31, 2013	$ 89,556,972	$ 13,642	$ 1,004
December 31, 2014	$ 16,049,144	$ 80,953	$ 1,375
December 31, 2015			
2021 Asset-Backed Notes			
December 31, 2014	$ 129,300,000	$ 10,048	$ 1,000
December 31, 2015	$ 129,300,000	$ 10,190	$ 996
December 31, 2016 (as of September 30, 2016, unaudited)	$ 117,004,374	$ 12,103	$ 997
Total Senior Securities[7]			
December 31, 2006	$ 41,000,000	$ 7,230	N/A
December 31, 2007	$ 134,250,000	$ 3,985	N/A
December 31, 2008	$ 216,782,000	$ 2,764	N/A
December 31, 2009	$ 130,600,000	$ 3,806	N/A
December 31, 2010	$ 170,000,000	$ 3,478	N/A
December 31, 2011	$ 310,186,830	$ 2,409	N/A
December 31, 2012	$ 599,664,500	$ 1,874[8]	N/A
December 31, 2013	$ 559,921,472	$ 2,182	N/A
December 31, 2014	$ 626,587,644	$ 2,073	N/A
December 31, 2015	$ 600,468,500	$ 2,194	N/A
December 31, 2016 (as of September 30, 2016, unaudited)	$ 662,513,924	$ 2,137	N/A

(1) Total amount of each class of senior securities outstanding at the end of the period presented.

(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, including senior securities not subject to asset coverage requirements under the 1940 Act due to exemptive relief from the SEC, divided by senior securities representing indebtedness. This asset coverage ratio is multiplied by $1,000 to determine the Asset Coverage per Unit.

Table of Contents

Index to Financial Statements

(3) Not applicable because senior securities are not registered for public trading.

(4) Issued by HT II, one of our SBIC subsidiaries, to the SBA. These categories of senior securities were not subject to the asset coverage requirements of the 1940 Act as a result of exemptive relief granted to us by the SEC.

(5) Issued by HT III, one of our SBIC subsidiaries, to the SBA. These categories of senior securities were not subject to the asset coverage requirements of the 1940 Act as a result of exemptive relief granted to us by the SEC.

(6) The Company s Wells Facility and Union Bank Facility had no borrowings outstanding during the periods noted above.

(7) The total senior securities and Asset Coverage per Unit shown for those securities do not represent the asset coverage ratio requirement under the 1940 act because the presentation includes senior securities not subject to the asset coverage requirements of the 1940 Act as a result of exemptive relief granted to us by the SEC. As of September 30, 2016 our asset coverage ratio under our regulatory requirements as a business development company was 259.6% excluding our SBA debentures as a result of our exemptive order from the SEC which allows us to exclude all SBA leverage from our asset coverage ratio.

(8) As noted in footnote 7 above, the total senior securities and Asset Coverage per Unit shown does not represent the asset coverage ratio requirement under the 1940 Act because the presentation includes senior securities not subject to the asset coverage requirements of the 1940 Act as a result of exemptive relief granted to us by the SEC. Including our SBA debentures, in accordance with our exemption order from the SEC, our asset coverage ratio as of December 31, 2012 was 296.8%.

Table of Contents

Index to Financial Statements

MANAGEMENT

On October 21, 2016, the Board of Directors elected Doreen W. Ho to the Board of Directors to fill the directorship vacancy created by the retirement of Rodney A. Ferguson. Ms. Ho was also appointed a member of each of the Company s Compensation Committee and Nominating and Corporate Governance Committee. Ms. Ho, age 69, is an independent director within the meaning of Section 303.A2 of the NYSE Listed Company Manual and Section 2(a)(19) of the 1940 Act. Because Ms. Ho is filling a vacancy on our Board of Directors, Ms. Ho s initial term will expire on the date of the Company s 2019 Annual Meeting of Shareholders.

Ms. Ho is a retired senior executive who has held top management roles at some of the largest commercial banks in America, including Wells Fargo Bank, Citibank and United Commercial Bank. In 2009, she was President, CEO and Board Member of United Commercial Bank, a leading Asian community and commercial bank headquartered in San Francisco, with assets over $12.7 billion. From 1998 to 2008, Ms. Ho served as President of the Consumer Credit Group at Wells Fargo Bank. Prior to Wells Fargo, she served as Senior Vice President of National Business Banking, US Consumer Bank and other multiple positions in corporate and consumer lending at Citibank from 1974 to 1998. Ms. Ho currently serves as an independent Director for U.S. Bank, the fifth largest commercial bank in the US. She has also been serving as Commissioner of the Port of San Francisco since 2011 and on the Board of Directors of the San Francisco Opera since 1992.

Ms. Ho was selected to serve as an independent director on our Board of Directors due to her strong leadership skills, past service on other public company boards, and her wealth of banking experience.

Table of Contents

Index to Financial Statements

LEGAL MATTERS

Certain legal matters in connection with the securities offered hereby will be passed upon for us by Dechert LLP, Washington, DC. Certain legal matters in connection with the securities offered hereby will be passed upon for JMP Securities by Skadden, Arps, Slate, Meagher & Flom LLP.

EXPERTS

The consolidated financial statements as of December 31, 2015 and 2014 and for each of the three years in the period ended December 31, 2015 and management s assessment of the effectiveness of internal control over financial reporting (which is included in Management s Report on Internal Control over Financial Reporting) as of December 31, 2015 included in the accompanying prospectus have been so included in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

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 our securities offered by this prospectus supplement and the accompanying prospectus. The registration statement contains additional information about us and our securities being offered by this prospectus supplement and the accompanying prospectus.

We file annual, quarterly and current periodic reports, proxy statements and other information with the SEC under the Exchange Act. You may inspect and copy these reports, proxy statements and other information, as well as the registration statement of which this prospectus supplement and accompanying prospectus form a part and the related exhibits and schedules, at the Public Reference Room of the SEC at 100 F Street, N.E., Washington, D.C. 20549-0102. You may obtain information on the operation of the Public Reference Room by calling the SEC at 202-551-8090. The SEC maintains an Internet website 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 website at http://www.sec.gov. Copies of these reports, proxy and information statements and other information may be obtained, after paying a duplicating fee, by electronic request at the following E-mail address: publicinfo@sec.gov, or by writing the SEC s Public Reference Section, Washington, D.C. 20549-0102.

Table of Contents

Index to Financial Statements

INDEX TO FINANCIAL STATEMENTS

Table of Contents

Index to Financial Statements

HERCULES CAPITAL, INC.

CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES

(unaudited)

(dollars in thousands, except per share data)

	September 30, 2016	December 31, 2015
Assets		
Investments:		
Non-control/Non-affiliate investments (cost of $1,352,633 and $1,238,539, respectively)	$ 1,309,696	$ 1,192,652
Control investments (cost of $22,285 and $0, respectively)	4,991	
Affiliate investments (cost of $13,326 and $13,742, respectively)	5,923	7,986
Total investments, at value (cost of $1,388,244 and $1,252,281, respectively)	1,320,610	1,200,638
Cash and cash equivalents	69,012	95,196
Restricted cash	8,980	9,191
Interest receivable	10,861	9,239
Other assets	9,961	9,720
Total assets	$ 1,419,424	$ 1,323,984
Liabilities		
Accounts payable and accrued liabilities	$ 16,649	$ 17,241
Long-Term Liabilities (Convertible Senior Notes), net (principal of $0 and $17,604)(1)		17,478
Wells Facility		50,000
2021 Asset-Backed Notes, net (principal of $117,004 and $129,300, respectively)(1)	115,531	126,995
2019 Notes, net (principal of $110,364 and $110,364, respectively)(1)	108,659	108,179
2024 Notes, net (principal of $244,945 and $103,000, respectively)(1)	237,663	100,128
Long-Term SBA Debentures, net (principal of $190,200 and $190,200, respectively)(1)	187,333	186,829
Total liabilities	$ 665,835	$ 606,850
Net assets consist of:		
Common stock, par value	77	73
Capital in excess of par value	802,521	752,244
Unrealized depreciation on investments(2)	(68,880)	(52,808)
Accumulated realized gains on investments	31,420	27,993
Distributions in excess of net investment income	(11,549)	(10,368)
Total net assets	$ 753,589	$ 717,134
Total liabilities and net assets	$ 1,419,424	$ 1,323,984
Shares of common stock outstanding ($0.001 par value, 200,000,000 and 100,000,000 authorized, respectively)	76,400	72,118
Net asset value per share	$ 9.86	$ 9.94

(1) The Company s SBA Debentures, 2019 Notes, 2024 Notes, 2021 Asset-Backed Notes, and Convertible Senior Notes, as each term is defined herein, are presented net of the associated debt issuance costs for each instrument. See Note 2 Summary of Significant Accounting Policies and Note 4 Borrowings .

(2) Amounts include $1.2 million in net unrealized depreciation on other assets and accrued liabilities, including escrow receivables, estimated taxes payable and Citigroup warrant participation agreement liabilities as of September 30, 2016 and December 31, 2015.

See notes to consolidated financial statements.

Table of Contents

Index to Financial Statements

The following table presents the assets and liabilities of our consolidated securitization trust for the 2021 Asset-Backed Notes (see Note 4), which is a variable interest entity (VIE). The assets of our securitization VIE can only be used to settle obligations of our consolidated securitization VIE, these liabilities are only the obligations of our consolidated securitization VIE, and the creditors (or beneficial interest holders) do not have recourse to our general credit. These assets and liabilities are included in the Consolidated Statement of Assets and Liabilities above.

(Dollars in thousands)	September 30, 2016		December 31, 2015	
Assets				
Restricted Cash	$	8,980	$	9,191
Total investments, at value (cost of $245,868 and $258,748, respectively)		243,216		257,657
Total assets	$	252,196	$	266,848
Liabilities				
2021 Asset-Backed Notes, net (principal of $117,004 and $129,300, respectively)(1)	$	115,531	$	126,995
Total liabilities	$	115,531	$	126,995

(1) The Company s 2021 Asset-Backed Notes are presented net of the associated debt issuance costs for each instrument. See Note 2 Summary of Significant Accounting Policies and Note 4 Borrowings .

See notes to consolidated financial statements.

S-77

Table of Contents

Index to Financial Statements

HERCULES CAPITAL, INC.

CONSOLIDATED STATEMENT OF OPERATIONS

(unaudited)

(in thousands, except per share data)

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Investment income:				
Interest income				
Non-control/Non-affiliate investments	$ 39,907	$ 40,256	$ 115,887	$ 105,861
Control investments	15		15	
Affiliate investments	30	83	145	278
Total interest income	39,952	40,339	116,047	106,139
Fees				
Non-control/Non-affiliate investments	5,149	6,793	11,531	11,611
Control investments	1		1	
Affiliate investments				1
Total fees	5,150	6,793	11,532	11,612
Total investment income	45,102	47,132	127,579	117,751
Operating expenses:				
Interest	8,717	7,818	23,306	23,243
Loan fees	1,432	1,072	3,698	4,166
General and administrative	4,114	4,504	12,095	12,190
Employee compensation:				
Compensation and benefits	5,621	7,969	15,637	17,621
Stock-based compensation	1,442	2,179	5,616	7,166
Total employee compensation	7,063	10,148	21,253	24,787
Total operating expenses	21,326	23,542	60,352	64,386
Loss on debt extinguishment (Long-Term Liabilities Convertible Senior Notes)				(1)
Net investment income	23,776	23,590	67,227	53,364
Net realized gain on investments				
Non-control/Non-affiliate investments	7,870	6,366	3,427	8,424
Total net realized gain on investments	7,870	6,366	3,427	8,424
Net change in unrealized appreciation (depreciation) on investments				
Non-control/Non-affiliate investments	(1,387)	(25,032)	(11,005)	(34,585)
Control investments			(3,421)	
Affiliate investments	553	(849)	(1,646)	1,543
Total net unrealized depreciation on investments	(834)	(25,881)	(16,072)	(33,042)
Total net realized and unrealized gain (loss)	7,036	(19,515)	(12,645)	(24,618)

Net increase in net assets resulting from operations	$ 30,812	$ 4,075	$ 54,582	$ 28,746
Net investment income before investment gains and losses per common share:				
Basic	$ 0.32	$ 0.33	$ 0.91	$ 0.76
Change in net assets resulting from operations per common share:				
Basic	$ 0.41	$ 0.05	$ 0.74	$ 0.40
Diluted	$ 0.41	$ 0.05	$ 0.74	$ 0.40
Weighted average shares outstanding				
Basic	74,122	71,462	72,685	68,897
Diluted	74,157	71,496	72,702	69,123
Dividend distributions declared per common share:				
Basic	$ 0.31	$ 0.31	$ 0.93	$ 0.93

See notes to consolidated financial statements.

Table of Contents

Index to Financial Statements

HERCULES CAPITAL, INC.

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

(unaudited)

(dollars and shares in thousands)

	Common Stock		Capital in excess of par	Unrealized Appreciation (Depreciation) on	Accumulated Realized Gains (Losses) on	Undistributed Net Investment Income/ (Distributions in Excess of Investment	Provision for Income Taxes on Investment	Net
	Shares	Par Value	value	Investments	Investments	Income)	Gains	Assets
Balance at December 31, 2014	64,715	$ 65	$ 657,233	$ (17,076)	$ 14,079	$ 4,905	$ (342)	$ 658,864
Net increase (decrease) in net assets resulting from operations				(33,042)	8,424	53,364		28,746
Public offering, net of offering expenses	7,591	8	100,084					100,092
Issuance of common stock due to stock option exercises	51		428					428
Retired shares from net issuance	(29)		(423)					(423)
Issuance of common stock under restricted stock plan	676	1	(1)					
Retired shares for restricted stock vesting	(595)	(1)	(3,997)					(3,998)
Issuance of common stock as stock dividend	123		1,589					1,589
Dividend distributions						(65,238)		(65,238)
Stock-based compensation(1)			7,231					7,231
Balance at September 30, 2015	72,109	$ 73	$ 757,646	$ (50,118)	$ 22,503	$ (6,969)	$ (342)	$ 722,793
Balance at December 31, 2015	72,118	$ 73	$ 752,244	$ (52,808)	$ 27,993	$ (10,026)	$ (342)	$ 717,134
Net increase (decrease) in net assets resulting from operations				(16,072)	3,427	67,227		54,582
Public offering, net of offering expenses	4,273	4	50,173					50,177
Acquisition of common stock under repurchase plan	(450)	(1)	(4,789)					(4,790)
Issuance of common stock due to stock option exercises	42		426					426
Retired shares from net issuance	(6)							
Issuance of common stock under restricted stock plan	552	1	(1)					
Retired shares for restricted stock vesting	(240)		(2,560)					(2,560)
Issuance of common stock as stock dividend	111		1,343					1,343
Dividend distributions						(68,408)		(68,408)
Stock-based compensation(1)			5,685					5,685
Balance at September 30, 2016	76,400	$ 77	$ 802,521	$ (68,880)	$ 31,420	$ (11,207)	$ (342)	$ 753,589

(1) Stock-based compensation includes $69 and $65 of restricted stock and option expense related to director compensation for the nine months ended September 30, 2016 and 2015, respectively.

See notes to consolidated financial statements.

Table of Contents

Index to Financial Statements

HERCULES CAPITAL, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

(unaudited)

(dollars in thousands)

	For the Nine Months Ended September 30, 2016	For the Nine Months Ended September 30, 2015
Cash flows from operating activities:		
Net increase in net assets resulting from operations	$ 54,582	$ 28,746
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by (used in) operating activities:		
Purchase of investments	(461,772)	(532,048)
Principal and fee payments received on investments	340,584	379,247
Proceeds from the sale of investments	16,701	16,523
Net unrealized depreciation on investments	16,072	33,042
Net realized loss (gain) on investments	(3,427)	(8,424)
Accretion of paid-in-kind principal	(5,317)	(2,796)
Accretion of loan discounts	(5,524)	(6,369)
Accretion of loan discount on Convertible Senior Notes	82	185
Loss on debt extinguishment (Long-Term Liabilities Convertible Senior Notes)		1
Payment of loan discount on Convertible Senior Notes		(5)
Accretion of loan exit fees	(16,679)	(10,493)
Change in deferred loan origination revenue	(253)	1,275
Unearned fees related to unfunded commitments	(308)	(271)
Amortization of debt fees and issuance costs	2,987	3,498
Depreciation	152	152
Stock-based compensation and amortization of restricted stock grants(1)	5,685	7,231
Change in operating assets and liabilities:		
Interest and fees receivable	(1,622)	925
Prepaid expenses and other assets	228	4,833
Accounts payable	56	171
Accrued liabilities	(729)	6,065
Net cash used in operating activities	(58,502)	(78,512)
Cash flows from investing activities:		
Purchases of capital equipment	(227)	(158)
Reduction of restricted cash	211	7,302
Net cash (used in) provided by investing activities	(16)	7,144
Cash flows from financing activities:		
Issuance of common stock, net	50,177	100,092
Repurchase of common stock, net	(4,790)	(4,498)
Retirement of employee shares	(2,134)	(3,993)
Dividend distributions paid	(67,065)	(63,649)
Issuance of 2024 Notes Payable	141,945	
Repayments of 2019 Notes Payable		(20,000)
Repayments of 2017 Asset-Backed Notes		(16,049)
Repayments of 2021 Asset-Backed Notes	(12,296)	
Borrowings of credit facilities	193,276	53,365
Repayments of credit facilities	(243,276)	(53,365)
Cash paid for debt issuance costs	(4,858)	
Cash paid for redemption of Convertible Senior Notes	(17,604)	(65)
Fees paid for credit facilities and debentures	(1,041)	(282)

Net cash provided by (used in) financing activities	32,334	(8,444)
Net decrease in cash and cash equivalents	(26,184)	(79,812)
Cash and cash equivalents at beginning of period	95,196	227,116
Cash and cash equivalents at end of period	$ 69,012	$ 147,304
Supplemental non-cash investing and financing activities:		
Dividend distributions reinvested	$ 1,343	$ 1,589

(1) Stock-based compensation includes $69 and $65 of restricted stock and option expense related to director compensation for the nine months ended September 30, 2016 and 2015, respectively.

See notes to consolidated financial statements.

Table of Contents

Index to Financial Statements

HERCULES CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 2016

(unaudited)

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment(1)	Maturity Date	Interest Rate and Floor	Principal Amount	Cost(2)	Value(3)
Debt Investments							
Biotechnology Tools							
1-5 Years Maturity							
Exicure, Inc.(11)(14A)	Biotechnology Tools	Senior Secured	September 2019	Interest rate PRIME + 6.45% or Floor rate of 9.95%	$ 6,000	$5,935	$5,996
Subtotal: 1-5 Years Maturity						5,935	5,996
Subtotal: Biotechnology Tools (0.80%)*						5,935	5,996
Communications & Networking							
Under 1 Year Maturity							
Avanti Communications Group(4)(9)	Communications & Networking	Senior Secured	October 2019	Interest rate FIXED 10.00%	$ 7,500	6,787	5,981
Achilles Technology Management Co II, Inc.(6)(13)(14B)	Communications & Networking	Senior Secured	August 2017	PIK Interest 10.50%	$ 1,001	991	991
OpenPeak, Inc.(7)	Communications & Networking	Senior Secured	April 2017	Interest rate PRIME + 8.75% or Floor rate of 12.00%	$ 12,211	8,975	
Subtotal: Under 1 Year Maturity						16,753	6,972
1-5 Years Maturity							
SkyCross, Inc.(6)(7)(13)(14B)(15)	Communications & Networking	Senior Secured	January 2018	Interest rate FIXED 10.95%, PIK Interest 5.00%	$ 16,758	16,900	
Spring Mobile Solutions, Inc.(12)(14B)	Communications & Networking	Senior Secured	January 2019	Interest rate PRIME + 6.70% or Floor rate of 9.95%	$ 3,000	3,010	3,002
Subtotal: 1-5 Years Maturity						19,910	3,002
Subtotal: Communications & Networking (1.32%)*						36,663	9,974
Consumer & Business Products							
Under 1 Year Maturity							

Antenna79 (p.k.a. Pong Research Corporation)(13)(14B)(14D)(15)	Consumer & Business Products	Senior Secured	November 2016	Interest rate PRIME + 6.75% or Floor rate of 10.00%, PIK Interest 2.50%	$ 4,302	4,628	4,071
	Consumer & Business Products	Senior Secured	November 2016	Interest rate PRIME + 8.75% or Floor rate of 12.00%	$ 156	156	137
Total Antenna79 (p.k.a. Pong Research Corporation)					$ 4,458	4,784	4,208
Miles, Inc. (p.k.a. Fluc, Inc.)(8)	Consumer & Business Products	Convertible Debt	March 2017	Interest rate FIXED 4.00%	$ 100	100	
Subtotal: Under 1 Year Maturity						4,884	4,208
1-5 Years Maturity							
Nasty Gal(14B)(15)	Consumer & Business Products	Senior Secured	May 2019	Interest rate PRIME + 5.45% or Floor rate of 8.95%	$ 15,000	15,249	5,000
Second Time Around (Simplify Holdings, LLC)(14A)(15)	Consumer & Business Products	Senior Secured	February 2019	Interest rate PRIME + 7.25% or Floor rate of 10.75%	$ 2,428	2,430	2,434
Subtotal: 1-5 Years Maturity						17,679	7,434
Subtotal: Consumer & Business Products (1.54%)*						22,563	11,642
Drug Delivery							
Under 1 Year Maturity							
Celsion Corporation(10)(14A)	Drug Delivery	Senior Secured	June 2017	Interest rate PRIME + 8.00% or Floor rate of 11.25%	$ 3,316	$3,617	$3,617
Subtotal: Under 1 Year Maturity						3,617	3,617
1-5 Years Maturity							
AcelRx Pharmaceuticals, Inc.(9)(10)(14A)(15)	Drug Delivery	Senior Secured	October 2017	Interest rate PRIME + 3.85% or Floor rate of 9.10%	$ 20,466	21,005	20,949
Agile Therapeutics, Inc.(10)(14A)	Drug Delivery	Senior Secured	December 2018	Interest rate PRIME + 4.75% or Floor rate of 9.00%	$ 16,500	16,413	16,390
Aprecia Pharmaceuticals Company(14A)	Drug Delivery	Senior Secured	January 2020	Interest rate PRIME + 5.75% or Floor rate of 9.25%	$ 20,000	19,555	19,555

See notes to consolidated financial statements.

Table of Contents

Index to Financial Statements

HERCULES CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 2016

(unaudited)

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment[1]	Maturity Date	Interest Rate and Floor	Principal Amount	Cost[2]	Value[3]
BioQ Pharma Incorporated[10][14A][14B]	Drug Delivery	Senior Secured	May 2018	Interest rate PRIME + 8.00% or Floor rate of 11.25%	$ 9,130	9,484	9,403
	Drug Delivery	Senior Secured	May 2018	Interest rate PRIME + 7.00% or Floor rate of 10.25%	$ 2,736	2,763	2,759
Total BioQ Pharma Incorporated					$ 11,866	12,247	12,162
Dance Biopharm, Inc.[7][14A][15]	Drug Delivery	Senior Secured	November 2017	Interest rate PRIME + 7.40% or Floor rate of 10.65%	$ 2,145	2,255	2,255
Edge Therapeutics, Inc.[14A][17]	Drug Delivery	Senior Secured	February 2020	Interest rate PRIME + 4.65% or Floor rate of 9.15%	$ 15,000	14,927	15,008
Pulmatrix Inc.[8][10][14A]	Drug Delivery	Senior Secured	July 2018	Interest rate PRIME + 6.25% or Floor rate of 9.50%	$ 6,588	6,611	6,625
ZP Opco, Inc (p.k.a. Zosano Pharma)[10][14A]	Drug Delivery	Senior Secured	December 2018	Interest rate PRIME + 2.70% or Floor rate of 7.95%	$ 13,636	13,774	13,718
Subtotal: 1-5 Years Maturity						106,787	106,662
Subtotal: Drug Delivery (14.63%)*						110,404	110,279
Drug Discovery & Development							
Under 1 Year Maturity							
Cerecor, Inc.[11][14A]	Drug Discovery & Development	Senior Secured	August 2017	Interest rate PRIME + 4.70% or Floor rate of 7.95%	$ 3,229	$ 3,324	$ 3,324
Neuralstem, Inc.[14A][15]	Drug Discovery & Development	Senior Secured	April 2017	Interest rate PRIME + 6.75% or Floor rate of 10.00%	$ 4,953	5,156	5,156
Subtotal: Under 1 Year Maturity						8,480	8,480
1-5 Years Maturity							
Auris Medical Holding, AG[4][9][14B]	Drug Discovery & Development	Senior Secured	January 2020	Interest rate PRIME + 6.05%	$ 12,500	12,206	12,206

				or Floor rate of 9.55%			
Aveo Pharmaceuticals, Inc.(9)(14A)(14B)	Drug Discovery & Development	Senior Secured	December 2019	Interest rate PRIME + 6.90% or Floor rate of 11.90%	$ 10,000	10,235	10,205
	Drug Discovery & Development	Senior Secured	December 2019	Interest rate PRIME + 6.90% or Floor rate of 11.90%	$ 5,000	4,898	4,898
Total Aveo Pharmaceuticals, Inc.					$ 15,000	15,133	15,103
Bellicum Pharmaceuticals, Inc.(14A)(14B)(15)	Drug Discovery & Development	Senior Secured	March 2020	Interest rate PRIME + 5.85% or Floor rate of 9.35%	$ 15,000	15,101	15,197
	Drug Discovery & Development	Senior Secured	March 2020	Interest rate PRIME + 5.85% or Floor rate of 9.35%	$ 5,000	4,960	4,999
Total Bellicum Pharmaceuticals, Inc.					$ 20,000	20,061	20,196
Brickell Biotech, Inc.(11)(14A)	Drug Discovery & Development	Senior Secured	September 2019	Interest rate PRIME + 5.70% or Floor rate of 9.20%	$ 7,500	7,452	7,459
Cerulean Pharma, Inc.(12)(14B)	Drug Discovery & Development	Senior Secured	July 2018	Interest rate PRIME + 1.55% or Floor rate of 7.30%	$ 15,115	15,858	15,768
CTI BioPharma Corp. (p.k.a. Cell Therapeutics, Inc.)(10)(14A)	Drug Discovery & Development	Senior Secured	December 2018	Interest rate PRIME + 7.70% or Floor rate of 10.95%	$ 21,421	22,218	22,444
CytRx Corporation(10)(14B)(15)	Drug Discovery & Development	Senior Secured	February 2020	Interest rate PRIME + 6.00% or Floor rate of 9.50%	$ 25,000	24,860	24,927
Epirus Biopharmaceuticals, Inc.(7)(14A)	Drug Discovery & Development	Senior Secured	April 2018	Interest rate PRIME + 4.70% or Floor rate of 7.95%	$ 3,111	3,394	
Genocea Biosciences, Inc.(10)(14A)(17)	Drug Discovery & Development	Senior Secured	January 2019	Interest rate PRIME + 2.25% or Floor rate of 7.25%	$ 17,000	17,234	17,340
Immune Pharmaceuticals(10)(14B)	Drug Discovery & Development	Senior Secured	September 2018	Interest rate PRIME + 4.75% or Floor rate of 10.00%	$ 3,692	3,725	2,224
Insmed, Incorporated(10)(14A)	Drug Discovery & Development	Senior Secured	October 2020	Interest rate PRIME + 4.75% or Floor rate of 9.25%	$ 35,000	34,681	34,681
Mast Therapeutics, Inc.(14A)(15)	Drug Discovery & Development	Senior Secured	January 2019	Interest rate PRIME + 5.70% or Floor rate of 8.95%	$ 13,706	13,766	13,818
Melinta Therapeutics(12)(14A)	Drug Discovery & Development	Senior Secured	June 2018	Interest rate PRIME + 3.75% or Floor rate of 8.25%	$ 27,283	27,630	27,539
Merrimack Pharmaceuticals, Inc.(9)	Drug Discovery & Development	Senior Secured	December 2022	Interest rate FIXED 11.50%	$ 25,000	25,000	25,250

See notes to consolidated financial statements.

Table of Contents

Index to Financial Statements

HERCULES CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 2016

(unaudited)

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment(1)	Maturity Date	Interest Rate and Floor	Principal Amount	Cost(2)	Value(3)
Metuchen Pharmaceuticals LLC(13)(14A)	Drug Discovery & Development	Senior Secured	October 2020	Interest rate PRIME + 7.25% or Floor rate of 10.75%, PIK Interest 1.35%	$ 35,000	34,339	34,339
Paratek Pharmaceuticals, Inc.(14A)(15)(17)	Drug Discovery & Development	Senior Secured	September 2020	Interest rate PRIME + 2.75% or Floor rate of 8.50%	$ 20,000	20,028	20,113
PhaseRx,Inc.(14B)(15)	Drug Discovery & Development	Senior Secured	December 2019	Interest rate PRIME + 5.75% or Floor rate of 9.25%	$ 6,000	5,866	5,866
uniQure B.V.(4)(9)(10)(14B)	Drug Discovery & Development	Senior Secured	May 2020	Interest rate PRIME + 3.00% or Floor rate of 8.25%	$ 20,000	20,024	20,016
XOMA Corporation(9)(14B)(15)	Drug Discovery & Development	Senior Secured	September 2018	Interest rate PRIME + 2.15% or Floor rate of 9.40%	$ 18,214	18,660	18,531
Subtotal: 1-5 Years Maturity						342,135	337,820
Subtotal: Drug Discovery & Development (45.95%)*						350,615	346,300
Electronics & Computer Hardware							
1-5 Years Maturity							
Persimmon Technologies(11)(14B)	Electronics & Computer Hardware	Senior Secured	June 2019	Interest rate PRIME + 7.50% or Floor rate of 11.00%	$ 7,000	$7,047	$7,047
Subtotal: 1-5 Years Maturity						7,047	7,047
Subtotal: Electronics & Computer Hardware (0.94%)*						7,047	7,047
Healthcare Services, Other							
1-5 Years Maturity							
InstaMed Communications, LLC(14B)(15)	Healthcare Services, Other	Senior Secured	February 2019	Interest rate PRIME + 6.75% or Floor rate of 10.00%	$ 10,000	10,276	10,300
PH Group Holdings	Healthcare Services, Other	Senior Secured	September 2020	Interest rate PRIME + 7.45%	$ 20,000	19,783	19,783

				or Floor rate of 10.95%			
Subtotal: 1-5 Years Maturity						30,059	30,083
Subtotal: Healthcare Services, Other (3.99%)*						30,059	30,083
Internet Consumer & Business Services							
1-5 Years Maturity							
Aria Systems, Inc.(10)(13)	Internet Consumer & Business Services	Senior Secured	June 2019	Interest rate PRIME + 3.20% or Floor rate of 6.95%, PIK Interest 1.95%	$ 2,051	2,033	1,717
	Internet Consumer & Business Services	Senior Secured	June 2019	Interest rate PRIME + 5.20% or Floor rate of 8.95%, PIK Interest 1.95%	$ 18,373	18,191	15,363
Total Aria Systems, Inc.					$ 20,424	20,224	17,080
CloudOne, Inc.(10)(14B)	Internet Consumer & Business Services	Senior Secured	April 2019	Interest rate PRIME + 6.35% or Floor rate of 9.85%	$ 5,000	5,034	5,060
LogicSource(14B)(15)	Internet Consumer & Business Services	Senior Secured	October 2019	Interest rate PRIME + 6.25% or Floor rate of 9.75%	$ 8,500	8,477	8,538
One Planet Ops Inc. (p.k.a. Reply! Inc.)	Internet Consumer & Business Services	Senior Secured	March 2019	Interest rate PRIME + 4.25% or Floor rate of 7.50%	$ 4,895	4,599	4,599
Snagajob.com, Inc.(12)(13)(14A)	Internet Consumer & Business Services	Senior Secured	July 2020	Interest rate PRIME + 5.15% or Floor rate of 9.15%, PIK Interest 1.95%	$ 35,120	34,219	34,218
Tectura Corporation(7)(8)(13)	Internet Consumer & Business Services	Senior Secured	June 2021	Interest rate FIXED 6.00%, PIK Interest 3.00%	$ 19,542	19,542	19,542
	Internet Consumer & Business Services	Senior Secured	June 2021	PIK Interest 8.00%	$ 11,015	240	
Total Tectura Corporation					$ 30,557	19,782	19,542
Subtotal: 1-5 Years Maturity						92,335	89,037
Subtotal: Internet Consumer & Business Services (11.82%)*						92,335	89,037

See notes to consolidated financial statements.

Table of Contents

Index to Financial Statements

HERCULES CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 2016

(unaudited)

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment[1]	Maturity Date	Interest Rate and Floor	Principal Amount	Cost[2]	Value[3]
Media/Content/Info							
1-5 Years Maturity							
Machine Zone, Inc.[13][16]	Media/Content/Info	Senior Secured	May 2018	Interest rate PRIME + 2.50% or Floor rate of 6.75%, PIK Interest 3.00%	$ 103,002	101,422	101,654
WP Technology, Inc. (Wattpad, Inc.)[4][9][11][14B]	Media/Content/Info	Senior Secured	April 2020	Interest rate PRIME + 4.75% or Floor rate of 8.25%	$ 5,000	5,000	5,043
Subtotal: 1-5 Years Maturity						106,422	106,697
Subtotal: Media/Content/Info (14.16%)*						106,422	106,697
Medical Devices & Equipment							
Under 1 Year Maturity							
InspireMD, Inc.[4][9][14B]	Medical Devices & Equipment	Senior Secured	June 2017	Interest rate PRIME + 5.00% or Floor rate of 10.50%	$ 3,301	$3,786	$3,786
Subtotal: Under 1 Year Maturity						3,786	3,786
1-5 Years Maturity							
Amedica Corporation[8][14B][15]	Medical Devices & Equipment	Senior Secured	January 2018	Interest rate PRIME + 9.20% or Floor rate of 12.45%	$ 8,981	10,257	10,214
Aspire Bariatrics, Inc.[14B][15]	Medical Devices & Equipment	Senior Secured	October 2018	Interest rate PRIME + 4.00% or Floor rate of 9.25%	$ 5,947	5,978	5,957
Avedro, Inc.[14A][15]	Medical Devices & Equipment	Senior Secured	June 2018	Interest rate PRIME + 6.00% or Floor rate of 9.25%	$ 11,272	11,386	11,377
Flowonix Medical Incorporated[12][14B]	Medical Devices & Equipment	Senior Secured	May 2018	Interest rate PRIME + 4.75% or Floor rate of 10.00%	$ 12,307	12,651	12,644
	Medical Devices & Equipment	Senior Secured	March 2019	Interest rate PRIME + 6.50% or Floor rate of 10.00%	$ 4,707	4,617	4,617

Total Flowonix Medical Incorporated					$ 17,014	17,268	17,261
Gamma Medica, Inc.(10)(14B)	Medical Devices & Equipment	Senior Secured	January 2018	Interest rate PRIME + 6.50% or Floor rate of 9.75%	$ 2,500	2,621	2,609
IntegenX, Inc.(14B)(15)	Medical Devices & Equipment	Senior Secured	June 2019	Interest rate PRIME + 6.05% or Floor rate of 10.05%	$ 12,500	12,464	12,464
Micell Technologies, Inc.(11)(14B)	Medical Devices & Equipment	Senior Secured	August 2019	Interest rate PRIME + 7.25% or Floor rate of 10.50%	$ 8,500	8,400	8,449
Quanta Fluid Solutions(4)(9)(10)(14B)	Medical Devices & Equipment	Senior Secured	April 2020	Interest rate PRIME + 8.05% or Floor rate of 11.55%	$ 12,500	12,479	12,456
Quanterix Corporation(10)(14A)	Medical Devices & Equipment	Senior Secured	February 2018	Interest rate PRIME + 2.75% or Floor rate of 8.00%	$ 11,327	11,566	11,618
SynergEyes, Inc.(14B)(15)	Medical Devices & Equipment	Senior Secured	January 2018	Interest rate PRIME + 7.75% or Floor rate of 11.00%	$ 2,847	3,228	3,178
Subtotal: 1-5 Years Maturity						95,647	95,583
Subtotal: Medical Devices & Equipment (13.19%)*						99,433	99,369
Semiconductors							
1-5 Years Maturity							
Achronix Semiconductor Corporation(14B)(15)	Semiconductors	Senior Secured	July 2018	Interest rate PRIME + 8.25% or Floor rate of 11.50%	$ 3,812	3,978	3,949
Avnera Corporation(10)(14A)	Semiconductors	Senior Secured	April 2018	Interest rate PRIME + 5.25% or Floor rate of 8.50%	$ 6,550	6,637	6,745
Subtotal: 1-5 Years Maturity						10,615	10,694
Subtotal: Semiconductors (1.42%)*						10,615	10,694
Software							
Under 1 Year Maturity							
JumpStart Games, Inc. (p.k.a. Knowledge Adventure, Inc.)(7)(13)(14C)(15)	Software	Senior Secured	November 2016	Interest rate FIXED 5.75%, PIK Interest 10.75%	$ 1,566	$1,698	$826
RedSeal Inc.(15)(17)	Software	Senior Secured	June 2017	Interest rate PRIME + 3.25% or Floor rate of 6.50%	$ 2,635	2,635	2,635
Subtotal: Under 1 Year Maturity						4,333	3,461

See notes to consolidated financial statements.

Table of Contents

Index to Financial Statements

HERCULES CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 2016

(unaudited)

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment(1)	Maturity Date	Interest Rate and Floor	Principal Amount	Cost(2)	Value(3)
1-5 Years Maturity							
Actifio, Inc.(13)(14A)	Software	Senior Secured	January 2019	Interest rate PRIME + 4.25% or Floor rate of 8.25%, PIK Interest 2.25%	$ 30,786	30,625	30,598
	Software	Senior Secured	January 2019	Interest rate PRIME + 4.75% or Floor rate of 8.75%, PIK Interest 2.50%	$ 10,107	9,787	9,870
Total Actifio, Inc.					$ 40,893	40,412	40,468
Clickfox, Inc.(14C)	Software	Senior Secured	May 2018	Interest rate PRIME + 8.00% or Floor rate of 11.50%	$ 12,000	11,979	11,979
Druva, Inc.(10)(12)(14B)(17)	Software	Senior Secured	March 2018	Interest rate PRIME + 4.60% or Floor rate of 7.85%	$ 10,877	11,241	11,228
	Software	Senior Secured	May 2018	Interest rate PRIME + 4.60% or Floor rate of 7.85%	$ 5,000	5,029	5,029
Total Druva, Inc.					$ 15,877	16,270	16,257
Evernote Corporation(15)(17)	Software	Senior Secured	October 2020	Interest rate PRIME + 5.45% or Floor rate of 8.95%	$ 6,000	5,958	5,958
JumpStart Games, Inc. (p.k.a. Knowledge Adventure, Inc.)(7)(13)(14A)(15)	Software	Senior Secured	March 2018	Interest rate FIXED 5.75%, PIK Interest 10.75%	$ 13,000	12,747	6,198
Mattersight Corporation(13)	Software	Senior Secured	February 2020	Interest rate PRIME + 6.25% or Floor rate of 9.75%, PIK Interest 2.15%	$ 22,542	21,835	21,835
Message Systems, Inc.(14A)(15)	Software	Senior Secured	February 2019	Interest rate PRIME + 7.25% or Floor rate of 10.50%	$ 17,500	17,101	17,129
OneLogin, Inc.(13)(15)	Software		August 2019	Interest rate PRIME + 6.45%	$ 13,251	13,119	13,257

		Senior Secured		or Floor rate of 9.95%, PIK Interest 3.25%			
Quid, Inc.(13)(14A)(15)	Software	Senior Secured	October 2019	Interest rate PRIME + 4.75% or Floor rate of 8.25%, PIK Interest 2.25%	$ 8,070	8,044	8,044
RedSeal Inc.(14A)(15)(17)	Software	Senior Secured	June 2018	Interest rate PRIME + 7.75% or Floor rate of 11.00%	$ 5,000	5,095	5,058
Signpost, Inc.(13)(14A)(15)	Software	Senior Secured	February 2020	Interest rate PRIME + 4.15% or Floor rate of 8.15%, PIK Interest 1.75%	$ 15,170	14,882	14,961
Subtotal: 1-5 Years Maturity						167,442	161,144
Subtotal: Software (21.84%)*						171,775	164,605
Specialty Pharmaceuticals							
1-5 Years Maturity							
Alimera Sciences, Inc.(10)(14A)	Specialty Pharmaceuticals	Senior Secured	May 2018	Interest rate PRIME + 7.65% or Floor rate of 10.90%	$ 35,000	34,667	34,714
Jaguar Animal Health, Inc.(10)(14B)	Specialty Pharmaceuticals	Senior Secured	August 2018	Interest rate PRIME + 5.65% or Floor rate of 9.90%	$ 3,989	4,242	4,166
Subtotal: 1-5 Years Maturity						38,909	38,880
Subtotal: Specialty Pharmaceuticals (5.16%)*						38,909	38,880
Surgical Devices							
1-5 Years Maturity							
Transmedics, Inc.(12)(14B)	Surgical Devices	Senior Secured	February 2020	Interest rate PRIME + 5.30% or Floor rate of 9.55%	$ 8,500	8,437	8,461
Subtotal: 1-5 Years Maturity						8,437	8,461
Subtotal: Surgical Devices (1.12%)*						8,437	8,461

See notes to consolidated financial statements.

Table of Contents

Index to Financial Statements

HERCULES CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 2016

(unaudited)

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment(1)	Maturity Date	Interest Rate and Floor	Principal Amount	Cost(2)	Value(3)
Sustainable and Renewable Technology							
Under 1 Year Maturity							
Agrivida, Inc.(14B)(15)	Sustainable and Renewable Technology	Senior Secured	December 2016	Interest rate PRIME + 6.75% or Floor rate of 10.00%	$ 2,592	$2,881	$2,881
American Superconductor Corporation(10)(14B)	Sustainable and Renewable Technology	Senior Secured	November 2016	Interest rate PRIME + 7.25% or Floor rate of 11.00%	$ 667	1,166	1,166
	Sustainable and Renewable Technology	Senior Secured	June 2017	Interest rate PRIME + 7.25% or Floor rate of 11.00%	$ 1,500	1,536	1,536
Total American Superconductor Corporation					$ 2,167	2,702	2,702
Modumetal, Inc.(11)(14D)	Sustainable and Renewable Technology	Senior Secured	March 2017	Interest rate PRIME + 8.70% or Floor rate of 11.95%	$ 738	1,217	1,217
Stion Corporation(5)(14A)	Sustainable and Renewable Technology	Senior Secured	February 2017	Interest rate PRIME + 8.75% or Floor rate of 12.00%	$ 821	821	821
Subtotal: Under 1 Year Maturity						7,621	7,621
1-5 Years Maturity							
FuelCell Energy, Inc.(11)(14B)	Sustainable and Renewable Technology	Senior Secured	October 2018	Interest rate PRIME + 5.50% or Floor rate of 9.50%	$ 20,000	20,278	20,434
Modumetal, Inc.(11)(14C)	Sustainable and Renewable Technology	Senior Secured	October 2017	Interest rate PRIME + 6.00% or Floor rate of 9.25%	$ 4,326	4,933	4,870
Plug Power, Inc.(9)(12)(14B)	Sustainable and Renewable Technology	Senior Secured	June 2019	Interest rate PRIME + 6.45% or Floor rate of 10.45%	$ 25,000	24,916	24,916
Proterra, Inc.(10)(14B)	Sustainable and Renewable Technology	Senior Secured	December 2018	Interest rate PRIME + 6.95% or Floor rate of 10.20%	$ 30,000	30,470	30,714
Rive Technology, Inc.(14A)(15)	Sustainable and Renewable Technology	Senior Secured	January 2019	Interest rate PRIME + 6.20% or Floor rate of 9.45%	$ 7,500	7,539	7,562
Sungevity, Inc.(12)(14D)	Sustainable and Renewable Technology	Senior Secured	October 2017	Interest rate PRIME + 3.70%	$ 35,000	38,743	38,811

				or Floor rate of 6.95%			
	Sustainable and Renewable Technology	Senior Secured	October 2017	Interest rate PRIME + 3.70% or Floor rate of 6.95%	$ 20,000	20,000	20,118
Total Sungevity, Inc.					$ 55,000	58,743	58,929
Tendril Networks(11)(14B)	Sustainable and Renewable Technology	Senior Secured	June 2019	Interest rate FIXED 7.25%	$ 15,000	15,241	15,134
Verdezyne, Inc.(14B)(15)	Sustainable and Renewable Technology	Senior Secured	April 2019	Interest rate PRIME + 8.25% or Floor rate of 11.75%	$ 15,000	14,928	14,877
Subtotal: 1-5 Years Maturity						177,048	177,436
Subtotal: Sustainable and Renewable Technology (24.56%)*						184,669	185,057
Total Debt Investments (162.44%)*						1,275,881	1,224,121

See notes to consolidated financial statements.

Table of Contents

Index to Financial Statements

HERCULES CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 2016

(unaudited)

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment[1]	Series	Shares	Cost[2]	Value[3]
Equity Investments						
Biotechnology Tools						
NuGEN Technologies, Inc.[15]	Biotechnology Tools	Equity	Preferred Series C	189,394	$ 500	$ 606
Subtotal: Biotechnology Tools (0.08%)*					500	606
Communications & Networking						
Achilles Technology Management Co II, Inc.[6][15]	Communications & Networking	Equity	Common Stock	10,000	4,000	4,000
GlowPoint, Inc.[3]	Communications & Networking	Equity	Common Stock	114,192	102	32
Peerless Network, Inc.	Communications & Networking	Equity	Preferred Series A	1,000,000	1,000	4,584
Subtotal: Communications & Networking (1.14%)*					5,102	8,616
Consumer & Business Products						
Market Force Information, Inc.	Consumer & Business Products	Equity	Common Stock	480,261		252
	Consumer & Business Products	Equity	Preferred Series B-1	187,970	500	263
Total Market Force Information, Inc.				668,231	500	515
Subtotal: Consumer & Business Products (0.07%)*					500	515
Diagnostic						
Singulex, Inc.	Diagnostic	Equity	Common Stock	937,998	750	551
Subtotal: Diagnostic (0.07%)*					750	551
Drug Delivery						
AcelRx Pharmaceuticals, Inc.[3][9]	Drug Delivery	Equity	Common Stock	54,240	108	211
BioQ Pharma Incorporated[15]	Drug Delivery	Equity	Preferred Series D	165,000	500	740
Edge Therapeutics, Inc.[3]	Drug Delivery	Equity	Common Stock	161,856	1,000	1,685
Merrion Pharmaceuticals, Plc[3][4][9]	Drug Delivery	Equity	Common Stock	20,000	9	
Neos Therapeutics, Inc.[3][15]	Drug Delivery	Equity	Common Stock	125,000	1,500	823
Revance Therapeutics, Inc.[3]	Drug Delivery	Equity	Common Stock	22,765	557	369
Subtotal: Drug Delivery (0.51%)*					3,674	3,828

Drug Discovery & Development						
Aveo Pharmaceuticals, Inc.[3][9][15]	Drug Discovery & Development	Equity	Common Stock	426,931	1,060	367
Cerecor, Inc.[3]	Drug Discovery & Development	Equity	Common Stock	119,087	1,000	504
Cerulean Pharma, Inc.[3]	Drug Discovery & Development	Equity	Common Stock	135,501	1,000	142
Dicerna Pharmaceuticals, Inc.[3][15]	Drug Discovery & Development	Equity	Common Stock	142,858	1,000	840
Dynavax Technologies[3][9]	Drug Discovery & Development	Equity	Common Stock	20,000	550	210
Epirus Biopharmaceuticals, Inc.[3]	Drug Discovery & Development	Equity	Common Stock	200,000	1,000	
Genocea Biosciences, Inc.[3]	Drug Discovery & Development	Equity	Common Stock	223,463	2,000	1,144
Inotek Pharmaceuticals Corporation[3]	Drug Discovery & Development	Equity	Common Stock	3,778	1,500	36
Insmed, Incorporated[3]	Drug Discovery & Development	Equity	Common Stock	70,771	1,000	1,028
Melinta Therapeutics	Drug Discovery & Development	Equity	Preferred Series 4	1,914,448	2,000	2,164
Paratek Pharmaceuticals, Inc. (p.k.a. Transcept Pharmaceuticals, Inc.)[3]	Drug Discovery & Development	Equity	Common Stock	76,362	2,743	993
Subtotal: Drug Discovery & Development (0.99%)*					14,853	7,428

See notes to consolidated financial statements.

Table of Contents

Index to Financial Statements

HERCULES CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 2016

(unaudited)

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment(1)	Series	Shares	Cost(2)	Value(3)
Electronics & Computer Hardware						
Identiv, Inc.(3)	Electronics & Computer Hardware	Equity	Common Stock	6,700	34	14
Subtotal: Electronics & Computer Hardware (0.00%)*					34	14
Internet Consumer & Business Services						
Blurb, Inc.(15)	Internet Consumer & Business Services	Equity	Preferred Series B	220,653	175	199
Lightspeed POS, Inc.(4)(9)	Internet Consumer & Business Services	Equity	Preferred Series C	230,030	250	278
	Internet Consumer & Business Services	Equity	Preferred Series D	198,677	250	264
Total Lightspeed POS, Inc.				428,707	500	542
Oportun (p.k.a. Progress Financial)	Internet Consumer & Business Services	Equity	Preferred Series G	218,351	250	373
	Internet Consumer & Business Services	Equity	Preferred Series H	87,802	250	244
Total Oportun (p.k.a. Progress Financial)				306,153	500	617
Philotic, Inc.	Internet Consumer & Business Services	Equity	Common Stock	9,023	93	
RazorGator Interactive Group, Inc.	Internet Consumer & Business Services	Equity	Preferred Series AA	34,783	15	41
Tectura Corporation	Internet Consumer & Business Services	Equity	Preferred Series BB	1,000,000		
Subtotal: Internet Consumer & Business Services (0.19%)*					1,283	1,399
Medical Devices & Equipment						
AtriCure, Inc.(3)(15)	Medical Devices & Equipment	Equity	Common Stock	7,536	$ 266	$ 119
Flowonix Medical Incorporated	Medical Devices & Equipment	Equity	Preferred Series E	221,893	1,500	1,618
Gelesis, Inc.(15)	Medical Devices & Equipment	Equity	Common Stock	198,202		894
	Medical Devices & Equipment	Equity	Preferred Series A-1	191,210	425	954
	Medical Devices & Equipment	Equity	Preferred Series A-2	191,626	500	909
Total Gelesis, Inc.				581,038	925	2,757

Medrobotics Corporation[15]	Medical Devices & Equipment	Equity	Preferred Series E	136,798	250	245
	Medical Devices & Equipment	Equity	Preferred Series F	73,971	155	198
	Medical Devices & Equipment	Equity	Preferred Series G	163,934	500	536
Total Medrobotics Corporation				374,703	905	979
Optiscan Biomedical, Corp.[5][15]	Medical Devices & Equipment	Equity	Preferred Series B	6,185,567	3,000	320
	Medical Devices & Equipment	Equity	Preferred Series C	1,927,309	655	93
	Medical Devices & Equipment	Equity	Preferred Series D	55,103,923	5,257	3,465
	Medical Devices & Equipment	Equity	Preferred Series E	11,508,204	963	1,056
Total Optiscan Biomedical, Corp.				74,725,003	9,875	4,934
Outset Medical, Inc. (p.k.a. Home Dialysis Plus, Inc.)	Medical Devices & Equipment	Equity	Preferred Series B	232,061	527	610
Quanterix Corporation	Medical Devices & Equipment	Equity	Preferred Series D	272,479	1,000	1,106
Subtotal: Medical Devices & Equipment (1.61%)*					14,998	12,123

See notes to consolidated financial statements.

Table of Contents

Index to Financial Statements

HERCULES CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 2016

(unaudited)

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment[1]	Series	Shares	Cost[2]	Value[3]
Software						
Box, Inc.[3][15]	Software	Equity	Common Stock	647,200	4,775	9,980
CapLinked, Inc.	Software	Equity	Preferred Series A-3	53,614	51	87
Druva, Inc.	Software	Equity	Preferred Series 2	458,841	1,001	1,338
ForeScout Technologies, Inc.	Software	Equity	Preferred Series D	319,099	398	1,590
	Software	Equity	Preferred Series E	80,587	131	405
Total ForeScout Technologies, Inc.				399,686	529	1,995
HighRoads, Inc.	Software	Equity	Preferred Series B	190,170	307	
NewVoiceMedia Limited[4][9]	Software	Equity	Preferred Series E	669,173	963	1,124
Nuance Communications, Inc.[3][15]	Software	Equity	Common Stock	91,027	546	1,068
Palantir Technologies	Software	Equity	Preferred Series E	727,696	5,431	5,431
WildTangent, Inc.[15]	Software	Equity	Preferred Series 3	100,000	402	169
Subtotal: Software (2.81%)*					14,005	21,192
Specialty Pharmaceuticals						
QuatRx Pharmaceuticals Company	Specialty Pharmaceuticals	Equity	Preferred Series E	241,829	750	
	Specialty Pharmaceuticals	Equity	Preferred Series E-1	26,955		
	Specialty Pharmaceuticals	Equity	Preferred Series G	4,667,636		
Total QuatRx Pharmaceuticals Company				4,936,420	750	
Subtotal: Specialty Pharmaceuticals (0.00%)*					750	
Surgical Devices						
Gynesonics, Inc.[15]	Surgical Devices	Equity	Preferred Series B	219,298	250	45
	Surgical Devices	Equity	Preferred Series C	656,538	282	66
	Surgical Devices	Equity	Preferred Series D	1,991,157	712	694
	Surgical Devices	Equity	Preferred Series E	2,786,367	429	483
Total Gynesonics, Inc.				5,653,360	1,673	1,288
Transmedics, Inc.	Surgical Devices	Equity	Preferred Series B	88,961	1,100	405
	Surgical Devices	Equity	Preferred Series C	119,999	300	309
	Surgical Devices	Equity	Preferred Series D	260,000	650	1,018
	Surgical Devices	Equity	Preferred Series F	100,200	500	550
Total Transmedics, Inc.				569,160	2,550	2,282

Subtotal: Surgical Devices (0.47%)*					4,223	3,570
Sustainable and Renewable Technology						
Glori Energy, Inc.(3)	Sustainable and Renewable Technology	Equity	Common Stock	18,208	165	2
Modumetal, Inc.	Sustainable and Renewable Technology	Equity	Preferred Series C	3,107,520	500	498
Flywheel Building Intelligence, Inc. (p.k.a. SCIEnergy, Inc.)	Sustainable and Renewable Technology	Equity	Common Stock	19,250	761	
Sungevity, Inc.(15)	Sustainable and Renewable Technology	Equity	Preferred Series D	68,807,339	6,750	6,750
TPI Composites, Inc.(3)	Sustainable and Renewable Technology	Equity	Common Stock	78,018	273	1,659
Subtotal: Sustainable and Renewable Technology (1.18%)*					8,449	8,909
Subtotal: Equity					69,121	68,751
Warrant Investments						
Biotechnology Tools						
Exicure, Inc.	Biotechnology Tools	Warrant	Preferred Series C	104,348	$ 107	$ 176
Labcyte, Inc.(15)	Biotechnology Tools	Warrant	Preferred Series C	1,127,624	323	450
Subtotal: Biotechnology Tools (0.08%)*					430	626

See notes to consolidated financial statements.

Table of Contents

Index to Financial Statements

HERCULES CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 2016

(unaudited)

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment[1]	Series	Shares	Cost[2]	Value[3]
Communications & Networking						
Intelepeer, Inc.[15]	Communications & Networking	Warrant	Common Stock	117,958	102	
OpenPeak, Inc.	Communications & Networking	Warrant	Common Stock	108,982	149	
PeerApp, Inc.	Communications & Networking	Warrant	Preferred Series B	298,779	61	13
Peerless Network, Inc.	Communications & Networking	Warrant	Preferred Series A	135,000	95	367
SkyCross, Inc.[6][15]	Communications & Networking	Warrant	Preferred Series F	9,762,777	394	
Spring Mobile Solutions, Inc.	Communications & Networking	Warrant	Preferred Series D	2,834,375	418	15
Subtotal: Communications & Networking (0.05%)*					1,219	395
Consumer & Business Products						
Antenna79 (p.k.a. Pong Research Corporation)[15]	Consumer & Business Products	Warrant	Preferred Series A	1,662,441	228	
Intelligent Beauty, Inc.[15]	Consumer & Business Products	Warrant	Preferred Series B	190,234	230	378
IronPlanet, Inc.	Consumer & Business Products	Warrant	Preferred Series D	1,155,821	1,076	6,220
Nasty Gal[15]	Consumer & Business Products	Warrant	Preferred Series C	845,194	23	
The Neat Company[15]	Consumer & Business Products	Warrant	Preferred Series C-1	540,540	365	
Subtotal: Consumer & Business Products (0.88%)*					1,922	6,598
Diagnostic						
Navidea Biopharmaceuticals, Inc. (p.k.a. Neoprobe)[3][15]	Diagnostic	Warrant	Common Stock	333,333	244	30
Subtotal: Diagnostic (0.00%)*					244	30
Drug Delivery						
AcelRx Pharmaceuticals, Inc.[3][9][15]	Drug Delivery	Warrant	Common Stock	176,730	785	219
Agile Therapeutics, Inc.[3]	Drug Delivery	Warrant	Common Stock	180,274	730	419
Aprecia Pharmaceuticals Company	Drug Delivery	Warrant	Preferred Series A-1	735,981	366	301
BIND Therapeutics, Inc.[3][15]	Drug Delivery	Warrant	Common Stock	152,586	488	
BioQ Pharma Incorporated	Drug Delivery	Warrant	Common Stock	459,183	1	668
Celsion Corporation[3]	Drug Delivery	Warrant	Common Stock	194,986	428	2

Dance Biopharm, Inc.(15)	Drug Delivery	Warrant	Common Stock	110,882	74	
Edge Therapeutics, Inc.(3)	Drug Delivery	Warrant	Common Stock	78,595	390	292
Kaleo, Inc. (p.k.a. Intelliject, Inc.)	Drug Delivery	Warrant	Preferred Series B	82,500	594	413
Neos Therapeutics, Inc.(3)(15)	Drug Delivery	Warrant	Common Stock	70,833	285	27
Pulmatrix Inc.(3)	Drug Delivery	Warrant	Common Stock	25,150	116	2
ZP Opco, Inc (p.k.a. Zosano Pharma)(3)	Drug Delivery	Warrant	Common Stock	72,379	266	
Subtotal: Drug Delivery (0.31%)*					4,523	2,343
Drug Discovery & Development						
ADMA Biologics, Inc.(3)	Drug Discovery & Development	Warrant	Common Stock	89,750	$ 295	$ 107
Anthera Pharmaceuticals, Inc.(3)(15)	Drug Discovery & Development	Warrant	Common Stock	40,178	984	
Auris Medical Holding, AG(3)(4)(9)	Drug Discovery & Development	Warrant	Common Stock	156,726	249	99
Aveo Pharmaceuticals, Inc.(3)(9)	Drug Discovery & Development	Warrant	Common Stock	2,069,880	396	418
Brickell Biotech, Inc.	Drug Discovery & Development	Warrant	Preferred Series C	26,086	119	72
Cerecor, Inc.(3)	Drug Discovery & Development	Warrant	Common Stock	22,328	70	12

See notes to consolidated financial statements.

Table of Contents

Index to Financial Statements

HERCULES CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 2016

(unaudited)

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment[1]	Series	Shares	Cost[2]	Value[3]
Cerulean Pharma, Inc.[3]	Drug Discovery & Development	Warrant	Common Stock	171,901	369	33
Chroma Therapeutics, Ltd.[4][9]	Drug Discovery & Development	Warrant	Preferred Series D	325,261	490	
Cleveland BioLabs, Inc.[3][15]	Drug Discovery & Development	Warrant	Common Stock	7,813	105	
Concert Pharmaceuticals, Inc.[3]	Drug Discovery & Development	Warrant	Common Stock	70,796	367	48
CTI BioPharma Corp. (p.k.a. Cell Therapeutics, Inc.)[3]	Drug Discovery & Development	Warrant	Common Stock	292,398	165	6
CytRx Corporation[3][15]	Drug Discovery & Development	Warrant	Common Stock	634,146	416	149
Dicerna Pharmaceuticals, Inc.[3][15]	Drug Discovery & Development	Warrant	Common Stock	200	28	
Epirus Biopharmaceuticals, Inc.[3]	Drug Discovery & Development	Warrant	Common Stock	64,194	276	
Fortress Biotech, Inc. (p.k.a. Coronado Biosciences, Inc.)[3]	Drug Discovery & Development	Warrant	Common Stock	73,009	142	13
Genocea Biosciences, Inc.[3]	Drug Discovery & Development	Warrant	Common Stock	73,725	266	108
Immune Pharmaceuticals[3]	Drug Discovery & Development	Warrant	Common Stock	214,853	164	
Mast Therapeutics, Inc.[3][15]	Drug Discovery & Development	Warrant	Common Stock	2,272,724	203	114
Melinta Therapeutics	Drug Discovery & Development	Warrant	Preferred Series 3	1,382,323	626	211
Nanotherapeutics, Inc.[15]	Drug Discovery & Development	Warrant	Common Stock	171,389	838	949
Neothetics, Inc. (p.k.a. Lithera, Inc)[3][15]	Drug Discovery & Development	Warrant	Common Stock	46,838	266	22
Neuralstem, Inc.[3][15]	Drug Discovery & Development	Warrant	Common Stock	75,187	77	2
Paratek Pharmaceuticals, Inc. (p.k.a. Transcept Pharmaceuticals, Inc.)[3][15]	Drug Discovery & Development	Warrant	Common Stock	16,346	42	14
PhaseRx,Inc.[3][15]	Drug Discovery & Development	Warrant	Common Stock	63,000	125	39
uniQure B.V.[3][4][9]	Drug Discovery & Development	Warrant	Common Stock	37,174	218	24
XOMA Corporation[3][9][15]	Drug Discovery & Development	Warrant	Common Stock	181,268	279	22
Subtotal: Drug Discovery & Development (0.33%)					7,575	2,462
Electronics & Computer Hardware						
Clustrix, Inc.		Warrant	Common Stock	50,000	12	

	Electronics & Computer Hardware					
Persimmon Technologies	Electronics & Computer Hardware	Warrant	Preferred Series C	43,076	40	
Subtotal: Electronics & Computer Hardware (0.00%)*					52	
Healthcare Services, Other						
Chromadex Corporation(3)(9)(15)	Healthcare Services, Other	Warrant	Common Stock	139,673	157	115
Subtotal: Healthcare Services, Other (0.02%)*					157	115
Information Services						
Cha Cha Search, Inc.(15)	Information Services	Warrant	Preferred Series G	48,232	58	
INMOBI Inc.(4)(9)	Information Services	Warrant	Common Stock	46,874	82	
InXpo, Inc.(15)	Information Services	Warrant	Preferred Series C	648,400	98	2
	Information Services	Warrant	Preferred Series C-1	1,165,183	74	
Total InXpo, Inc.				1,813,583	172	2
RichRelevance, Inc.(15)	Information Services	Warrant	Preferred Series E	112,612	98	
Subtotal: Information Services (0.00%)*					410	2

See notes to consolidated financial statements.

Table of Contents

Index to Financial Statements

HERCULES CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 2016

(unaudited)

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment[1]	Series	Shares	Cost[2]	Value[3]
Internet Consumer & Business Services						
Aria Systems, Inc.	Internet Consumer & Business Services	Warrant	Preferred Series E	239,692	$ 73	$
Blurb, Inc.[15]	Internet Consumer & Business Services	Warrant	Preferred Series C	234,280	636	95
CashStar, Inc.[15]	Internet Consumer & Business Services	Warrant	Preferred Series C-2	727,272	130	19
CloudOne, Inc.	Internet Consumer & Business Services	Warrant	Preferred Series E	968,992	19	30
Just Fabulous, Inc.	Internet Consumer & Business Services	Warrant	Preferred Series B	206,184	1,102	1,166
Lightspeed POS, Inc.[4][9]	Internet Consumer & Business Services	Warrant	Preferred Series C	245,610	20	75
LogicSource[15]	Internet Consumer & Business Services	Warrant	Preferred Series C	79,625	30	65
Oportun (p.k.a. Progress Financial)	Internet Consumer & Business Services	Warrant	Preferred Series G	174,562	78	135
Prism Education Group, Inc.[15]	Internet Consumer & Business Services	Warrant	Preferred Series B	200,000	43	
ShareThis, Inc.[15]	Internet Consumer & Business Services	Warrant	Preferred Series C	493,502	547	1
Snagajob.com, Inc.	Internet Consumer & Business Services	Warrant	Preferred Series A	1,575,000	640	716
Tapjoy, Inc.	Internet Consumer & Business Services	Warrant	Preferred Series D	748,670	316	177
Tectura Corporation	Internet Consumer & Business Services	Warrant	Preferred Series B-1	253,378	51	
Subtotal: Internet Consumer & Business Services (0.33%)*					3,685	2,479
Media/Content/Info						
Machine Zone, Inc.[16]	Media/Content/Info	Warrant	Common Stock	1,552,710	1,958	2,793
Rhapsody International, Inc.[15]	Media/Content/Info	Warrant	Common Stock	715,755	385	101
WP Technology, Inc. (Wattpad, Inc.)[4][9]	Media/Content/Info	Warrant	Common Stock	127,909	1	1
Zoom Media Group, Inc.	Media/Content/Info	Warrant	Preferred Series A	1,204	348	11
Subtotal: Media/Content/Info (0.39%)*					2,692	2,906
Medical Devices & Equipment						
Amedica Corporation[3][15]	Medical Devices & Equipment	Warrant	Common Stock	103,225	459	32
Aspire Bariatrics, Inc.[15]	Medical Devices & Equipment	Warrant	Preferred Series D	395,000	455	262
Avedro, Inc.[15]		Warrant	Preferred Series AA	300,000	401	241

	Medical Devices & Equipment					
Flowonix Medical Incorporated	Medical Devices & Equipment	Warrant	Preferred Series E	155,325	362	430
Gamma Medica, Inc.	Medical Devices & Equipment	Warrant	Preferred Series A	450,956	170	239
Gelesis, Inc.(15)	Medical Devices & Equipment	Warrant	Preferred Series A-1	74,784	78	219
InspireMD, Inc.(3)(4)(9)	Medical Devices & Equipment	Warrant	Common Stock	984,111	242	14
IntegenX, Inc.(15)	Medical Devices & Equipment	Warrant	Preferred Series C	547,752	15	29
Medrobotics Corporation(15)	Medical Devices & Equipment	Warrant	Preferred Series E	455,539	370	375
Micell Technologies, Inc.	Medical Devices & Equipment	Warrant	Preferred Series D-2	84,955	262	371
NetBio, Inc.	Medical Devices & Equipment	Warrant	Common Stock	2,568	408	39
NinePoint Medical, Inc.(15)	Medical Devices & Equipment	Warrant	Preferred Series A-1	587,840	170	82

See notes to consolidated financial statements.

Table of Contents

Index to Financial Statements

HERCULES CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 2016

(unaudited)

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment[1]	Series	Shares	Cost[2]	Value[3]
Optiscan Biomedical, Corp.[5][15]	Medical Devices & Equipment	Warrant	Preferred Series D	10,535,275	1,252	168
Outset Medical, Inc. (p.k.a. Home Dialysis Plus, Inc.)	Medical Devices & Equipment	Warrant	Preferred Series A	500,000	402	429
Quanterix Corporation	Medical Devices & Equipment	Warrant	Preferred Series C	173,428	180	135
SonaCare Medical, LLC (p.k.a. US HIFU, LLC)	Medical Devices & Equipment	Warrant	Preferred Series A	6,464	188	
Strata Skin Sciences, Inc. (p.k.a. MELA Sciences, Inc.)[3]	Medical Devices & Equipment	Warrant	Common Stock	69,320	402	
ViewRay, Inc.[3][15]	Medical Devices & Equipment	Warrant	Common Stock	128,231	333	31
Subtotal: Medical Devices & Equipment (0.41%)*					6,149	3,096
Semiconductors						
Achronix Semiconductor Corporation[15]	Semiconductors	Warrant	Preferred Series C	360,000	160	62
	Semiconductors	Warrant	Preferred Series D-1	500,000	7	17
Total Achronix Semiconductor Corporation				860,000	167	79
Aquantia Corp.	Semiconductors	Warrant	Preferred Series G	196,831	4	70
Avnera Corporation	Semiconductors	Warrant	Preferred Series E	141,567	46	82
Subtotal: Semiconductors (0.03%)*					217	231
Software						
Actifio, Inc.	Software	Warrant	Common Stock	73,584	$ 249	$ 137
	Software	Warrant	Preferred Series F	31,673	343	76
Total Actifio, Inc.				105,257	592	213
Braxton Technologies, LLC	Software	Warrant	Preferred Series A	168,750	188	
CareCloud Corporation[15]	Software	Warrant	Preferred Series B	413,433	258	524
Clickfox, Inc.[15]	Software	Warrant	Preferred Series B	1,038,563	330	67
	Software	Warrant	Preferred Series C	592,019	730	81
	Software	Warrant	Preferred Series C-A	2,218,214	230	144
Total Clickfox, Inc.				3,848,796	1,290	292
Evernote Corporation[15]	Software	Warrant	Common Stock	62,500	106	106
Hillcrest Laboratories, Inc.[15]	Software	Warrant	Preferred Series E	1,865,650	55	136
JumpStart Games, Inc. (p.k.a Knowledge Holdings, Inc.)[15]	Software	Warrant	Preferred Series E	614,333	16	
Mattersight Corporation[3]	Software	Warrant	Common Stock	357,143	538	490
Message Systems, Inc.[15]	Software	Warrant	Preferred Series C	503,718	334	245

Mobile Posse, Inc.[15]	Software	Warrant	Preferred Series C	396,430	130	91
Neos, Inc.[15]	Software	Warrant	Common Stock	221,150	22	100
NewVoiceMedia Limited[4][9]	Software	Warrant	Preferred Series E	225,586	33	79
OneLogin, Inc.[15]	Software	Warrant	Common Stock	228,972	150	241
Poplicus, Inc.[15]	Software	Warrant	Preferred Series C	2,595,230		81
Quid, Inc.[15]	Software	Warrant	Preferred Series D	71,576	1	4
Signpost, Inc.[15]	Software	Warrant	Preferred Series C	324,005	314	276
Soasta, Inc.[15]	Software	Warrant	Preferred Series E	410,800	691	250
Sonian, Inc.[15]	Software	Warrant	Preferred Series C	185,949	106	61
Subtotal: Software (0.42%)*					4,824	3,189
Specialty Pharmaceuticals						
Alimera Sciences, Inc.[3]	Specialty Pharmaceuticals	Warrant	Common Stock	1,258,993	728	586
QuatRx Pharmaceuticals Company	Specialty Pharmaceuticals	Warrant	Preferred Series E	155,324	308	
Subtotal: Specialty Pharmaceuticals (0.08%)*					1,036	586
Surgical Devices						
Gynesonics, Inc.[15]	Surgical Devices	Warrant	Preferred Series C	180,480	75	16
	Surgical Devices	Warrant	Preferred Series D	1,575,965	320	268
Total Gynesonics, Inc.				1,756,445	395	284

See notes to consolidated financial statements.

Table of Contents

Index to Financial Statements

HERCULES CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 2016

(unaudited)

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment[1]	Series	Shares	Cost[2]	Value[3]
Transmedics, Inc.	Surgical Devices	Warrant	Preferred Series B	40,436	225	10
	Surgical Devices	Warrant	Preferred Series D	175,000	100	439
	Surgical Devices	Warrant	Preferred Series F	50,544	38	52
Total Transmedics, Inc.				265,980	363	501
Subtotal: Surgical Devices (0.10%)*					758	785
Sustainable and Renewable Technology						
Agrivida, Inc.[15]	Sustainable and Renewable Technology	Warrant	Preferred Series D	471,327	$ 120	$ 124
Alphabet Energy, Inc.[15]	Sustainable and Renewable Technology	Warrant	Preferred Series A	86,329	82	
American Superconductor Corporation[3]	Sustainable and Renewable Technology	Warrant	Common Stock	58,823	39	85
Brightsource Energy, Inc.	Sustainable and Renewable Technology	Warrant	Preferred Series 1	116,667	104	
Calera, Inc.[15]	Sustainable and Renewable Technology	Warrant	Preferred Series C	44,529	513	
EcoMotors, Inc.[15]	Sustainable and Renewable Technology	Warrant	Preferred Series B	437,500	308	74
Fluidic, Inc.	Sustainable and Renewable Technology	Warrant	Preferred Series D	61,804	102	47
Fulcrum Bioenergy, Inc.	Sustainable and Renewable Technology	Warrant	Preferred Series C-1	280,897	275	213
GreatPoint Energy, Inc.[15]	Sustainable and Renewable Technology	Warrant	Preferred Series D-1	393,212	548	
Polyera Corporation[15]	Sustainable and Renewable Technology	Warrant	Preferred Series C	311,609	338	
Proterra, Inc.	Sustainable and Renewable Technology	Warrant	Preferred Series 4	477,517	41	307
Rive Technology, Inc.[15]	Sustainable and Renewable Technology	Warrant	Preferred Series E	234,477	12	4
		Warrant	Common Stock	530,811	181	

Flywheel Building Intelligence, Inc. (p.k.a. SCIEnergy, Inc.)	Sustainable and Renewable Technology					
	Sustainable and Renewable Technology	Warrant	Preferred Series 2-A	6,229	50	
Total SCIEnergy, Inc.				537,040	231	
Beamreach Solar (p.k.a. Solexel, Inc.)(15)	Sustainable and Renewable Technology	Warrant	Preferred Series C	1,171,625	1,162	704
Stion Corporation(5)	Sustainable and Renewable Technology	Warrant	Preferred Series Seed	2,154	1,378	
Sungevity, Inc.	Sustainable and Renewable Technology	Warrant	Common Stock	20,000,000	543	5
	Sustainable and Renewable Technology	Warrant	Preferred Series C	32,472,222	902	
Total Sungevity, Inc.				52,472,222	1,445	5

See notes to consolidated financial statements.

Table of Contents

Index to Financial Statements

HERCULES CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 2016

(unaudited)

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment(1)	Series	Shares	Cost(2)	Value(3)
TAS Energy, Inc.	Sustainable and Renewable Technology	Warrant	Preferred Series AA	428,571	299	
Tendril Networks	Sustainable and Renewable Technology	Warrant	Preferred Series 3-A	1,019,793	189	230
Trilliant, Inc.(15)	Sustainable and Renewable Technology	Warrant	Preferred Series A	320,000	162	102
Subtotal: Sustainable and Renewable Technology (0.25%)*					7,348	1,895
Total: Warrant Investments (3.68%)*					43,241	27,738
Total Investments (175.24%)*					$ 1,388,244	$ 1,320,610

* Value as a percent of net assets

(1) Preferred and common stock, warrants, and equity interests are generally non-income producing.

(2) Gross unrealized appreciation, gross unrealized depreciation, and net depreciation for federal income tax purposes totaled $28.1 million, $96.1 million and $68.0 million respectively. The tax cost of investments is $1.4 billion.

(3) Except for warrants in 39 publicly traded companies and common stock in 22 publicly traded companies, all investments are restricted at September 30, 2016 and were valued at fair value as determined in good faith by the Company s board of directors (the Board of Directors). No unrestricted securities of the same issuer are outstanding. The Company uses the Standard Industrial Code for classifying the industry grouping of its portfolio companies.

(4) Non-U.S. company or the company s principal place of business is outside the United States.

(5) Affiliate investment as defined under the Investment Company Act of 1940, as amended, (the 1940 Act) in which Hercules owns at least 5% but generally less than 25% of the company s voting securities.

(6) Control investment as defined under the 1940 Act in which Hercules owns at least 25% of the company s voting securities or has greater than 50% representation on its board.

(7) Debt is on non-accrual status at September 30, 2016, and is therefore considered non-income producing. Note that at September 30, 2016, only the $11.0 million PIK loan is on non-accrual for the Company s debt investment in Tectura Corporation.

(8) Denotes that all or a portion of the debt investment is convertible debt.

(9) Indicates assets that the Company deems not qualifying assets under section 55(a) of the 1940 Act. Qualifying assets must represent at least 70% of the Company s total assets at the time of acquisition of any additional non-qualifying assets.

(10) Denotes that all or a portion of the debt investment secures the notes offered in the Debt Securitization (as defined in Note 4).

(11) Denotes that all or a portion of the debt investment is pledged as collateral under the Wells Facility (as defined in Note 4).

(12) Denotes that all or a portion of the debt investment is pledged as collateral under the Union Facility (as defined in Note 4).

(13) Denotes that all or a portion of the debt investment principal includes accumulated PIK, or payment-in-kind, interest and is net of repayments.

(14) Denotes that all or a portion of the debt investment includes an exit fee receivable.

A. This fee ranges from 1.0% to 5.0% of the total debt commitment based on the contractual terms of our loan servicing agreements.

B. This fee ranges from 5.0% to 10.0% of the total debt commitment based on the contractual terms of our loan servicing agreements.

C. This fee ranges from 10.0% to 15.0% of the total debt commitment based on the contractual terms of our loan servicing agreements.

D. This fee is greater than 15.0% of the total debt commitment based on the contractual terms of our loan servicing agreements.

(15) Denotes that all or a portion of the investment in this portfolio company is held by Hercules Technology II, L.P., or HT II, or Hercules Technology III, L.P., or HT III, the Company s wholly owned SBIC subsidiaries.

(16) Denotes that the fair value of the Company s total investments in this portfolio company represent greater than 5% of the Company s total assets at September 30, 2016.

(17) Denotes that there is an unfunded contractual commitment available at the request of this portfolio company at September 30, 2016. Refer to Note 10.

See notes to consolidated financial statements.

Table of Contents

Index to Financial Statements

HERCULES CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2015

(unaudited)

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment(1)	Maturity Date	Interest Rate and Floor	Principal Amount	Cost(2)	Value(3)
Debt Investments							
Communications & Networking							
1-5 Years Maturity							
Avanti Communications Group(4)(9)	Communications & Networking	Senior Secured	October 2019	Interest rate FIXED 10.00%	$ 10,000	$ 8,900	$ 7,812
OpenPeak, Inc.(7)	Communications & Networking	Senior Secured	April 2017	Interest rate PRIME + 8.75% or Floor rate of 12.00%	$ 12,370	9,134	2,444
SkyCross, Inc.(7)(12)(13)(14)	Communications & Networking	Senior Secured	January 2018	Interest rate PRIME + 7.70% or Floor rate of 10.95%, PIK Interest 5.00%	$ 19,649	20,080	14,859
Spring Mobile Solutions, Inc.(13)	Communications & Networking	Senior Secured	January 2019	Interest rate PRIME + 6.70% or Floor rate of 9.95%	$ 3,000	2,935	2,935
Subtotal: 1-5 Years Maturity						41,049	28,050
Subtotal: Communications & Networking (3.91%)*						41,049	28,050
Consumer & Business Products							
Under 1 Year Maturity							
Antenna79 (p.k.a. Pong Research Corporation)(12)(14)	Consumer & Business Products	Senior Secured	June 2016	Interest rate PRIME + 8.75% or Floor rate of 12.00%	$ 308	308	308
Subtotal: Under 1 Year Maturity						308	308
1-5 Years Maturity							
Antenna79 (p.k.a. Pong Research Corporation)(12)(13)(14)	Consumer & Business Products	Senior Secured	December 2017	Interest rate PRIME + 6.75% or Floor rate of 10.00%, PIK Interest 2.50%	$ 4,955	4,785	4,783
Miles, Inc. (p.k.a. Fluc, Inc.)(8)	Consumer & Business	Convertible Debt	March 2017	Interest rate FIXED 4.00%	$ 100	100	

	Products						
Nasty Gal[13][14]	Consumer & Business Products	Senior Secured	May 2019	Interest rate PRIME + 5.45% or Floor rate of 8.95%	$ 15,000	14,876	14,876
The Neat Company[7][12][13][14]	Consumer & Business Products	Senior Secured	September 2017	Interest rate PRIME + 7.75% or Floor rate of 11.00%, PIK Interest 1.00%	$ 15,936	15,545	5,527
Subtotal: 1-5 Years Maturity						35,306	25,186
Subtotal: Consumer & Business Products (3.55%)*						35,614	25,494
Drug Delivery							
1-5 Years Maturity							
AcelRx Pharmaceuticals, Inc.[9][10][13][14]	Drug Delivery	Senior Secured	October 2017	Interest rate PRIME + 3.85% or Floor rate of 9.10%	$ 20,466	$ 20,772	$ 20,678
Agile Therapeutics, Inc.[10][13]	Drug Delivery	Senior Secured	December 2018	Interest rate PRIME + 4.75% or Floor rate of 9.00%	$ 16,500	16,231	16,107
BIND Therapeutics, Inc.[13][14]	Drug Delivery	Senior Secured	July 2018	Interest rate PRIME + 5.10% or Floor rate of 8.35%	$ 15,000	15,119	15,044
BioQ Pharma Incorporated[10][13]	Drug Delivery	Senior Secured	May 2018	Interest rate PRIME + 8.00% or Floor rate of 11.25%	$ 10,000	10,180	10,066
	Drug Delivery	Senior Secured	May 2018	Interest rate PRIME + 7.00% or Floor rate of 10.50%	$ 3,000	2,962	2,962
Total BioQ Pharma Incorporated					$ 13,000	13,142	13,028
Celator Pharmaceuticals, Inc.[10][13]	Drug Delivery	Senior Secured	June 2018	Interest rate PRIME + 6.50% or Floor rate of 9.75%	$ 14,573	14,594	14,609
Celsion Corporation[10][13]	Drug Delivery	Senior Secured	June 2017	Interest rate PRIME + 8.00% or Floor rate of 11.25%	$ 6,346	6,501	6,544
Dance Biopharm, Inc.[13][14]	Drug Delivery	Senior Secured	November 2017	Interest rate PRIME + 7.40% or Floor rate of 10.65%	$ 2,705	2,776	2,757

See notes to consolidated financial statements.

Table of Contents

Index to Financial Statements

HERCULES CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2015

(unaudited)

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment[1]	Maturity Date	Interest Rate and Floor	Principal Amount	Cost[2]	Value[3]
Edge Therapeutics, Inc.[10][13]	Drug Delivery	Senior Secured	March 2018	Interest rate PRIME + 6.45% or Floor rate of 9.95%	$ 5,466	5,431	5,455
Egalet Corporation[11][13]	Drug Delivery	Senior Secured	July 2018	Interest rate PRIME + 6.15% or Floor rate of 9.40%	$ 15,000	14,967	15,036
Neos Therapeutics, Inc.[10][13][14]	Drug Delivery	Senior Secured	October 2017	Interest rate PRIME + 5.75% or Floor rate of 9.00%	$ 10,000	10,000	10,007
	Drug Delivery	Senior Secured	October 2017	Interest rate PRIME + 7.25% or Floor rate of 10.50%	$ 10,000	10,043	9,998
	Drug Delivery	Senior Secured	October 2017	Interest rate PRIME + 5.75% or Floor rate of 9.00%	$ 5,000	4,977	4,957
Total Neos Therapeutics, Inc.					$ 25,000	25,020	24,962
Pulmatrix Inc.[8][10][13]	Drug Delivery	Senior Secured	July 2018	Interest rate PRIME + 6.25% or Floor rate of 9.50%	$ 7,000	6,877	6,856
ZP Opco, Inc. (p.k.a. Zosano Pharma)[10][13]	Drug Delivery	Senior Secured	December 2018	Interest rate PRIME + 2.70% or Floor rate of 7.95%	$ 15,000	14,925	14,781
Subtotal: 1-5 Years Maturity						156,355	155,857
Subtotal: Drug Delivery (21.73%)*						156,355	155,857
Drug Discovery & Development							
1-5 Years Maturity							
Aveo Pharmaceuticals, Inc.[9][13]	Drug Discovery & Development	Senior Secured	January 2018	Interest rate PRIME + 6.65% or Floor rate of 11.90%	$ 10,000	$ 10,076	$ 9,944
Cerecor, Inc.[13]	Drug Discovery & Development	Senior Secured	August 2017	Interest rate PRIME + 4.70% or Floor rate of 7.95%	$ 5,688	5,705	5,740
Cerulean Pharma, Inc.[11][13]	Drug Discovery & Development	Senior Secured	July 2018	Interest rate PRIME + 1.55% or Floor rate of 7.30%	$ 21,000	21,132	21,109
	Drug Discovery	Senior Secured		Interest rate PRIME + 7.70%	$ 25,000	25,507	25,550

CTI BioPharma Corp. (p.k.a. Cell Therapeutics, Inc.)(10)(13)	& Development		December 2018	or Floor rate of 10.95%			
Epirus Biopharmaceuticals, Inc.(11)(13)	Drug Discovery & Development	Senior Secured	April 2018	Interest rate PRIME + 4.70% or Floor rate of 7.95%	$ 15,000	14,852	14,924
Genocea Biosciences, Inc.(10)(13)	Drug Discovery & Development	Senior Secured	January 2019	Interest rate PRIME + 3.75% or Floor rate of 7.25%	$ 17,000	17,008	16,948
Immune Pharmaceuticals(10)(13)	Drug Discovery & Development	Senior Secured	September 2018	Interest rate PRIME + 6.50% or Floor rate of 10.00%	$ 4,500	4,374	4,374
Insmed, Incorporated(10)(13)	Drug Discovery & Development	Senior Secured	January 2018	Interest rate PRIME + 4.75% or Floor rate of 9.25%	$ 25,000	25,128	24,991
Mast Therapeutics, Inc.(13)(14)	Drug Discovery & Development	Senior Secured	January 2019	Interest rate PRIME + 5.70% or Floor rate of 8.95%	$ 15,000	14,808	14,808
Melinta Therapeutics(11)(13)	Drug Discovery & Development	Senior Secured	June 2018	Interest rate PRIME + 3.75% or Floor rate of 8.25%	$ 30,000	29,843	29,703
Merrimack Pharmaceuticals, Inc.(9)	Drug Discovery & Development	Senior Secured	December 2022	Interest rate FIXED 11.50%	$ 25,000	25,000	25,000
Neothetics, Inc. (p.k.a. Lithera, Inc.)(13)(14)	Drug Discovery & Development	Senior Secured	January 2018	Interest rate PRIME + 5.75% or Floor rate of 9.00%	$ 10,000	9,966	9,940
Neuralstem, Inc.(13)(14)	Drug Discovery & Development	Senior Secured	April 2017	Interest rate PRIME + 6.75% or Floor rate of 10.00%	$ 8,335	8,418	8,397
Paratek Pharmaceuticals, Inc. (p.k.a. Transcept Pharmaceuticals, Inc.)(13)(14)	Drug Discovery & Development	Senior Secured	September 2020	Interest rate PRIME + 2.75% or Floor rate of 8.50%	$ 20,000	19,828	19,828
uniQure B.V.(4)(9)(10)(13)	Drug Discovery & Development	Senior Secured	June 2018	Interest rate PRIME + 5.00% or Floor rate of 10.25%	$ 20,000	19,956	19,929
XOMA Corporation(9)(13)(14)	Drug Discovery & Development	Senior Secured	September 2018	Interest rate PRIME + 2.15% or Floor rate of 9.40%	$ 20,000	19,974	19,815
Subtotal: 1-5 Years Maturity						271,575	271,000
Subtotal: Drug Discovery & Development (37.79%)*						271,575	271,000

See notes to consolidated financial statements.

Table of Contents

Index to Financial Statements

HERCULES CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2015

(unaudited)

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment[1]	Maturity Date	Interest Rate and Floor	Principal Amount	Cost[2]	Value[3]
Electronics & Computer Hardware							
1-5 Years Maturity							
Persimmon Technologies[13]	Electronics & Computer Hardware	Senior Secured	June 2019	Interest rate PRIME + 7.50% or Floor rate of 11.00%	$ 7,000	$ 6,873	$ 6,873
Subtotal: 1-5 Years Maturity						6,873	6,873
Subtotal: Electronics & Computer Hardware (0.96%)*						6,873	6,873
Sustainable and Renewable Technology							
Under 1 Year Maturity							
Agrivida, Inc.[13][14]	Sustainable and Renewable Technology	Senior Secured	December 2016	Interest rate PRIME + 6.75% or Floor rate of 10.00%	$ 4,362	4,587	4,587
American Superconductor Corporation[10][13]	Sustainable and Renewable Technology	Senior Secured	November 2016	Interest rate PRIME + 7.25% or Floor rate of 11.00%	$ 3,667	4,106	4,106
Fluidic, Inc.[10][13]	Sustainable and Renewable Technology	Senior Secured	March 2016	Interest rate PRIME + 8.00% or Floor rate of 11.25%	$ 784	931	931
Polyera Corporation[13][14]	Sustainable and Renewable Technology	Senior Secured	April 2016	Interest rate PRIME + 6.75% or Floor rate of 10.00%	$ 637	890	890
Stion Corporation[5][13]	Sustainable and Renewable Technology	Senior Secured	March 2016	Interest rate PRIME + 8.75% or Floor rate of 12.00%	$ 2,200	2,200	1,013
Sungevity, Inc.[11]	Sustainable and Renewable Technology	Senior Secured	April 2016	Interest rate PRIME + 3.70% or Floor rate of 6.95%	$ 20,000	20,000	20,000
Subtotal: Under 1 Year Maturity						32,714	31,527
1-5 Years Maturity							
American Superconductor Corporation[10][13]	Sustainable	Senior Secured	June	Interest rate PRIME + 7.25%	$ 1,500	1,496	1,484

	and Renewable Technology		2017	or Floor rate of 11.00%			
Amyris, Inc.(9)(11)(13)	Sustainable and Renewable Technology	Senior Secured	February 2017	Interest rate PRIME + 6.25% or Floor rate of 9.50%	$ 17,543	17,543	17,499
	Sustainable and Renewable Technology	Senior Secured	February 2017	Interest rate PRIME + 5.25% or Floor rate of 8.50%	$ 3,497	3,497	3,488
	Sustainable and Renewable Technology	Senior Secured	February 2017	Interest rate PRIME + 6.25% or Floor rate of 9.50%	$ 10,960	11,045	11,045
Total Amyris, Inc.					$ 32,000	32,085	32,032
Modumetal, Inc.(13)	Sustainable and Renewable Technology	Senior Secured	March 2017	Interest rate PRIME + 8.70% or Floor rate of 11.95%	$ 1,759	2,062	2,032
	Sustainable and Renewable Technology	Senior Secured	October 2017	Interest rate PRIME + 6.00% or Floor rate of 9.25%	$ 7,061	7,101	7,080
Total Modumetal, Inc.					$ 8,820	9,163	9,112
Polyera Corporation(13)	Sustainable and Renewable Technology	Senior Secured	January 2017	Interest rate PRIME + 6.70% or Floor rate of 9.95%	$ 1,254	1,455	1,455
Proterra, Inc.(10)(13)	Sustainable and Renewable Technology	Senior Secured	December 2018	Interest rate PRIME + 6.95% or Floor rate of 10.20%	$ 25,000	24,995	24,550

See notes to consolidated financial statements.

Table of Contents

Index to Financial Statements

HERCULES CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2015

(unaudited)

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment[1]	Maturity Date	Interest Rate and Floor	Principal Amount	Cost[2]	Value[3]
Sungevity, Inc.[11][13]	Sustainable and Renewable Technology	Senior Secured	October 2017	Interest rate PRIME + 3.70% or Floor rate of 6.95%	$ 35,000	34,733	34,773
Tendril Networks[13]	Sustainable and Renewable Technology	Senior Secured	June 2019	Interest rate FIXED 7.25%	$ 15,000	14,735	14,477
Subtotal: 1-5 Years Maturity						118,662	117,883
Subtotal: Sustainable and Renewable Technology (20.83%)*						151,376	149,410
Healthcare Services, Other							
1-5 Years Maturity							
Chromadex Corporation[13][14]	Healthcare Services, Other	Senior Secured	April 2018	Interest rate PRIME + 6.10% or Floor rate of 9.35%	$ 5,000	4,907	4,918
InstaMed Communications, LLC[13][14]	Healthcare Services, Other	Senior Secured	February 2019	Interest rate PRIME + 6.75% or Floor rate of 10.00%	$ 10,000	10,048	10,049
Subtotal: 1-5 Years Maturity						14,955	14,967
Subtotal: Healthcare Services, Other (2.09%)*						14,955	14,967
Information Services							
Under 1 Year Maturity							
Eccentex Corporation[13][16]	Information Services	Senior Secured	May 2015	Interest rate PRIME + 7.00% or Floor rate of 10.25%	$ 13	$ 28	$ 28
InXpo, Inc.[13][14]	Information Services	Senior Secured	October 2016	Interest rate PRIME + 7.50% or Floor rate of 10.75%	$ 1,589	1,624	1,624
Subtotal: Under 1 Year Maturity						1,652	1,652
Subtotal: Information Services (0.23%)*						1,652	1,652
Internet Consumer & Business Services							

Under 1 Year Maturity							
NetPlenish[7][8][14]	Internet Consumer & Business Services	Convertible Debt	September 2016	Interest rate FIXED 10.00%	$ 381	373	
	Internet Consumer & Business Services	Senior Secured	April 2016	Interest rate FIXED 10.00%	$ 45	45	
Total NetPlenish					$ 426	418	
Subtotal: Under 1 Year Maturity						418	
1-5 Years Maturity							
Aria Systems, Inc.[10][12]	Internet Consumer & Business Services	Senior Secured	June 2019	Interest rate PRIME + 5.20% or Floor rate of 8.95%, PIK Interest 1.95%	$ 18,101	17,850	17,673
	Internet Consumer & Business Services	Senior Secured	June 2019	Interest rate PRIME + 3.20% or Floor rate of 6.95%, PIK Interest 1.95%	$ 2,021	1,995	1,972
Total Aria Systems, Inc.					$ 20,122	19,845	19,645
One Planet Ops Inc. (p.k.a. Reply! Inc.)[7][12]	Internet Consumer & Business Services	Senior Secured	March 2019	Interest rate PRIME + 4.25% or Floor rate of 7.50%	$ 6,321	5,811	5,811
	Internet Consumer & Business Services	Senior Secured	March 2019	PIK Interest 2.00%	$ 2,129	2,129	55
Total One Planet Ops Inc. (p.k.a. Reply! Inc.)					$ 8,450	7,940	5,866
ReachLocal[13]	Internet Consumer & Business Services	Senior Secured	April 2018	Interest rate PRIME + 8.50% or Floor rate of 11.75%	$ 25,000	24,868	24,769

See notes to consolidated financial statements.

Table of Contents

Index to Financial Statements

HERCULES CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2015

(unaudited)

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment(1)	Maturity Date	Interest Rate and Floor	Principal Amount	Cost(2)	Value(3)
Tapjoy, Inc.(11)(13)	Internet Consumer & Business Services	Senior Secured	July 2018	Interest rate PRIME + 6.50% or Floor rate of 9.75%	$ 20,000	19,598	19,514
Tectura Corporation(7)(12)(15)	Internet Consumer & Business Services	Senior Secured	May 2014	Interest rate LIBOR + 10.00% or Floor rate of 13.00%	$ 6,468	6,468	4,851
	Internet Consumer & Business Services	Senior Secured	May 2014	Interest rate LIBOR + 8.00% or Floor rate of 11.00%, PIK Interest 1.00%	$ 8,170	8,170	6,128
	Internet Consumer & Business Services	Senior Secured	May 2014	Interest rate LIBOR + 10.00% or Floor rate of 13.00%	$ 563	563	422
	Internet Consumer & Business Services	Senior Secured	May 2014	Interest rate LIBOR + 10.00% or Floor rate of 13.00%	$ 5,000	5,000	3,750
Total Tectura Corporation					$ 20,201	20,201	15,151
Subtotal: 1-5 Years Maturity						92,452	84,945
Subtotal: Internet Consumer & Business Services (11.85%)*						92,870	84,945
Media/Content/Info							
Under 1 Year Maturity							
Zoom Media Group, Inc.	Media/Content/Info	Senior Secured	January 2016	Interest rate PRIME + 5.25% or Floor rate of 8.50%	$ 5,060	5,060	5,060
Subtotal: Under 1 Year Maturity						5,060	5,060
1-5 Years Maturity							
Machine Zone, Inc.(12)	Media/Content/Info	Senior Secured	May 2018	Interest rate PRIME + 2.50% or Floor rate of 6.75%,	$ 90,729	88,730	88,101

				PIK Interest 3.00%			
Subtotal: 1-5 Years Maturity						88,730	88,101
Subtotal: Media/Content/Info (12.99%)*						93,790	93,161
Medical Devices & Equipment							
Under 1 Year Maturity							
Medrobotics Corporation(13)(14)	Medical Devices & Equipment	Senior Secured	March 2016	Interest rate PRIME + 7.85% or Floor rate of 11.10%	$ 576	$ 735	$ 735
SonaCare Medical, LLC (p.k.a. US HIFU, LLC)(13)	Medical Devices & Equipment	Senior Secured	April 2016	Interest rate PRIME + 7.75% or Floor rate of 11.00%	$ 292	700	700
Subtotal: Under 1 Year Maturity						1,435	1,435
1-5 Years Maturity							
Amedica Corporation(8)(13)(14)	Medical Devices & Equipment	Senior Secured	January 2018	Interest rate PRIME + 9.20% or Floor rate of 12.45%	$ 17,051	17,642	17,350
Aspire Bariatrics, Inc.(13)(14)	Medical Devices & Equipment	Senior Secured	October 2018	Interest rate PRIME + 4.00% or Floor rate of 9.25%	$ 7,000	6,771	6,739
Avedro, Inc.(13)(14)	Medical Devices & Equipment	Senior Secured	June 2018	Interest rate PRIME + 6.00% or Floor rate of 9.25%	$ 12,500	12,391	12,201
Flowonix Medical Incorporated(11)(13)	Medical Devices & Equipment	Senior Secured	May 2018	Interest rate PRIME + 6.50% or Floor rate of 10.00%	$ 15,000	15,071	14,974
Gamma Medica, Inc.(10)(13)	Medical Devices & Equipment	Senior Secured	January 2018	Interest rate PRIME + 6.50% or Floor rate of 9.75%	$ 4,000	4,009	3,989
InspireMD, Inc.(4)(9)(13)	Medical Devices & Equipment	Senior Secured	February 2017	Interest rate PRIME + 5.00% or Floor rate of 10.50%	$ 5,009	5,380	3,764
Quanterix Corporation(10)(13)	Medical Devices & Equipment	Senior Secured	February 2018	Interest rate PRIME + 2.75% or Floor rate of 8.00%	$ 9,661	9,718	9,659
SynergEyes, Inc.(13)(14)	Medical Devices & Equipment	Senior Secured	January 2018	Interest rate PRIME + 7.75% or Floor rate of 11.00%	$ 4,263	4,516	4,464
Subtotal: 1-5 Years Maturity						75,498	73,140
Subtotal: Medical Devices & Equipment (10.40%)*						76,933	74,575

See notes to consolidated financial statements.

Table of Contents

Index to Financial Statements

HERCULES CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2015

(unaudited)

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment(1)	Maturity Date	Interest Rate and Floor	Principal Amount	Cost(2)	Value(3)
Semiconductors							
Under 1 Year Maturity							
Achronix Semiconductor Corporation(14)	Semiconductors	Senior Secured	July 2016	Interest rate PRIME + 4.75% or Floor rate of 8.00%	$ 5,000	5,000	5,000
Subtotal: Under 1 Year Maturity						5,000	5,000
1-5 Years Maturity							
Achronix Semiconductor Corporation(13)(14)	Semiconductors	Senior Secured	July 2018	Interest rate PRIME + 8.25% or Floor rate of 11.50%	$ 5,000	5,027	4,999
Aquantia Corp.	Semiconductors	Senior Secured	February 2017	Interest rate PRIME + 2.95% or Floor rate of 6.20%	$ 5,001	5,001	5,001
Avnera Corporation(10)(13)	Semiconductors	Senior Secured	April 2018	Interest rate PRIME + 5.25% or Floor rate of 8.50%	$ 7,500	7,498	7,568
Subtotal: 1-5 Years Maturity						17,526	17,568
Subtotal: Semiconductors (3.15%)*						22,526	22,568
Software							
Under 1 Year Maturity							
Clickfox, Inc.(13)(14)(16)	Software	Senior Secured	December 2015	Interest rate PRIME + 8.75% or Floor rate of 12.00%	$ 3,300	$ 3,465	$ 3,465
JumpStart Games, Inc. (p.k.a. Knowledge Adventure, Inc.)(12)(13)(14)	Software	Senior Secured	October 2016	Interest rate FIXED 5.75%, PIK Interest 10.75%	$ 1,335	1,350	875
Neos, Inc.(13)(14)	Software	Senior Secured	May 2016	Interest rate PRIME + 6.75% or Floor rate of 10.50%	$ 729	895	895
Touchcommerce, Inc.(14)	Software	Senior Secured	August 2016	Interest rate PRIME + 2.25% or Floor rate of 6.50%	$ 5,511	5,511	5,511
Subtotal: Under 1 Year Maturity						11,221	10,746

1-5 Years Maturity							
Actifio, Inc.(12)	Software	Senior Secured	January 2019	Interest rate PRIME + 4.25% or Floor rate of 8.25%, PIK Interest 2.25%	$ 30,263	30,019	29,712
Clickfox, Inc.(13)(14)	Software	Senior Secured	March 2018	Interest rate PRIME + 8.25% or Floor rate of 11.50%	$ 5,475	5,490	5,490
Druva, Inc.(10)(13)	Software	Senior Secured	March 2018	Interest rate PRIME + 4.60% or Floor rate of 7.85%	$ 12,000	12,080	12,034
JumpStart Games, Inc. (p.k.a. Knowledge Adventure, Inc.)(12)(13)(14)	Software	Senior Secured	March 2018	Interest rate FIXED 5.75%, PIK Interest 10.75%	$ 11,082	11,174	7,245
Message Systems, Inc.(14)	Software	Senior Secured	February 2019	Interest rate PRIME + 7.25% or Floor rate of 10.50%	$ 17,500	17,103	17,013
	Software	Senior Secured	February 2017	Interest rate PRIME + 2.75% or Floor rate of 6.00%	$ 1,618	1,618	1,616
Total Message Systems, Inc.					$ 19,118	18,721	18,629
RedSeal Inc.(13)(14)	Software	Senior Secured	June 2017	Interest rate PRIME + 3.25% or Floor rate of 6.50%	$ 3,000	3,000	2,987
	Software	Senior Secured	June 2018	Interest rate PRIME + 7.75% or Floor rate of 11.00%	$ 5,000	5,006	4,979
Total RedSeal Inc.					$ 8,000	8,006	7,966
Soasta, Inc.(13)(14)	Software	Senior Secured	February 2018	Interest rate PRIME + 2.25% or Floor rate of 5.50%	$ 3,500	3,432	3,419
	Software	Senior Secured	February 2018	Interest rate PRIME + 4.75% or Floor rate of 8.00%	$ 15,000	14,699	14,646
Total Soasta, Inc.					$ 18,500	18,131	18,065

See notes to consolidated financial statements.

Table of Contents

Index to Financial Statements

HERCULES CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2015

(unaudited)

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment[1]	Maturity Date	Interest Rate and Floor	Principal Amount	Cost[2]	Value[3]
Touchcommerce, Inc.[13][14]	Software	Senior Secured	February 2018	Interest rate PRIME + 6.00% or Floor rate of 10.25%	$ 12,000	11,853	11,721
Subtotal: 1-5 Years Maturity						115,474	110,862
Subtotal: Software (16.96%)*						126,695	121,608
Specialty Pharmaceuticals							
Under 1 Year Maturity							
Cranford Pharmaceuticals, LLC[10][12]	Specialty Pharmaceuticals	Senior Secured	August 2016	Interest rate LIBOR + 8.25% or Floor rate of 9.50%	$ 1,100	$ 1,100	$ 1,100
Subtotal: Under 1 Year Maturity						1,100	1,100
1-5 Years Maturity							
Alimera Sciences, Inc.[10][13]	Specialty Pharmaceuticals	Senior Secured	May 2018	Interest rate PRIME + 7.65% or Floor rate of 10.90%	$ 35,000	34,296	34,309
Cranford Pharmaceuticals, LLC[10][12][13][14]	Specialty Pharmaceuticals	Senior Secured	August 2017	Interest rate LIBOR + 9.55% or Floor rate of 10.80%, PIK Interest 1.35%	$ 10,041	10,164	10,235
Jaguar Animal Health, Inc.[10][13]	Specialty Pharmaceuticals	Senior Secured	August 2018	Interest rate PRIME + 5.65% or Floor rate of 9.90%	$ 6,000	6,009	6,009
Subtotal: 1-5 Years Maturity						50,469	50,553
Subtotal: Specialty Pharmaceuticals (7.20%)*						51,569	51,653
Surgical Devices							
1-5 Years Maturity							
Transmedics, Inc.[13]	Surgical	Senior Secured	March	Interest rate PRIME + 5.30%	$ 8,500	8,471	8,396

Devices	2019	or Floor rate of 9.55%		
Subtotal: 1-5 Years Maturity			8,471	8,396
Subtotal: Surgical Devices (1.17%)*			8,471	8,396
Total Debt Investments (154.81%)*			1,152,303	1,110,209

See notes to consolidated financial statements.

Table of Contents

Index to Financial Statements

HERCULES CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2015

(unaudited)

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment[1]	Series	Shares	Cost[2]	Value[3]
Equity Investments						
Biotechnology Tools						
NuGEN Technologies, Inc.[14]	Biotechnology Tools	Equity	Preferred Series C	189,394	$ 500	$ 532
Subtotal: Biotechnology Tools (0.07%)*					500	532
Communications & Networking						
GlowPoint, Inc.[3]	Communications & Networking	Equity	Common Stock	114,192	102	57
Peerless Network, Inc.	Communications & Networking	Equity	Preferred Series A	1,000,000	1,000	4,380
Subtotal: Communications & Networking (0.62%)*					1,102	4,437
Consumer & Business Products						
Market Force Information, Inc.	Consumer & Business Products	Equity	Common Stock	480,261		217
	Consumer & Business Products	Equity	Preferred Series B-1	187,970	500	3
Total Market Force Information, Inc.				668,231	500	220
Subtotal: Consumer & Business Products (0.03%)*					500	220
Diagnostic						
Singulex, Inc.	Diagnostic	Equity	Common Stock	937,998	750	304
Subtotal: Diagnostic (0.04%)*					750	304
Drug Delivery						
AcelRx Pharmaceuticals, Inc.[3][9]	Drug Delivery	Equity	Common Stock	54,240	108	209
BioQ Pharma Incorporated[14]	Drug Delivery	Equity	Preferred Series D	165,000	500	660
Edge Therapeutics, Inc.[3]	Drug Delivery	Equity	Common Stock	157,190	1,000	1,965
Merrion Pharmaceuticals, Plc[3][4][9]	Drug Delivery	Equity	Common Stock	20,000	9	
Neos Therapeutics, Inc.[3][14]	Drug Delivery	Equity	Common Stock	125,000	1,500	1,790
Revance Therapeutics, Inc.[3]	Drug Delivery	Equity	Common Stock	22,765	557	778
Subtotal: Drug Delivery (0.75%)*					3,674	5,402
Drug Discovery & Development						

Aveo Pharmaceuticals, Inc.[3][9][14]	Drug Discovery & Development	Equity	Common Stock	167,864	842	212
Cerecor, Inc.[3]	Drug Discovery & Development	Equity	Common Stock	119,087	1,000	399
Cerulean Pharma, Inc.[3]	Drug Discovery & Development	Equity	Common Stock	135,501	1,000	379
Dicerna Pharmaceuticals, Inc.[3][14]	Drug Discovery & Development	Equity	Common Stock	142,858	1,000	1,695
Dynavax Technologies[3][9]	Drug Discovery & Development	Equity	Common Stock	20,000	550	483
Epirus Biopharmaceuticals, Inc.[3]	Drug Discovery & Development	Equity	Common Stock	200,000	1,000	618
Genocea Biosciences, Inc.[3]	Drug Discovery & Development	Equity	Common Stock	223,463	2,000	1,178
Inotek Pharmaceuticals Corporation[3]	Drug Discovery & Development	Equity	Common Stock	3,778	1,500	43
Insmed, Incorporated[3]	Drug Discovery & Development	Equity	Common Stock	70,771	1,000	1,284
Melinta Therapeutics	Drug Discovery & Development	Equity	Preferred Series 4	1,914,448	2,000	2,026
Paratek Pharmaceuticals, Inc. (p.k.a. Transcept Pharmaceuticals, Inc.)[3]	Drug Discovery & Development	Equity	Common Stock	76,362	2,743	1,450
Subtotal: Drug Discovery & Development (1.36%)*					14,635	9,767

See notes to consolidated financial statements.

Table of Contents

Index to Financial Statements

HERCULES CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2015

(unaudited)

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment[1]	Series	Shares	Cost[2]	Value[3]
Electronics & Computer Hardware						
Identiv, Inc.[3]	Electronics & Computer Hardware	Equity	Common Stock	6,700	34	13
Subtotal: Electronics & Computer Hardware (0.00%)*					34	13
Sustainable and Renewable Technology						
Glori Energy, Inc.[3]	Sustainable and Renewable Technology	Equity	Common Stock	18,208	165	6
Modumetal, Inc.	Sustainable and Renewable Technology	Equity	Preferred Series C	3,107,520	500	455
SCIEnergy, Inc.	Sustainable and Renewable Technology	Equity	Preferred Series 1	385,000	761	
Sungevity, Inc.[14]	Sustainable and Renewable Technology	Equity	Preferred Series D	68,807,339	6,750	6,912
Subtotal: Sustainable and Renewable Technology (1.03%)*					8,176	7,373
Internet Consumer & Business Services						
Blurb, Inc.[14]	Internet Consumer & Business Services	Equity	Preferred Series B	220,653	$ 175	$ 244
Lightspeed POS, Inc.[4](9)	Internet Consumer & Business Services	Equity	Preferred Series C	230,030	250	264
	Internet Consumer & Business Services	Equity	Preferred Series D	198,677	250	249
Total Lightspeed POS, Inc.				428,707	500	513
Oportun (p.k.a. Progress Financial)	Internet Consumer & Business Services	Equity	Preferred Series G	218,351	250	349
	Internet Consumer & Business Services	Equity	Preferred Series H	87,802	250	248
Total Oportun (p.k.a. Progress Financial)				306,153	500	597
Philotic, Inc.	Internet Consumer & Business Services	Equity	Common Stock	9,023	93	
RazorGator Interactive Group, Inc.	Internet Consumer & Business Services	Equity	Preferred Series AA	34,783	15	28
Taptera, Inc.	Internet Consumer & Business Services	Equity	Preferred Series B	454,545	150	99
Subtotal: Internet Consumer & Business Services (0.21%)*					1,433	1,481
Medical Devices & Equipment						
AtriCure, Inc.[3][14]		Equity	Common Stock	7,536	266	155

	Medical Devices & Equipment					
Flowonix Medical Incorporated	Medical Devices & Equipment	Equity	Preferred Series E	221,893	1,500	1,953
Gelesis, Inc.[(14)]	Medical Devices & Equipment	Equity	Common Stock	198,202		1,005
	Medical Devices & Equipment	Equity	Preferred Series A-1	191,210	425	1,051
	Medical Devices & Equipment	Equity	Preferred Series A-2	191,626	500	1,012
Total Gelesis, Inc.				581,038	925	3,068

See notes to consolidated financial statements.

Table of Contents

Index to Financial Statements

HERCULES CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2015

(unaudited)

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment[1]	Series	Shares	Cost[2]	Value[3]
Medrobotics Corporation[14]	Medical Devices & Equipment	Equity	Preferred Series E	136,798	250	208
	Medical Devices & Equipment	Equity	Preferred Series F	73,971	155	189
	Medical Devices & Equipment	Equity	Preferred Series G	163,934	500	500
Total Medrobotics Corporation				374,703	905	897
Novasys Medical, Inc.	Medical Devices & Equipment	Equity	Preferred Series D-1	4,118,444	1,000	
Optiscan Biomedical, Corp.[5][14]	Medical Devices & Equipment	Equity	Preferred Series B	6,185,567	3,000	565
	Medical Devices & Equipment	Equity	Preferred Series C	1,927,309	655	169
	Medical Devices & Equipment	Equity	Preferred Series D	55,103,923	5,257	5,927
Total Optiscan Biomedical, Corp.				63,216,799	8,912	6,661
Oraya Therapeutics, Inc.	Medical Devices & Equipment	Equity	Preferred Series 1	1,086,969	500	266
Outset Medical, Inc. (p.k.a. Home Dialysis Plus, Inc.)	Medical Devices & Equipment	Equity	Preferred Series B	232,061	527	543
Subtotal: Medical Devices & Equipment (1.89%)*					14,535	13,543
Software						
Box, Inc.[3][14]	Software	Equity	Common Stock	1,287,347	5,653	17,957
CapLinked, Inc.	Software	Equity	Preferred Series A-3	53,614	51	79
Druva, Inc.	Software	Equity	Preferred Series 2	458,841	1,000	1,031
ForeScout Technologies, Inc.	Software	Equity	Preferred Series D	319,099	398	1,368
	Software	Equity	Preferred Series E	80,587	131	350
Total ForeScout Technologies, Inc.				399,686	529	1,718
HighRoads, Inc.	Software	Equity	Preferred Series B	190,170	307	
NewVoiceMedia Limited[4][9]	Software	Equity	Preferred Series E	669,173	963	1,016
WildTangent, Inc.[14]	Software	Equity	Preferred Series 3	100,000	402	190
Subtotal: Software (3.07%)*					8,905	21,991
Specialty Pharmaceuticals						
QuatRx Pharmaceuticals Company	Specialty Pharmaceuticals	Equity	Preferred Series E	241,829	750	
	Specialty Pharmaceuticals	Equity	Preferred Series E-1	26,955		

	Specialty Pharmaceuticals	Equity	Preferred Series G	4,667,636		
Total QuatRx Pharmaceuticals Company				4,936,420	750	
Subtotal: Specialty Pharmaceuticals (0.00%)*					750	
Surgical Devices						
Gynesonics, Inc.(14)	Surgical Devices	Equity	Preferred Series B	219,298	250	32
	Surgical Devices	Equity	Preferred Series C	656,538	282	46
	Surgical Devices	Equity	Preferred Series D	1,991,157	712	637
	Surgical Devices	Equity	Preferred Series E	2,785,402	429	422
Total Gynesonics, Inc.				5,652,395	1,673	1,137
Transmedics, Inc.	Surgical Devices	Equity	Preferred Series B	88,961	1,100	154
	Surgical Devices	Equity	Preferred Series C	119,999	300	96
	Surgical Devices	Equity	Preferred Series D	260,000	650	521
	Surgical Devices	Equity	Preferred Series F	100,200	500	471
Total Transmedics, Inc.				569,160	2,550	1,242
Subtotal: Surgical Devices (0.33%)*					4,223	2,379
Total: Equity Investments (9.40%)*					59,217	67,442

See notes to consolidated financial statements.

Table of Contents

Index to Financial Statements

HERCULES CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2015

(unaudited)

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment(1)	Series	Shares	Cost(2)	Value(3)
Warrant Investments						
Biotechnology Tools						
Labcyte, Inc.(14)	Biotechnology Tools	Warrant	Preferred Series C	1,127,624	$ 323	$ 187
Subtotal: Biotechnology Tools (0.03%)*					323	187
Communications & Networking						
Intelepeer, Inc.(14)	Communications & Networking	Warrant	Common Stock	117,958	102	
OpenPeak, Inc.	Communications & Networking	Warrant	Common Stock	108,982	149	
PeerApp, Inc.	Communications & Networking	Warrant	Preferred Series B	298,779	61	62
Peerless Network, Inc.	Communications & Networking	Warrant	Preferred Series A	135,000	95	375
Ping Identity Corporation	Communications & Networking	Warrant	Preferred Series B	1,136,277	52	236
SkyCross, Inc.(14)	Communications & Networking	Warrant	Preferred Series F	9,762,777	394	
Spring Mobile Solutions, Inc.	Communications & Networking	Warrant	Preferred Series D	2,834,375	418	53
Subtotal: Communications & Networking (0.10%)*					1,271	726
Consumer & Business Products						
Antenna79 (p.k.a. Pong Research Corporation)(14)	Consumer & Business Products	Warrant	Preferred Series A	1,662,441	228	2
Intelligent Beauty, Inc.(14)	Consumer & Business Products	Warrant	Preferred Series B	190,234	230	214
IronPlanet, Inc.	Consumer & Business Products	Warrant	Preferred Series D	1,155,821	1,076	651
Market Force Information, Inc.	Consumer & Business Products	Warrant	Preferred Series A-1	150,212	24	10
Nasty Gal(14)	Consumer & Business Products	Warrant	Preferred Series C	845,194	23	20
The Neat Company(14)	Consumer & Business Products	Warrant	Preferred Series C-1	540,540	365	
Subtotal: Consumer & Business Products (0.13%)*					1,946	897
Diagnostic						
Navidea Biopharmaceuticals, Inc. (p.k.a. Neoprobe)(3)(14)	Diagnostic	Warrant	Common Stock	333,333	244	17

Subtotal: Diagnostic (0.00%)*					244	17
Drug Delivery						
AcelRx Pharmaceuticals, Inc.[3][9][14]	Drug Delivery	Warrant	Common Stock	176,730	786	238
Agile Therapeutics, Inc.[3]	Drug Delivery	Warrant	Common Stock	180,274	730	680
BIND Therapeutics, Inc.[3][14]	Drug Delivery	Warrant	Common Stock	152,586	488	6
BioQ Pharma Incorporated	Drug Delivery	Warrant	Common Stock	459,183	1	423
Celator Pharmaceuticals, Inc.[3]	Drug Delivery	Warrant	Common Stock	210,675	138	59
Celsion Corporation[3]	Drug Delivery	Warrant	Common Stock	194,986	428	20
Dance Biopharm, Inc.[14]	Drug Delivery	Warrant	Common Stock	43,813	74	55
Edge Therapeutics, Inc.[3]	Drug Delivery	Warrant	Common Stock	78,595	390	417
Kaleo, Inc. (p.k.a. Intelliject, Inc.)	Drug Delivery	Warrant	Preferred Series B	82,500	594	1,217
Neos Therapeutics, Inc.[3][14]	Drug Delivery	Warrant	Common Stock	70,833	285	275
Pulmatrix Inc.[3]	Drug Delivery	Warrant	Common Stock	25,150	116	12
ZP Opco, Inc. (p.k.a. Zosano Pharma)[3]	Drug Delivery	Warrant	Common Stock	72,379	266	4
Subtotal: Drug Delivery (0.47%)*					4,296	3,406
Drug Discovery & Development						
ADMA Biologics, Inc.[3]	Drug Discovery & Development	Warrant	Common Stock	89,750	$ 295	$ 98

See notes to consolidated financial statements.

Table of Contents

Index to Financial Statements

HERCULES CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2015

(unaudited)

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment[1]	Series	Shares	Cost[2]	Value[3]
Anthera Pharmaceuticals, Inc.[3][14]	Drug Discovery & Development	Warrant	Common Stock	40,178	984	
Aveo Pharmaceuticals, Inc.[3][9]	Drug Discovery & Development	Warrant	Common Stock	608,696	194	216
Cerecor, Inc.[3]	Drug Discovery & Development	Warrant	Common Stock	22,328	70	10
Cerulean Pharma, Inc.[3]	Drug Discovery & Development	Warrant	Common Stock	171,901	369	90
Chroma Therapeutics, Ltd.[4][9]	Drug Discovery & Development	Warrant	Preferred Series D	325,261	490	
Cleveland BioLabs, Inc.[3][14]	Drug Discovery & Development	Warrant	Common Stock	7,813	105	5
Concert Pharmaceuticals, Inc.[3]	Drug Discovery & Development	Warrant	Common Stock	70,796	367	368
CTI BioPharma Corp. (p.k.a. Cell Therapeutics, Inc.)[3]	Drug Discovery & Development	Warrant	Common Stock	292,398	165	59
Dicerna Pharmaceuticals, Inc.[3][14]	Drug Discovery & Development	Warrant	Common Stock	200	28	
Epirus Biopharmaceuticals, Inc.[3]	Drug Discovery & Development	Warrant	Common Stock	64,194	276	55
Fortress Biotech, Inc. (p.k.a. Coronado Biosciences, Inc.)[3]	Drug Discovery & Development	Warrant	Common Stock	73,009	142	11
Genocea Biosciences, Inc.[3]	Drug Discovery & Development	Warrant	Common Stock	73,725	266	92
Immune Pharmaceuticals[3]	Drug Discovery & Development	Warrant	Common Stock	214,853	164	40
Mast Therapeutics, Inc.[3][14]	Drug Discovery & Development	Warrant	Common Stock	1,524,389	203	215
Melinta Therapeutics	Drug Discovery & Development	Warrant	Preferred Series 3	1,382,323	626	130
Nanotherapeutics, Inc.[14]	Drug Discovery & Development	Warrant	Common Stock	171,389	838	1,762
Neothetics, Inc. (p.k.a. Lithera, Inc.)[3][14]	Drug Discovery & Development	Warrant	Common Stock	46,838	266	2
Neuralstem, Inc.[3][14]	Drug Discovery & Development	Warrant	Common Stock	75,187	77	12
Paratek Pharmaceuticals, Inc. (p.k.a. Transcept Pharmaceuticals, Inc.)[3][14]	Drug Discovery & Development	Warrant	Common Stock	21,467	129	36
uniQure B.V.[3][4][9]	Drug Discovery & Development	Warrant	Common Stock	37,174	218	183
XOMA Corporation[3][9][14]	Drug Discovery & Development	Warrant	Common Stock	181,268	279	115
Subtotal: Drug Discovery & Development (0.49%)*					6,551	3,499
Electronics & Computer Hardware						

Clustrix, Inc.	Electronics & Computer Hardware	Warrant	Common Stock	50,000	12	
Persimmon Technologies	Electronics & Computer Hardware	Warrant	Preferred Series C	43,076	40	42
Subtotal: Electronics & Computer Hardware (0.01%)*					52	42
Sustainable and Renewable Technology						
Agrivida, Inc.(14)	Sustainable and Renewable Technology	Warrant	Preferred Series D	471,327	120	38
Alphabet Energy, Inc.(14)	Sustainable and Renewable Technology	Warrant	Preferred Series A	86,329	82	159

See notes to consolidated financial statements.

Table of Contents

Index to Financial Statements

HERCULES CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2015

(unaudited)

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment[1]	Series	Shares	Cost[2]	Value[3]
American Superconductor Corporation[3]	Sustainable and Renewable Technology	Warrant	Common Stock	58,823	39	82
Brightsource Energy, Inc.	Sustainable and Renewable Technology	Warrant	Preferred Series 1	116,667	104	6
Calera, Inc.[14]	Sustainable and Renewable Technology	Warrant	Preferred Series C	44,529	513	
EcoMotors, Inc.[14]	Sustainable and Renewable Technology	Warrant	Preferred Series B	437,500	308	176
Fluidic, Inc.	Sustainable and Renewable Technology	Warrant	Preferred Series D	61,804	102	43
Fulcrum Bioenergy, Inc.	Sustainable and Renewable Technology	Warrant	Preferred Series C-1	280,897	275	152
GreatPoint Energy, Inc.[14]	Sustainable and Renewable Technology	Warrant	Preferred Series D-1	393,212	548	
Polyera Corporation[14]	Sustainable and Renewable Technology	Warrant	Preferred Series C	311,609	338	10
Proterra, Inc.	Sustainable and Renewable Technology	Warrant	Preferred Series 4	397,931	37	50
SCIEnergy, Inc.	Sustainable and Renewable Technology	Warrant	Common Stock	530,811	181	
	Sustainable and Renewable Technology	Warrant	Preferred Series 1	145,811	50	
Total SCIEnergy, Inc.				676,622	231	
Scifiniti (p.k.a. Integrated Photovoltaics, Inc.)[14]	Sustainable and Renewable Technology	Warrant	Preferred Series A-1	390,000	82	48
Solexel, Inc.[14]	Sustainable and Renewable Technology	Warrant	Preferred Series C	1,171,625	1,162	466
Stion Corporation[5]	Sustainable and Renewable Technology	Warrant	Preferred Series Seed	2,154	1,378	
Sungevity, Inc.	Sustainable and Renewable Technology	Warrant	Common Stock	20,000,000	543	569

	Sustainable and Renewable Technology	Warrant	Preferred Series C	32,472,222	902	525
Total Sungevity, Inc.				52,472,222	1,445	1,094
TAS Energy, Inc.	Sustainable and Renewable Technology	Warrant	Preferred Series AA	428,571	299	
Tendril Networks	Sustainable and Renewable Technology	Warrant	Preferred Series 3-A	1,019,793	188	242
TPI Composites, Inc.	Sustainable and Renewable Technology	Warrant	Preferred Series B	160	273	85
Trilliant, Inc.(14)	Sustainable and Renewable Technology	Warrant	Preferred Series A	320,000	162	53
Subtotal: Sustainable and Renewable Technology (0.38%)*					7,686	2,704

See notes to consolidated financial statements.

S-108

Table of Contents

Index to Financial Statements

HERCULES CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2015

(unaudited)

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment[1]	Series	Shares	Cost[2]	Value[3]
Healthcare Services, Other						
Chromadex Corporation[3][14]	Healthcare Services, Other	Warrant	Common Stock	419,020	157	164
Subtotal: Healthcare Services, Other (0.02%)*					157	164
Information Services						
Cha Cha Search, Inc.[14]	Information Services	Warrant	Preferred Series G	48,232	$ 58	$
INMOBI Inc.[4][9]	Information Services	Warrant	Common Stock	46,874	82	3
InXpo, Inc.[14]	Information Services	Warrant	Preferred Series C	648,400	98	2
	Information Services	Warrant	Preferred Series C-1	1,032,416	74	
Total InXpo, Inc.				1,680,816	172	2
RichRelevance, Inc.[14]	Information Services	Warrant	Preferred Series E	112,612	98	
Subtotal: Information Services (0.00%)*					410	5
Internet Consumer & Business Services						
Aria Systems, Inc.	Internet Consumer & Business Services	Warrant	Preferred Series E	239,692	73	88
Blurb, Inc.[14]	Internet Consumer & Business Services	Warrant	Preferred Series C	234,280	636	148
CashStar, Inc.[14]	Internet Consumer & Business Services	Warrant	Preferred Series C-2	727,272	130	34
Just Fabulous, Inc.	Internet Consumer & Business Services	Warrant	Preferred Series B	206,184	1,102	1,104
Lightspeed POS, Inc.[4][9]	Internet Consumer & Business Services	Warrant	Preferred Series C	245,610	20	82
Oportun (p.k.a. Progress Financial)	Internet Consumer & Business Services	Warrant	Preferred Series G	174,562	78	104
Prism Education Group, Inc.[14]	Internet Consumer & Business Services	Warrant	Preferred Series B	200,000	43	
ReachLocal[3]	Internet Consumer & Business Services	Warrant	Common Stock	300,000	155	290
ShareThis, Inc.[14]	Internet Consumer & Business Services	Warrant	Preferred Series C	493,502	547	93
Tapjoy, Inc.	Internet Consumer & Business Services	Warrant	Preferred Series D	748,670	316	8
Tectura Corporation	Internet Consumer & Business Services	Warrant	Preferred Series B-1	253,378	51	
Subtotal: Internet Consumer & Business Services (0.27%)*					3,151	1,951
Media/Content/Info						

Machine Zone, Inc.	Media/Content/Info	Warrant	Common Stock	143,626	1,802	2,086
Rhapsody International, Inc.[14]	Media/Content/Info	Warrant	Common Stock	715,755	384	218
Zoom Media Group, Inc.	Media/Content/Info	Warrant	Preferred Series A	1,204	348	23
Subtotal: Media/Content/Info (0.32%)*					2,534	2,327
Medical Devices & Equipment						
Amedica Corporation[3][14]	Medical Devices & Equipment	Warrant	Common Stock	1,548,387	459	31

See notes to consolidated financial statements.

Table of Contents

Index to Financial Statements

HERCULES CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2015

(unaudited)

(dollars in thousands)

Portfolio Company	**Sub-Industry**	**Type of Investment(1)**	**Series**	**Shares**	**Cost(2)**	**Value(3)**
Aspire Bariatrics, Inc.(14)	Medical Devices & Equipment	Warrant	Preferred Series D	395,000	455	236
Avedro, Inc.(14)	Medical Devices & Equipment	Warrant	Preferred Series AA	300,000	401	142
Flowonix Medical Incorporated	Medical Devices & Equipment	Warrant	Preferred Series E	110,947	203	428
Gamma Medica, Inc.	Medical Devices & Equipment	Warrant	Preferred Series A	357,500	170	144
Gelesis, Inc.(14)	Medical Devices & Equipment	Warrant	Preferred Series A-1	74,784	78	262
InspireMD, Inc.(3)(4)(9)	Medical Devices & Equipment	Warrant	Common Stock	16,835	242	
Medrobotics Corporation(14)	Medical Devices & Equipment	Warrant	Preferred Series E	455,539	370	244
NetBio, Inc.	Medical Devices & Equipment	Warrant	Common Stock	2,568	408	19
NinePoint Medical, Inc.(14)	Medical Devices & Equipment	Warrant	Preferred Series A-1	587,840	170	119
Novasys Medical, Inc.	Medical Devices & Equipment	Warrant	Common Stock	109,449	2	
	Medical Devices & Equipment	Warrant	Preferred Series D	526,840	125	
	Medical Devices & Equipment	Warrant	Preferred Series D-1	53,607	6	
Total Novasys Medical, Inc.				689,896	133	
Optiscan Biomedical, Corp.(5)(14)	Medical Devices & Equipment	Warrant	Preferred Series D	10,535,275	1,252	312
Oraya Therapeutics, Inc.	Medical Devices & Equipment	Warrant	Common Stock	954	66	
	Medical Devices & Equipment	Warrant	Preferred Series 1	1,632,084	676	63
Total Oraya Therapeutics, Inc.				1,633,038	742	63
Outset Medical, Inc. (p.k.a. Home Dialysis Plus, Inc.)	Medical Devices & Equipment	Warrant	Preferred Series A	500,000	402	298
Quanterix Corporation	Medical Devices & Equipment	Warrant	Preferred Series C	115,618	156	60
SonaCare Medical, LLC (p.k.a. US HIFU, LLC)	Medical Devices & Equipment	Warrant	Preferred Series A	6,464	188	
Strata Skin Sciences, Inc. (p.k.a. MELA Sciences, Inc.)(3)	Medical Devices & Equipment	Warrant	Common Stock	69,320	402	
ViewRay, Inc.(3)(14)	Medical Devices & Equipment	Warrant	Common Stock	128,231	333	84
Subtotal: Medical Devices & Equipment (0.34%)*					6,564	2,442

Semiconductors						
Achronix Semiconductor Corporation[14]	Semiconductors	Warrant	Preferred Series C	360,000	$ 160	$ 27
	Semiconductors	Warrant	Preferred Series D-1	500,000	6	6
Total Achronix Semiconductor Corporation				860,000	166	33
Aquantia Corp.	Semiconductors	Warrant	Preferred Series G	196,831	4	39
Avnera Corporation	Semiconductors	Warrant	Preferred Series E	141,567	47	65
Subtotal: Semiconductors (0.02%)*					217	137
Software						
Actifio, Inc.	Software	Warrant	Common Stock	73,584	249	210
Braxton Technologies, LLC	Software	Warrant	Preferred Series A	168,750	188	
CareCloud Corporation[14]	Software	Warrant	Preferred Series B	413,433	258	625
Clickfox, Inc.[14]	Software	Warrant	Preferred Series B	1,038,563	330	362
	Software	Warrant	Preferred Series C	592,019	730	272
	Software	Warrant	Preferred Series C-A	46,109	13	16
Total Clickfox, Inc.				1,676,691	1,073	650

See notes to consolidated financial statements.

Table of Contents

Index to Financial Statements

HERCULES CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2015

(unaudited)

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment(1)	Series	Shares	Cost(2)	Value(3)
Hillcrest Laboratories, Inc.(14)	Software	Warrant	Preferred Series E	1,865,650	55	138
JumpStart Games, Inc. (p.k.a Knowledge Holdings, Inc.)(14)	Software	Warrant	Preferred Series E	614,333	16	
Message Systems, Inc.(14)	Software	Warrant	Preferred Series B	408,011	334	497
Mobile Posse, Inc.(14)	Software	Warrant	Preferred Series C	396,430	130	59
Neos, Inc.(14)	Software	Warrant	Common Stock	221,150	22	113
NewVoiceMedia Limited(4)(9)	Software	Warrant	Preferred Series E	225,586	33	55
Poplicus, Inc.(14)	Software	Warrant	Preferred Series C	2,595,230		110
Soasta, Inc.(14)	Software	Warrant	Preferred Series E	410,800	691	561
Sonian, Inc.(14)	Software	Warrant	Preferred Series C	185,949	106	39
Touchcommerce, Inc.(14)	Software	Warrant	Preferred Series E	2,282,968	446	581
Subtotal: Software (0.51%)*					3,601	3,638
Specialty Pharmaceuticals						
Alimera Sciences, Inc.(3)	Specialty Pharmaceuticals	Warrant	Common Stock	660,377	729	435
QuatRx Pharmaceuticals Company	Specialty Pharmaceuticals	Warrant	Preferred Series E	155,324	307	
Subtotal: Specialty Pharmaceuticals (0.06%)*					1,036	435
Surgical Devices						
Gynesonics, Inc.(14)	Surgical Devices	Warrant	Preferred Series C	180,480	$ 75	$ 12
	Surgical Devices	Warrant	Preferred Series D	1,575,965	320	223
Total Gynesonics, Inc.				1,756,445	395	235
Transmedics, Inc.	Surgical Devices	Warrant	Preferred Series B	40,436	224	2
	Surgical Devices	Warrant	Preferred Series D	175,000	100	170
	Surgical Devices	Warrant	Preferred Series F	16,476	3	3
Total Transmedics, Inc.				231,912	327	175
Subtotal: Surgical Devices (0.06%)*					722	410
Total: Warrant Investments (3.21%)*					40,761	22,987
Total Investments (167.42%)*					$ 1,252,281	$ 1,200,638

* Value as a percent of net assets

(1) Preferred and common stock, warrants, and equity interests are generally non-income producing.
(2) Gross unrealized appreciation, gross unrealized depreciation, and net depreciation for federal income tax purposes totaled $29.3 million, $81.4 million and $52.1 million respectively. The tax cost of investments is $1.3 billion.
(3) Except for warrants in 37 publicly traded companies and common stock in 20 publicly traded companies, all investments are restricted at December 31, 2015 and were valued at fair value as determined in good faith by the Board of Directors. No unrestricted securities of the same issuer are outstanding. The Company uses the Standard Industrial Code for classifying the industry grouping of its portfolio companies.
(4) Non-U.S. company or the company s principal place of business is outside the United States.
(5) Affiliate investment as defined under the 1940 Act in which Hercules owns at least 5% but generally less than 25% of the company s voting securities.
(6) Control investment as defined under the 1940 Act in which Hercules owns at least 25% of the company s voting securities or has greater than 50% representation on its board. There were no control investments at December 31, 2015.
(7) Debt is on non-accrual status at December 31, 2015, and is therefore considered non-income producing. Note that at December 31, 2015, only the PIK interest is on non-accrual for the Company s debt investment in SkyCross, Inc. and only the $2.1 million PIK loan is on non-accrual for the Company s debt investment in One Planet Ops Inc. (p.k.a. Reply! Inc.).
(8) Denotes that all or a portion of the debt investment is convertible senior debt.
(9) Indicates assets that the Company deems not qualifying assets under section 55(a) of the 1940 Act. Qualifying assets must represent at least 70% of the Company s total assets at the time of acquisition of any additional non-qualifying assets.
(10) Denotes that all or a portion of the debt investment secures the notes offered in the Debt Securitizations.
(11) Denotes that all or a portion of the debt investment is pledged as collateral under the Wells Facility.
(12) Denotes that all or a portion of the debt investment principal includes accumulated PIK interest and is net of repayments.

See notes to consolidated financial statements.

[Table of Contents](#)

[Index to Financial Statements](#)

HERCULES CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2015

(unaudited)

(dollars in thousands)

(13) Denotes that all or a portion of the debt investment includes an exit fee receivable. This fee ranges from 0.8% to 17.1% of the total debt commitment based on the contractual terms of our loan servicing agreements.
(14) Denotes that all or a portion of the investment in this portfolio company is held by HT II or HT III, the Company s wholly-owned SBIC subsidiaries.
(15) The stated maturity date for the Tectura assets reflects the last extension of the forbearance period on these loans. The borrower loans remain outstanding and management is continuing to work with the borrower to satisfy the obligations. The Company s investment team and Investment Committee continue to closely monitor developments at the borrower company.
(16) Repayment of debt investment is delinquent of the contractual maturity date.

See notes to consolidated financial statements.

Table of Contents

Index to Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Description of Business and Basis of Presentation

Hercules Capital, Inc. (the Company) is a specialty finance company focused on providing senior secured loans to high-growth, innovative venture capital-backed companies in a variety of technology, life sciences, and sustainable and renewable technology industries. The Company sources its investments through its principal office located in Palo Alto, CA, as well as through its additional offices in Boston, MA, New York, NY, Washington, DC, Santa Monica, CA, Hartford, CT, and San Diego, CA. The Company was incorporated under the General Corporation Law of the State of Maryland in December 2003.

The Company is an internally managed, non-diversified closed-end investment company that has elected to be regulated as a business development company (BDC) under the Investment Company Act of 1940, as amended (the 1940 Act). From incorporation through December 31, 2005, the Company was taxed as a corporation under Subchapter C of the Internal Revenue Code of 1986, as amended (the Code). Effective January 1, 2006, the Company elected to be treated for tax purposes as a regulated investment company, or RIC, under Subchapter M of the Code (see Note 5). As an investment company, the Company follows accounting and reporting guidance as set forth in Topic 946 (Financial Services Investment Companies) of the Accounting Standards Codification, as amended (ASC).

Hercules Technology II, L.P. (HT II), Hercules Technology III, L.P. (HT III), and Hercules Technology IV, L.P. (HT IV), are Delaware limited partnerships that were formed in January 2005, September 2009 and December 2010, respectively. HT II and HT III were licensed to operate as small business investment companies (SBICs) under the authority of the Small Business Administration (SBA) on September 27, 2006 and May 26, 2010, respectively. As SBICs, HT II and HT III are subject to a variety of regulations concerning, among other things, the size and nature of the companies in which they may invest and the structure of those investments. HT IV was formed in anticipation of receiving an additional SBIC license; however, the Company has not yet applied for such license, and HT IV currently has no material assets or liabilities. The Company also formed Hercules Technology SBIC Management, LLC, or (HTM), a limited liability company in November 2003. HTM is a wholly owned subsidiary of the Company and serves as the limited partner and general partner of HT II and HT III (see Note 4 to the Company s consolidated financial statements).

HT II and HT III hold approximately $100.4 million and $252.7 million in assets, respectively, and they accounted for approximately 5.5% and 14.0% of the Company s total assets, respectively, prior to consolidation at September 30, 2016.

The Company also established wholly owned subsidiaries, all of which are structured as Delaware corporations and limited liability companies, to hold portfolio companies organized as limited liability companies, or LLCs (or other forms of pass-through entities). By investing through these wholly owned subsidiaries, the Company is able to benefit from the tax treatment of these entities and create a tax structure that is more advantageous with respect to the Company s RIC status. These taxable subsidiaries are consolidated for U.S. GAAP financial reporting purposes, and the portfolio investments held by these taxable subsidiaries are included in the Company s consolidated financial statements and recorded at fair value. These taxable subsidiaries are not consolidated with Hercules for income tax purposes and may generate income tax expense, or benefit, and tax assets and liabilities as a result of their ownership of certain portfolio investments.

The consolidated financial statements include the accounts of the Company, its subsidiaries and its consolidated securitization VIE. All significant inter-company accounts and transactions have been eliminated in consolidation. In accordance with Article 10 of Regulation S-X, the Company does not consolidate portfolio company investments. It is not appropriate for an investment company to consolidate a portfolio company that is not an investment company. Rather, an investment company s interest in portfolio companies that are not investment companies should be measured at fair value in accordance with ASC Topic 946.

Table of Contents

Index to Financial Statements

The accompanying consolidated interim financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information, and pursuant to the requirements for reporting on Form 10-Q and Articles 6 and 10 of Regulation S-X. Accordingly, certain disclosures accompanying annual consolidated financial statements prepared in accordance with U.S. GAAP are omitted. In the opinion of management, all adjustments consisting solely of normal recurring accruals considered necessary for the fair presentation of consolidated financial statements for the interim periods have been included. The current period s results of operations are not necessarily indicative of results that ultimately may be achieved for the full fiscal year. Therefore, the interim unaudited consolidated financial statements and notes should be read in conjunction with the audited consolidated financial statements and notes thereto for the period ended December 31, 2015. The year-end Consolidated Statement of Assets and Liabilities data was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP.

Financial statements prepared on a U.S. GAAP basis require management to make estimates and assumptions that affect the amounts and disclosures reported in the consolidated financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The Consolidated Financial Statements include the accounts of the Company and its subsidiaries and all VIEs of which the Company is the primary beneficiary. All intercompany accounts and transactions have been eliminated in consolidation.

A VIE is an entity that either (i) has insufficient equity to permit the entity to finance its activities without additional subordinated financial support or (ii) has equity investors who lack the characteristics of a controlling financial interest. The primary beneficiary of a VIE is the party with both the power to direct the activities of the VIE that most significantly impact the VIE s economic performance and the obligation to absorb the losses or the right to receive benefits that could be significant to the VIE.

To assess whether the Company has the power to direct the activities of a VIE that most significantly impact its economic performance, the Company considers all the facts and circumstances including its role in establishing the VIE and its ongoing rights and responsibilities. This assessment includes identifying the activities that most significantly impact the VIE s economic performance and identifying which party, if any, has power over those activities. In general, the party that makes the most significant decisions affecting the VIE is determined to have the power to direct the activities of a VIE. To assess whether the Company has the obligation to absorb the losses or the right to receive benefits that could potentially be significant to the VIE, the Company considers all of its economic interests, including debt and equity interests, servicing rights and fee arrangements, and any other variable interests in the VIE. If the Company determines that it is the party with the power to make the most significant decisions affecting the VIE, and the Company has a potentially significant interest in the VIE, then it consolidates the VIE.

The Company performs periodic reassessments, usually quarterly, of whether it is the primary beneficiary of a VIE. The reassessment process considers whether the Company has acquired or divested the power to direct the activities of the VIE through changes in governing documents or other circumstances. The Company also reconsiders whether entities previously determined not to be VIEs have become VIEs, based on certain events, and therefore are subject to the VIE consolidation framework.

As of the date of this report, the only VIE consolidated by the Company is its securitization VIE formed in conjunction with the issuance of the 2021 Asset-Backed Notes (as defined herein). See Note 4 Borrowings .

Table of Contents

Index to Financial Statements

Reclassification

Certain balances from prior years have been reclassified in order to conform to the current year presentation.

Change in Accounting Principle

As of January 1, 2016, the Company adopted FASB Accounting Standards Update (ASU) 2015-03 Simplifying the Presentation of Debt Issuance Costs and ASU 2015-15 Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements, which collectively require debt issuance costs to be presented on the balance sheet as a direct deduction from the associated debt liability, except for debt issuance costs associated with line-of-credit arrangements. Adoption of these standards results in the reclassification of debt issuance costs from Other Assets and the presentation of the Company s SBA Debentures, 2019 Notes, 2024 Notes, 2021 Asset-Backed Notes, and Convertible Senior Notes net of the associated debt issuance costs for each instrument in the liabilities section on the Consolidated Statement of Assets and Liabilities. In addition, the comparative Consolidated Statement of Assets and Liabilities as of December 31, 2015 has been adjusted to apply the change in accounting principle retrospectively. Specifically, the presentation of the Company s Other Assets, SBA Debentures, 2019 Notes, 2024 Notes, 2021 Asset-Backed Notes, and Convertible Senior Notes line items were adjusted by the amount of unamortized debt issuance costs for each instrument. There is no impact to the Company s Consolidated Statement of Operations. In addition, there is no change to the presentation of the Wells Facility or Union Bank Facility as debt issuance costs are presented separately as an asset on the Consolidated Statement of Assets and Liabilities.

Debt issuance costs are fees and other direct incremental costs incurred by the Company in obtaining debt financing and are recognized as prepaid expenses and amortized over the life of the related debt instrument using the effective yield method or the straight line method, which closely approximates the effective yield method. In accordance with ASU 2015-03 and ASU 2015-15 debt issuance costs are presented as a reduction to the associated liability balance on the Consolidated Statement of Assets and Liabilities, except for debt issuance costs associated with line-of-credit arrangements. Debt issuance costs, net of accumulated amortization, were as follows as of September 30, 2016 and December 31, 2015.

(in thousands)	**September 30, 2016**	**December 31, 2015**
SBA Debentures	$ 2,867	$ 3,371
2019 Notes	1,705	2,185
2024 Notes	7,282	2,872
2021 Asset-Backed Notes	1,473	2,305
Convertible Senior Notes		44
Wells Facility (1)	608	669
Union Bank Facility (1)	880	229
Total	$ 14,815	$ 11,675

(1) As the Wells Facility and Union Bank Facility are line-of-credit arrangements, the debt issuance costs associated with these instruments are presented separately as an asset on the Consolidated Statement of Assets and Liabilities in accordance with ASU 2015-15. As the Union Bank Facility was replaced on May 5, 2016, amounts included above prior to May 5, 2016 relate to the Prior Union Bank Facility (as defined herein, see Note 4).

Valuation of Investments

The most significant estimate inherent in the preparation of the Company s consolidated financial statements is the valuation of investments and the related amounts of unrealized appreciation and depreciation of investments recorded.

At September 30, 2016, approximately 93.0% of the Company s total assets represented investments in portfolio companies whose fair value is determined in good faith by the Board of Directors. Value, as defined in Section 2(a)(41) of the 1940 Act, is (i) the market price for those securities for which a market quotation is readily available and (ii) for all other securities and assets, fair value is as determined in good faith by the Board

Table of Contents

Index to Financial Statements

of Directors. The Company s investments are carried at fair value in accordance with the 1940 Act and ASC Topic 946 and measured in accordance with ASC Topic 820 (Fair Value Measurements). The Company s debt securities are primarily invested in venture capital-backed companies in technology-related industries including technology, drug discovery and development, biotechnology, life sciences, healthcare, and sustainable and renewable technology at all stages of development. Given the nature of lending to these types of businesses, substantially all of the Company s investments in these portfolio companies are considered Level 3 assets under ASC Topic 820 because there is no known or accessible market or market indexes for these investment securities to be traded or exchanged. As such, the Company values substantially all of its investments at fair value as determined in good faith pursuant to a consistent valuation policy by the Company s Board of Directors in accordance with the provisions of ASC Topic 820 and the 1940 Act. Due to the inherent uncertainty in determining the fair value of investments that do not have a readily available market value, the fair value of the Company s investments determined in good faith by its Board of Directors may differ significantly from the value that would have been used had a readily available market existed for such investments, and the differences could be material.

The Company may from time to time engage an independent valuation firm to provide the Company with valuation assistance with respect to certain portfolio investments. The Company engages independent valuation firms on a discretionary basis. Specifically, on a quarterly basis, the Company will identify portfolio investments with respect to which an independent valuation firm will assist in valuing. The Company selects these portfolio investments based on a number of factors, including, but not limited to, the potential for material fluctuations in valuation results, credit quality and the time lapse since the last valuation of the portfolio investment by an independent valuation firm.

The Company intends to continue to engage an independent valuation firm to provide management with assistance regarding the Company s determination of the fair value of selected portfolio investments each quarter unless directed by the Board of Directors to cancel such valuation services. The scope of services rendered by an independent valuation firm is at the discretion of the Board of Directors. The Company s Board of Directors is ultimately, and solely, responsible for determining the fair value of the Company s investments in good faith.

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

(1) the Company s quarterly valuation process begins with each portfolio company being initially valued by the investment professionals responsible for the portfolio investment;

(2) preliminary valuation conclusions are then documented and business based assumptions are discussed with the Company s investment committee;

(3) the Audit Committee of the Board of Directors reviews the preliminary valuation of the investments in the portfolio as provided by the investment committee, which incorporates the results of the independent valuation firm as appropriate; and

(4) the Board of Directors, upon the recommendation of the Audit Committee, discusses valuations and determines the fair value of each investment in the Company s portfolio in good faith based on the input of, where applicable, the respective independent valuation firm and the investment committee.

ASC Topic 820 establishes a framework for measuring the fair value of assets and liabilities and outlines a fair value hierarchy which prioritizes the inputs used to measure fair value and the effect of fair value measures on earnings. ASC Topic 820 also requires disclosure for fair value measurements based on the level within the hierarchy of the information used in the valuation. ASC Topic 820 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Table of Contents

Index to Financial Statements

The Company has categorized all investments recorded at fair value in accordance with ASC Topic 820 based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels, defined by ASC Topic 820 and directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities, are as follows:

Level 1 Inputs are unadjusted, quoted prices in active markets for identical assets at the measurement date. The types of assets carried at Level 1 fair value generally are equities listed in active markets.

Level 2 Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset in connection with market data at the measurement date and for the extent of the instrument s anticipated life. Fair valued assets that are generally included in this category are publically held debt investments and warrants held in a public company.

Level 3 Inputs reflect management s best estimate of what market participants would use in pricing the asset at the measurement date. It includes prices or valuations that require inputs that are both significant to the fair value measurement and unobservable. Generally, assets carried at fair value and included in this category are the debt investments and warrants and equities held in a private company.

Investments measured at fair value on a recurring basis are categorized in the tables below based upon the lowest level of significant input to the valuations as of September 30, 2016 and as of December 31, 2015. The Company transfers investments in and out of Level 1, 2 and 3 as of the beginning balance sheet date, based on changes in the use of observable and unobservable inputs utilized to perform the valuation for the period. During the nine months ended September 30, 2016, there were no transfers between Levels 1 or 2.

(in thousands) **Description**	**Balance September 30, 2016**	**Quoted Prices In Active Markets For Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Senior Secured Debt	$ 1,224,121	$	$ 5,981	$ 1,218,140
Preferred Stock	41,828			41,828
Common Stock	26,923	21,225		5,698
Warrants	27,738		3,572	24,166
Escrow Receivable	1,180			1,180
Total	$ 1,321,790	$ 21,225	$ 9,553	$ 1,291,012

(in thousands) **Description**	**Balance December 31, 2015**	**Quoted Prices In Active Markets For Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Senior Secured Debt	$ 1,110,209	$	$ 7,813	$ 1,102,396
Preferred Stock	35,245			35,245
Common Stock	32,197	30,670		1,527
Warrants	22,987		4,422	18,565
Escrow Receivable	2,967			2,967
Total	$ 1,203,605	$ 30,670	$ 12,235	$ 1,160,700

Table of Contents

Index to Financial Statements

The table below presents a reconciliation for all financial assets and liabilities measured at fair value on a recurring basis, excluding accrued interest components, using significant unobservable inputs (Level 3) for the nine months ended September 30, 2016 and the year ended December 31, 2015.

(in thousands)	Balance January 1, 2016	Net Realized Gains (Losses)(1)	Net Change in Unrealized Appreciation (Depreciation)(2)	Purchases(5)	Sales	Repayments(6)	Gross Transfers into Level 3(3)	Gross Transfers out of Level 3(3)	Balance September 30, 2016
Senior Debt	$ 1,102,396	$ (6,868)	$ (9,948)	$ 475,551	$	$ (338,430)	$	$ (4,561)	$ 1,218,140
Preferred Stock	35,245	(334)	1,599	6,820	(1,367)		626	(761)	41,828
Common Stock	1,527		(590)				4,761		5,698
Warrants	18,565	(283)	4,270	3,084	(906)			(564)	24,166
Escrow Receivable	2,967			1,729	(3,516)				1,180
Total	$ 1,160,700	$ (7,485)	$ (4,669)	$ 487,184	$ (5,789)	$ (338,430)	$ 5,387	$ (5,886)	$ 1,291,012

(in thousands)	Balance January 1, 2015	Net Realized Gains (Losses)(1)	Net Change in Unrealized Appreciation (Depreciation)(2)	Purchases(5)	Sales	Repayments(6)	Gross Transfers into Level 3(4)	Gross Transfers out of Level 3(4)	Balance December 31, 2015
Senior Debt	$ 923,906	$ (2,295)	$ (12,930)	$ 699,555	$	$ (505,274)	$	$ (566)	$ 1,102,396
Preferred Stock	57,548	2,598	(1,539)	15,076	(4,542)		685	(34,581)	35,245
Common Stock	1,387	(298)	743		(305)				1,527
Warrants	21,923	(3,849)	(4,749)	5,311	1,220			(1,291)	18,565
Escrow Receivable	3,598	71		511	(1,032)	(181)			2,967
Total	$ 1,008,362	$ (3,773)	$ (18,475)	$ 720,453	$ (4,659)	$ (505,455)	$ 685	$ (36,438)	$ 1,160,700

(1) Included in net realized gains or losses in the accompanying Consolidated Statement of Operations.

(2) Included in net change in unrealized appreciation (depreciation) in the accompanying Consolidated Statement of Operations.

(3) Transfers out of Level 3 during the nine months ended September 30, 2016 relate to the exercise of warrants in TPI Composites, Inc. and Touchcommerce, Inc. to common stock in an initial public offering, or IPO, and acquisition, respectively; the exercise of warrants in Ping Identity Corporation to preferred stock; the conversion of debt to equity in Optiscan Biomedical Corp and Achilles Technology Management Co II, Inc. and the conversion of the Company s preferred shares to common shares in SCIEnergy, Inc. Transfers into Level 3 during the nine months ended September 30, 2016 relate to the acquisition of preferred stock as a result of the exercise of warrants in Ping Identity Corporation, the conversion of debt to equity in Optiscan Biomedical Corp and Achilles Technology Management Co II, Inc. and the conversion of the Company s preferred shares to common shares in SCIEnergy, Inc.

(4) Transfers out of Level 3 during the year ended December 31, 2015 relate to the IPOs of Box, Inc., ZP Opco, Inc. (p.k.a. Zosano Pharma, Inc.), Neos Therapeutics, Edge Therapeutics Inc., ViewRay, Inc., and Cerecor, Inc. in addition to the exercise of warrants in both Forescout, Inc. and Atrenta, Inc. to preferred stock. Transfers into Level 3 during the year ended December 31, 2015 relate to the acquisition of preferred stock as a result of the exercise of warrants in both Forescout, Inc. and Atrenta, Inc. and the conversion of debt to equity in Home Dialysis Plus and Gynesonics.

(5) Amounts listed above are inclusive of loan origination fees received at the inception of the loan which are deferred and amortized into fee income as well as the accretion of existing loan discounts and fees during the period. Escrow receivable purchases may include additions due to proceeds held in escrow from the liquidation of level 3 investments.

(6) Amounts listed above include the acceleration and payment of loan discounts and loan fees due to early payoffs or restructures.

For the nine months ended September 30, 2016, approximately $315,000 in net unrealized appreciation and $590,000 in net unrealized depreciation was recorded for preferred stock and common stock Level 3 investments, respectively, relating to assets still held at the reporting date. For the same period, approximately $22.8 million in net unrealized depreciation and $3.5 million in net unrealized appreciation was recorded for debt and warrant Level 3 investments, respectively, relating to assets still held at the reporting date.

For the year ended December 31, 2015, approximately $179,000 in net unrealized depreciation and $745,000 in net unrealized appreciation was recorded for preferred stock and common stock Level 3 investments, respectively, relating to assets still held at the reporting date. For the same period, approximately $13.7 million and $5.9 million in net unrealized depreciation was recorded for debt and warrant Level 3 investments, respectively, relating to assets still held at the reporting date.

The following tables provide quantitative information about the Company s Level 3 fair value measurements as of September 30, 2016 and December 31, 2015. In addition to the techniques and inputs noted in the tables below, according

Table of Contents

Index to Financial Statements

to the Company s valuation policy the Company may also use other valuation techniques and methodologies when determining the Company s fair value measurements. The tables below are not intended to be all-inclusive, but rather provide information on the significant Level 3 inputs as they relate to the Company s fair value measurements.

The significant unobservable input used in the fair value measurement of the Company s escrow receivables is the amount recoverable at the contractual maturity date of the escrow receivable.

Investment Type - Level Three Debt Investments	Fair Value at September 30, 2016 (in thousands)	Valuation Techniques/ Methodologies	Unobservable Input [(a)]	Range	Weighted Average[(b)]
Pharmaceuticals	$96,647	Originated Within 6 Months	Origination Yield	12.24% - 15.39%	13.70%
	420,472	Market Comparable Companies	Hypothetical Market Yield	8.96% - 20.56%	12.61%
			Premium/(Discount)	0.00% - 0.75%	
	2,224	Liquidation [(c)]	Probability weighting of alternative outcomes	25.00% - 100.00%	
Technology	87,063	Originated Within 6 Months	Origination Yield	9.75% - 21.90%	14.66%
	247,989	Market Comparable Companies	Hypothetical Market Yield	10.49% - 16.60%	12.35%
			Premium/(Discount)	(0.50%) - 0.25%	
	36,349	Liquidation [(c)]	Probability weighting of alternative outcomes	15.00% - 100.00%	
Sustainable and Renewable Technology	24,916	Originated Within 6 Months	Origination Yield	15.60%	15.60%
	152,520	Market Comparable Companies	Hypothetical Market Yield	6.81% - 22.75%	14.44%
			Premium/(Discount)	(0.25%) - 0.25%	
Medical Devices	17,082	Originated Within 6 Months	Origination Yield	14.64% - 18.13%	15.58%
	74,506	Market Comparable Companies	Hypothetical Market Yield	10.35% - 16.44%	13.75%
			Premium/(Discount)	(0.25%) - 0.50%	
	2,255	Liquidation [(c)]	Probability weighting of alternative outcomes	100.00%	
Lower Middle Market	5,436	Market Comparable Companies	Hypothetical Market Yield	13.33% - 14.58%	14.02%
			Premium/(Discount)	0.25% - 0.50%	
	24,542	Liquidation [(c)]	Probability weighting of alternative outcomes	2.50% - 100.00%	
		Debt Investments Where Fair Value Approximates Cost			
		Imminent Payoffs [(d)]			
	26,139	Debt Investments Maturing in Less than One Year			
	$1,218,140	**Total Level Three Debt Investments**			

(a) The significant unobservable inputs used in the fair value measurement of the Company s debt securities are hypothetical market yields and premiums/(discounts). The hypothetical market yield is defined as the exit price of an investment in a hypothetical market to hypothetical market participants where buyers and sellers are willing participants. The premiums (discounts) relate to company specific characteristics such as underlying investment performance, security liens, and other characteristics of the investment. Significant increases (decreases) in the inputs in isolation may result in a significantly lower (higher) fair value measurement, depending on the materiality of the investment. Debt investments in the industries noted in the Company s Consolidated Schedule of Investments are included in the industries noted above as follows:

Pharmaceuticals, above, is comprised of debt investments in the Specialty Pharmaceuticals, Drug Discovery and Development, Drug Delivery and Biotechnology Tools industries in the Consolidated Schedule of Investments.

Technology, above, is comprised of debt investments in the Software, Semiconductors, Internet Consumer and Business Services, Consumer and Business Products, Information Services, and Communications and Networking industries in the Consolidated Schedule of Investments.

Sustainable and Renewable Technology, above, aligns with the Sustainable and Renewable Technology Industry in the Consolidated Schedule of Investments.

Medical Devices, above, is comprised of debt investments in the Surgical Devices and Medical Devices and Equipment industries in the Consolidated Schedule of Investments.

Lower Middle Market, above, is comprised of debt investments in the Communications and Networking, Electronics and Computer Hardware, Healthcare Services Other, Information Services, Internet Consumer and Business Services, Media/Content/Info, and Specialty Pharmaceuticals industries in the Consolidated Schedule of Investments.

(b) The weighted averages are calculated based on the fair market value of each investment.
(c) The significant unobservable input used in the fair value measurement of impaired debt securities is the probability weighting of alternative outcomes.
(d) Imminent payoffs represent debt investments that the Company expects to be fully repaid within the next three months, prior to their scheduled maturity date.

Table of Contents

Index to Financial Statements

Investment Type - Level Three Debt Investments	Fair Value at December 31, 2015 (in thousands)	Valuation Techniques/ Methodologies	Unobservable Input [(a)]	Range	Weighted Average [(b)]
Pharmaceuticals	$72,981	Originated Within 6 Months	Origination Yield	10.35% - 16.16%	12.29%
	406,590	Market Comparable Companies	Hypothetical Market Yield	9.55% - 16.75%	12.67%
			Premium/(Discount)	(0.75%) - 0.00%	
Technology	6,873	Originated Within 6 Months	Origination Yield	15.19%	15.19%
	283,045	Market Comparable Companies	Hypothetical Market Yield	6.57% - 23.26%	13.22%
			Premium/(Discount)	(0.25%) - 0.50%	
			Probability weighting of alternative outcomes	10.00% - 100.00%	
	36,815	Liquidation [(c)]			
Sustainable and Renewable Technology	11,045	Originated Within 6 Months	Origination Yield	19.74%	19.74%
	105,382	Market Comparable Companies	Hypothetical Market Yield	10.62% - 27.31%	15.91%
			Premium/(Discount)	0.00%	
	1,013	Liquidation [(c)]	Probability weighting of alternative outcomes	100.00%	
Medical Devices	80,530	Market Comparable Companies	Hypothetical Market Yield	11.65% - 19.90%	15.26%
			Premium/(Discount)	0.00% - 0.50%	
	3,764	Liquidation [(c)]	Probability weighting of alternative outcomes	50.00%	
Lower Middle Market	17,811	Originated Within 6 Months	Origination Yield	12.70% - 14.50%	13.00%
	15,151	Liquidation(c)	Probability weighting of alternative outcomes	25.00% - 75.00%	
		Debt Investments Where Fair Value Approximates Cost			
	12,434	Imminent Payoffs [(d)]			
	48,962	Debt Investments Maturing in Less than One Year			
	$1,102,396	**Total Level Three Debt Investments**			

(a) The significant unobservable inputs used in the fair value measurement of the Company s debt securities are hypothetical market yields and premiums/(discounts). The hypothetical market yield is defined as the exit price of an investment in a hypothetical market to hypothetical market participants where buyers and sellers are willing participants. The premiums (discounts) relate to company specific characteristics such as underlying investment performance, security liens, and other characteristics of the investment. Significant increases (decreases) in the inputs in isolation may result in a significantly lower (higher) fair value measurement, depending on the materiality of the investment. Debt investments in the industries noted in the Company s Consolidated Schedule of Investments are included in the industries noted above as follows:

Pharmaceuticals, above, is comprised of debt investments in the Specialty Pharmaceuticals, Drug Discovery and Development and Drug Delivery industries in the Consolidated Schedule of Investments.

Technology, above, is comprised of debt investments in the Software, Semiconductors, Internet Consumer and Business Services, Consumer and Business Products, Information Services, and Communications and Networking industries in the Consolidated Schedule of Investments.

Sustainable and Renewable Technology, above, aligns with the Sustainable and Renewable Technology Industry in the Consolidated Schedule of Investments.

Medical Devices, above, is comprised of debt investments in the Surgical Devices and Medical Devices and Equipment industries in the Consolidated Schedule of Investments.

Lower Middle Market, above, is comprised of debt investments in the Communications and Networking, Electronics and Computer Hardware, Healthcare Services Other, Information Services, Internet Consumer and Business Services, Media/Content/Info, and Specialty Pharmaceuticals industries in the Consolidated Schedule of Investments.

(b) The weighted averages are calculated based on the fair market value of each investment.
(c) The significant unobservable input used in the fair value measurement of impaired debt securities is the probability weighting of alternative outcomes.
(d) Imminent payoffs represent debt investments that the Company expects to be fully repaid within the next three months, prior to their scheduled maturity date.

Table of Contents

Index to Financial Statements

Investment Type-Level Three Equity and Warrant Investments	Fair Value at September 30, 2016 (in thousands)	Valuation Techniques/ Methodologies	Unobservable Input [a]	Range	Weighted Average[e]
Equity Investments	$6,114	Market Comparable Companies	EBITDA Multiple [b]	5.2x - 21.3x	7.9x
			Revenue Multiple [b]	0.8x - 4.3x	1.9x
			Discount for Lack of Marketability [c]	13.67% - 26.30%	15.03%
			Average Industry Volatility [d]	49.01% - 119.05%	58.35%
			Risk-Free Interest Rate	0.55% - 0.66%	0.56%
			Estimated Time to Exit (in months)	10 - 17	11
	31,981	Market Adjusted OPM Backsolve	Average Industry Volatility [d]	29.83%- 98.58%	67.74%
			Risk-Free Interest Rate	0.20% - 1.30%	0.69%
			Estimated Time to Exit (in months)	1 - 41	14
	9,431	Other[f]			
Warrant Investments	6,565	Market Comparable Companies	EBITDA Multiple [b]	2.0x - 63.1x	12.5x
			Revenue Multiple [b]	0.3x - 6.4x	2.7x
			Discount for Lack of Marketability [c]	13.67% - 28.57%	20.21%
			Average Industry Volatility [d]	37.90% - 104.61%	64.62%
			Risk-Free Interest Rate	0.55% - 0.99%	0.71%
			Estimated Time to Exit (in months)	10 - 48	22
	17,601	Market Adjusted OPM Backsolve	Average Industry Volatility [d]	29.83% - 119.05%	59.99%
			Risk-Free Interest Rate	0.20% - 1.43%	0.68%
			Estimated Time to Exit (in months)	1 - 43	16
Total Level Three Warrant and Equity Investments	$71,692				

(a) The significant unobservable inputs used in the fair value measurement of the Company s warrant and equity-related securities are revenue and/or EBITDA multiples and discounts for lack of marketability. Additional inputs used in the Black Scholes option pricing model (OPM) include industry volatility, risk free interest rate and estimated time to exit. Significant increases (decreases) in the inputs in isolation may result in a significantly higher (lower) fair value measurement, depending on the materiality of the investment. For some investments, additional consideration may be given to data from the last round of financing or merger/acquisition events near the measurement date.
(b) Represents amounts used when the Company has determined that market participants would use such multiples when pricing the investments.
(c) Represents amounts used when the Company has determined market participants would take into account these discounts when pricing the investments.
(d) Represents the range of industry volatility used by market participants when pricing the investment.
(e) Weighted averages are calculated based on the fair market value of each investment.
(f) The fair market value of these investments is derived based on recent private market transaction prices.

Table of Contents

Index to Financial Statements

Investment Type - Level Three Equity and Warrant Investments	Fair Value at December 31, 2015 (in thousands)	Valuation Techniques/ Methodologies	Unobservable Input (a)	Range	Weighted Average(e)
Equity Investments	$5,898	Market Comparable Companies	EBITDA Multiple (b)	3.3x - 19.5x	7.6x
			Revenue Multiple (b)	0.7x - 3.7x	2.1x
			Discount for Lack of Marketability (c)	14.31% - 25.11%	18.05%
			Average Industry Volatility (d)	37.72% - 109.64%	60.27%
			Risk-Free Interest Rate	0.61% - 1.09%	0.74%
			Estimated Time to Exit (in months)	10 - 26	15
	30,874	Market Adjusted OPM Backsolve	Average Industry Volatility (d)	28.52% - 86.41%	65.40%
			Risk-Free Interest Rate	0.36% - 1.51%	0.80%
			Estimated Time to Exit (in months)	10 - 47	17
Warrant Investments	7,904	Market Comparable Companies	EBITDA Multiple (b)	5.1x - 57.9x	16.0x
			Revenue Multiple (b)	0.4x - 9.6x	3.0x
			Discount for Lack of Marketability (c)	10.09% - 31.37%	23.11%
			Average Industry Volatility (d)	39.51% - 73.36%	41.19%
			Risk-Free Interest Rate	0.32% - 1.51%	0.87%
			Estimated Time to Exit (in months)	4 - 47	23
	10,661	Market Adjusted OPM Backsolve	Average Industry Volatility (d)	28.52% - 109.64%	64.31%
			Risk-Free Interest Rate	0.36% - 1.45%	0.85%
			Estimated Time to Exit (in months)	10 - 44	20
Total Level Three Warrant and Equity Investments	$55,337				

(a) The significant unobservable inputs used in the fair value measurement of the Company s warrant and equity-related securities are revenue and/or EBITDA multiples and discounts for lack of marketability. Additional inputs used in the Black Scholes OPM include industry volatility, risk free interest rate and estimated time to exit. Significant increases (decreases) in the inputs in isolation may result in a significantly higher (lower) fair value measurement, depending on the materiality of the investment. For some investments, additional consideration may be given to data from the last round of financing or merger/acquisition events near the measurement date.
(b) Represents amounts used when the Company has determined that market participants would use such multiples when pricing the investments.
(c) Represents amounts used when the Company has determined market participants would take into account these discounts when pricing the investments.
(d) Represents the range of industry volatility used by market participants when pricing the investment.
(e) Weighted averages are calculated based on the fair market value of each investment.

Debt Investments

The Company follows the guidance set forth in ASC Topic 820 which establishes a framework for measuring the fair value of assets and liabilities and outlines a fair value hierarchy, which prioritizes the inputs used to measure fair value and the effect of fair value measures on earnings. The Company s debt securities are primarily invested in venture capital-backed companies in technology-related industries including technology, drug discovery and development, biotechnology, life sciences, healthcare, and sustainable and renewable technology at all stages of development. Given the nature of lending to these types of businesses, substantially all of the Company s investments in these portfolio companies are considered Level 3 assets under ASC Topic 820 because there is no known or accessible market or market indexes for debt instruments for these investment securities to be traded or exchanged. In addition, the Company may, from time to time, invest in public debt of companies that meet the Company s investment objectives. These investments are considered Level 2 assets.

In making a good faith determination of the value of the Company s investments, the Company generally starts with the cost basis of the investment, which includes the value attributed to the original issue discount (OID), if any, and payment-in-kind (PIK) interest or other receivables which have been accrued as earned. The Company then applies the valuation methods as set forth below.

The Company applies a procedure for debt investments that assumes the sale of each investment in a hypothetical market to a hypothetical market participant where buyers and sellers are willing participants. The hypothetical market does not include scenarios where the underlying security was simply repaid or extinguished, but includes an exit concept. The Company determines the yield at inception for each debt investment. The Company then uses senior

Table of Contents

Index to Financial Statements

secured, leveraged loan yields provided by third party providers to determine the change in market yields between inception of the debt security and the measurement date. Industry specific indices and other relevant market data are used to benchmark/assess market based movements.

Under this process, the Company also evaluates the collateral for recoverability of the debt investments. The Company considers each portfolio company s credit rating, security liens and other characteristics of the investment to adjust the baseline yield to derive a credit adjusted hypothetical yield for each investment as of the measurement date. The anticipated future cash flows from each investment are then discounted at the hypothetical yield to estimate each investment s fair value as of the measurement date.

The Company s process includes, among other things, the underlying investment performance, the current portfolio company s financial condition and market changing events that impact valuation, estimated remaining life, current market yield and interest rate spreads of similar securities as of the measurement date. The Company values its syndicated debt investments using broker quotes and bond indices amongst other factors. If there is a significant deterioration of the credit quality of a debt investment, the Company may consider other factors to estimate fair value, including the proceeds that would be received in a liquidation analysis.

The Company records unrealized depreciation on investments when it believes that an investment has decreased in value, including where collection of a debt investment is doubtful or, if under the in-exchange premise, when the value of a debt security is less than amortized cost of the investment. Conversely, where appropriate, the Company records unrealized appreciation if it believes that the underlying portfolio company has appreciated in value and, therefore, that its investment has also appreciated in value or, if under the in-exchange premise, the value of a debt security is greater than amortized cost.

When originating a debt instrument, the Company generally receives warrants or other equity-related securities from the borrower. The Company determines the cost basis of the warrants or other equity-related securities received based upon their respective fair values on the date of receipt in proportion to the total fair value of the debt and warrants or other equity-related securities received. Any resulting discount on the debt investments from recordation of the warrant or other equity instruments is accreted into interest income over the life of the debt investment.

Debt investments that are traded on a public exchange are valued at the prevailing market price at period end.

Equity-Related Securities and Warrants

Securities that are traded in the over-the-counter markets or on a stock exchange will be valued at the prevailing bid price at period end. The Company has a limited amount of equity securities in public companies. In accordance with the 1940 Act, unrestricted publicly traded securities for which market quotations are readily available are valued at the closing market quote on the measurement date.

The Company estimates the fair value of warrants using a Black Scholes OPM. At each reporting date, privately held warrant and equity-related securities are valued based on an analysis of various factors including, but not limited to, the portfolio company s operating performance and financial condition and general market conditions, price to enterprise value or price to equity ratios, discounted cash flow, valuation comparisons to comparable public companies or other industry benchmarks. When an external event occurs, such as a purchase transaction, public offering, or subsequent equity sale, the pricing indicated by that external event is utilized to corroborate the Company s valuation of the warrant and equity-related securities. The Company periodically reviews the valuation of its portfolio companies that have not been involved in a qualifying external event to determine if the enterprise value of the portfolio company may have increased or decreased since the last valuation measurement date.

Table of Contents

Index to Financial Statements

Escrow Receivables

Escrow receivables are collected in accordance with the terms and conditions of the escrow agreement. Escrow balances are typically distributed over a period greater than one year and may accrue interest during the escrow period. Escrow balances are measured for collectability on at least a quarterly basis and fair value is determined based on the amount of the estimated recoverable balances and the contractual maturity date. As of September 30, 2016 there were no material past due escrow receivables.

Portfolio Composition

As required by the 1940 Act, the Company classifies its investments by level of control. Control investments are defined in the 1940 Act as investments in those companies that the Company is deemed to control. Under the 1940 Act, the Company is generally deemed to control a company in which it has invested if it owns 25% or more of the voting securities of such company or has greater than 50% representation on its board. Affiliate investments are investments in those companies that are affiliated companies of the Company, as defined in the 1940 Act, which are not control investments. The Company is deemed to be an affiliate of a company in which it has invested if it owns 5% or more, but generally less than 25%, of the voting securities of such company. Non-control/non-affiliate investments are investments that are neither control investments nor affiliate investments.

The following table summarizes the Company s realized and unrealized gain and loss and changes in our unrealized appreciation and depreciation on control and affiliate investments for the three and nine months ended September 30, 2016 and 2015. The Company did not hold any control investments at September 30, 2015.

(in thousands)			For the Three Months Ended September 30, 2016				For the Nine Months Ended September 30, 2016			
Portfolio Company	**Type**	**Fair Value at September 30, 2016**	**Investment Income**	**Net Change in Unrealized Appreciation/ (Depreciation)**	**Reversal of Unrealized Appreciation / (Depreciation)**	**Realized Gain/(Loss)**	**Investment Income**	**Net Change in Unrealized Appreciation/ (Depreciation)**	**Reversal of Unrealized Appreciation / (Depreciation)**	**Realized Gain/(Loss)**
Control Investments										
SkyCross, Inc.	Control	$	$	$	$	$	$	$ (3,421)	$	$
Achilles Technology Management Co II, Inc.	Control	4,991	16				16			
Total Control Investments		$ 4,991	$ 16	$	$	$	$ 16	$ (3,421)	$	$
Affiliate Investments										
Optiscan BioMedical, Corp.	Affiliate	$ 5,102	$	$ 553	$	$	$ 12	$ (2,833)	$	$
Stion Corporation	Affiliate	821	30				133	539	648	
Total Affiliate Investments		$ 5,923	$ 30	$ 553	$	$	$ 145	$ (2,294)	$ 648	$
Total Control & Affiliate Investments		$ 10,914	$ 46	$ 553	$	$	$ 161	$ (5,715)	$ 648	$

(in thousands)			For the Three Months Ended September 30, 2015				For the Nine Months Ended September 30, 2015			
Portfolio Company	**Type**	**Fair Value at September 30, 2015**	**Investment Income**	**Net Change in Unrealized Appreciation/ (Depreciation)**	**Reversal of Unrealized Appreciation / (Depreciation)**	**Realized Gain/(Loss)**	**Investment Income**	**Net Change in Unrealized Appreciation/ (Depreciation)**	**Reversal of Unrealized Appreciation / (Depreciation)**	**Realized Gain/(Loss)**
Gelesis, Inc.	Affiliate	$ 1,398	$	$ (837)	$	$	$	$ 1,071	$	$

Optiscan BioMedical, Corp.	Affiliate	6,186		(432)				113		
Stion Corporation	Affiliate	1,600	83	420			279	359		
Total Affiliate Investments		$ 9,184	$ 83	$ (849)	$	$	$ 279	$ 1,543	$	$

In June 2016, the Company s investments in SkyCross, Inc. became classified as a control investment as a result of obtaining more than 50% representation on the portfolio company s board. In June 2016 the Company also acquired

Table of Contents

Index to Financial Statements

100% ownership of the equity of Achilles Technology Management Co II, Inc. and classified it as a control investment in accordance with the requirements of the 1940 Act. In June 2016, Achilles Technology Management Co II, Inc. acquired the assets of a global antenna company that produces radio frequency system solutions as part of an article 9 consensual foreclosure and public auction for total consideration in the amount of $4.0 million. In September 2016, the Company made a $1.0 million debt investment in Achilles Technology Management II to provide working capital under the terms of a loan servicing agreement. The Company s investments in Achilles Technology Management Co II, Inc. are carried on the consolidated statement of assets and liabilities at fair value.

As of December 31, 2015, changes to the capitalization structure of the portfolio company Gelesis, Inc. reduced the Company s investment below the threshold for classification as an affiliate investment.

The following table shows the fair value of the Company s portfolio of investments by asset class as of September 30, 2016 and December 31, 2015:

	September 30, 2016		December 31, 2015	
(in thousands)	**Investments at Fair Value**	**Percentage of Total Portfolio**	**Investments at Fair Value**	**Percentage of Total Portfolio**
Senior Secured Debt with Warrants	$ 983,241	74.5%	$ 961,464	80.1%
Senior Secured Debt	268,618	20.3%	171,732	14.3%
Preferred Stock	41,828	3.2%	35,245	2.9%
Common Stock	26,923	2.0%	32,197	2.7%
Total	$ 1,320,610	100.0%	$ 1,200,638	100.0%

A summary of the Company s investment portfolio, at value, by geographic location as of September 30, 2016 and December 31, 2015 is shown as follows:

	September 30, 2016		December 31, 2015	
(in thousands)	**Investments at Fair Value**	**Percentage of Total Portfolio**	**Investments at Fair Value**	**Percentage of Total Portfolio**
United States	$ 1,259,162	95.4%	$ 1,167,281	97.2%
Netherlands	20,040	1.5%	20,112	1.7%
England	19,640	1.5%	8,884	0.8%
Switzerland	12,305	0.9%		0.0%
Canada	5,662	0.4%	595	0.0%
Israel	3,801	0.3%	3,764	0.3%
India		0.0%	2	0.0%
Total	$ 1,320,610	100.0%	$ 1,200,638	100.0%

Table of Contents

Index to Financial Statements

The following table shows the fair value of the Company s portfolio by industry sector at September 30, 2016 and December 31, 2015:

(in thousands)	September 30, 2016 Investments at Fair Value	September 30, 2016 Percentage of Total Portfolio	December 31, 2015 Investments at Fair Value	December 31, 2015 Percentage of Total Portfolio
Drug Discovery & Development	$ 356,190	27.0%	$ 284,266	23.7%
Sustainable and Renewable Technology	195,861	14.8%	159,487	13.3%
Software	188,986	14.3%	147,237	12.3%
Drug Delivery	116,450	8.8%	164,665	13.7%
Medical Devices & Equipment	114,588	8.7%	90,560	7.5%
Media/Content/Info	109,603	8.3%	95,488	7.9%
Internet Consumer & Business Services	92,915	7.0%	88,377	7.4%
Specialty Pharmaceuticals	39,466	3.0%	52,088	4.3%
Healthcare Services, Other	30,198	2.3%	15,131	1.3%
Communications & Networking	18,985	1.5%	33,213	2.8%
Consumer & Business Products	18,755	1.4%	26,611	2.2%
Surgical Devices	12,816	1.0%	11,185	0.9%
Semiconductors	10,925	0.8%	22,705	1.9%
Biotechnology Tools	7,228	0.5%	719	0.1%
Electronics & Computer Hardware	7,061	0.5%	6,928	0.6%
Diagnostic	581	0.1%	321	0.0%
Information Services	2	0.0%	1,657	0.1%
Total	$ 1,320,610	100.0%	$ 1,200,638	100.0%

No single portfolio investment represents more than 10% of the fair value of the investments as of September 30, 2016 and December 31, 2015.

Portfolio Activity

During the three and nine months ended September 30, 2016, the Company funded and or restructured investments in debt securities totaling approximately $130.7 million and $454.4 million, respectively. During the nine months ended September 30, 2016, the Company funded equity investments totaling approximately $7.1 million. During the nine months ended September 30, 2016, the Company converted approximately $4.6 million of debt to equity in two portfolio companies. During the three and nine months ended September 30, 2016 the Company converted $512,000 of warrants to equity in two portfolio companies.

During the three and nine months ended September 30, 2015, the Company funded and or restructured investments in debt securities totaling approximately $157.0 million and $524.2 million, respectively. During the three and nine months ended September 30, 2015, the Company funded equity investments totaling approximately $1.7 million and $7.8 million, respectively. During the nine months ended September 30, 2015, the Company converted $566,000 of debt to equity in two portfolio companies. During the nine months ended September 30, 2015 the Company converted $330,000 of warrants to equity in three portfolio companies.

During the three and nine months ended September 30, 2016, the Company recognized net realized gains of $7.9 million and $3.4 million, respectively. During the three months ended September 30, 2016, the Company recorded gross realized gains of $9.4 million primarily from the sale or acquisition of the Company s holdings in three portfolio companies, including Box, Inc. ($7.8 million), Touchcommerce, Inc. ($698,000), and ReachLocal ($610,000). These gains were offset by gross realized losses of $1.5 million primarily from the write off of the Company s warrant and equity investments in one portfolio company and the Company s debt investment in one portfolio company.

During the nine months ended September 30, 2016, the Company recorded gross realized gains of $13.6 million primarily from the sale or acquisition of investments in five portfolio companies, including Box, Inc. ($8.9 million), Celator Pharmaceuticals, Inc. ($1.5 million), Ping Identity Corporation ($1.3 million), Touchcommerce, Inc. ($698,000) and ReachLocal ($610,000). These gains were offset by gross realized losses of

Table of Contents

Index to Financial Statements

$10.2 million primarily from the liquidation or write off of the Company s warrant and equity investments in six portfolio companies and the Company s debt investments in four portfolio companies, including the settlement of our outstanding debt investment in The Neat Company ($6.2 million).

During the three and nine months ended September 30, 2015, the Company recognized net realized gains of $6.4 million and $8.4 million, respectively. During the three months ended September 30, 2015, the Company recorded gross realized gains of $6.8 million primarily from the sale of investments in three portfolio companies, including Box, Inc. ($2.7 million), Atrenta, Inc. ($2.6 million), and Egalet Corporation ($652,000), and approximately $871,000 from subsequent recoveries received on two previously written-off debt investments. These gains were offset by gross realized losses of $424,000 from the liquidation of the Company s investments in one portfolio company.

During the nine months ended September 30, 2015, the Company recorded gross realized gains of $11.6 million primarily from the sale of investments in seven portfolio companies, including Box, Inc. ($2.7 million), Atrenta, Inc. ($2.6 million), Cempra, Inc. ($2.0 million), Celladon Corporation ($1.4 million), Egalet Corporation ($652,000), Everyday Health, Inc. ($387,000) and Identiv, Inc. ($304,000), and $1.4 million from subsequent recoveries received on two previously written-off debt investments. These gains were partially offset by gross realized losses of $3.2 million from the liquidation of the Company s investments in nine portfolio companies.

Investment Collateral

In the majority of cases, the Company collateralizes its investments by obtaining a first priority security interest in a portfolio company s assets, which may include its intellectual property. In other cases, the Company may obtain a negative pledge covering a company s intellectual property. At September 30, 2016, approximately 91.2% of the Company s debt investments were in a senior secured first lien position, with 42.3% secured by a first priority security in all of the assets of the portfolio company, including its intellectual property; 45.6% secured by a first priority security in all of the assets of the portfolio company and the portfolio company was prohibited from pledging or encumbering its intellectual property, or subject to a negative pledge; and 3.3% secured by a first priority security in all of the assets of the portfolio company, including its intellectual property, with a second lien on the portfolio company s cash and accounts receivable. The remaining 8.8% of the Company s debt investments were secured by a second priority security interest in all of the portfolio company s assets, other than intellectual property. At September 30, 2016 the Company had no equipment only liens on material investments in the Company s portfolio companies.

Income Recognition

The Company records interest income on an accrual basis and recognizes it as earned in accordance with the contractual terms of the loan agreement, to the extent that such amounts are expected to be collected. OID initially represents the value of detachable equity warrants obtained in conjunction with the acquisition of debt securities and is accreted into interest income over the term of the loan as a yield enhancement. When a loan becomes 90 days or more past due, or if management otherwise does not expect that principal, interest and other obligations due will be collected in full, the Company will generally place the loan on non-accrual status and cease recognizing interest income on that loan until all principal and interest due has been paid or the Company believes the portfolio company has demonstrated the ability to repay the Company s current and future contractual obligations. Any uncollected interest related to prior periods is reversed from income in the period that collection of the interest receivable is determined to be doubtful. However, the Company may make exceptions to this policy if the investment has sufficient collateral value and is in the process of collection.

At September 30, 2016, the Company had six debt investments on non-accrual with a cumulative investment cost and approximate fair value of $46.2 million and $9.3 million, respectively. At December 31, 2015, the Company had five debt investments on non-accrual with cumulative investment cost and fair value of approximately $47.4 million and $23.2 million, respectively. In addition, at December 31, 2015, the Company had one debt investment with an investment cost and fair value of approximately $20.1 million and $14.9 million, respectively, for which only the PIK interest was on non-accrual. During the nine months ended September 30, 2016, the Company recognized a realized loss of approximately $6.2 million on the settlement of one debt investment that was on non-accrual at December 31, 2015. In addition, the Company recognized realized losses of $419,000 and $430,000 on the liquidation and partial write off, respectively, of two debt investment that were on non-accrual as of December 31, 2015.

Fee income, generally collected in advance, includes loan commitment and facility fees for due diligence and structuring, as well as fees for transaction services and management services rendered by us to portfolio companies and other third parties. Loan and commitment fees are amortized into income over the contractual life of the loan. Management fees are generally recognized as income when the services are rendered. Loan origination fees are capitalized and then amortized into interest income using the effective interest rate method. In certain loan arrangements, warrants or other equity interests are received from the borrower as additional origination fees. The Company had approximately $37.0 million of unamortized fees at September 30, 2016, of which approximately $34.5 million was included as an offset to the cost basis of the Company s current debt investments and approximately $2.5 million was deferred contingent upon the occurrence of a funding or milestone. At December 31, 2015 the Company had approximately $26.1 million of unamortized fees, of which approximately $23.6 million was included as an offset to the cost basis of the Company s current debt investments and approximately $2.5 million was deferred contingent upon the occurrence of a funding or milestone.

The Company recognizes nonrecurring fees amortized over the remaining term of the loan commencing in the quarter relating to specific loan modifications. Certain fees may still be recognized as one-time fees, including prepayment penalties, fees related to select covenant default, waiver fees and acceleration of previously deferred loan fees and OID related to early loan pay-off or material modification of the specific debt outstanding.

In addition, the Company may also be entitled to an exit fee that is amortized into income over the life of the loan. Loan exit fees to be paid at the termination of the loan are accreted into interest income over the contractual life of the loan. At September 30, 2016 the Company had approximately $30.8 million in exit fees receivable, of which approximately $28.0 million was included as a component of the cost basis of the Company s current debt investments and approximately $2.8 million was a deferred receivable related to expired commitments. At December 31, 2015 the Company had approximately $22.7 million in exit fees receivable, of which approximately $17.4 million was included a component of the cost basis of the Company s current debt investments and approximately $5.3 million was a deferred receivable related to expired commitments.

The Company has debt investments in its portfolio that contain a PIK provision. Contractual PIK interest, which represents contractually deferred interest added to the loan balance that is generally due at the end of the loan term, is generally recorded on the accrual basis to the extent such amounts are expected to be collected. The Company will generally cease accruing PIK interest if there is insufficient value to support the accrual or management does not expect the portfolio company to be able to pay all principal and interest due. The Company recorded approximately $2.1 million and $1.5 million in PIK income during the three months ended September 30, 2016 and 2015, respectively. The Company recorded approximately $5.7 million and $3.3 million in PIK income during the nine months ended September 30, 2016 and 2015, respectively.

To maintain the Company s status as a RIC, PIK and exit fee income must be paid out to stockholders in the form of distributions even though the Company has not yet collected the cash. Amounts necessary to pay these distributions may come from available cash or the liquidation of certain investments.

In certain investment transactions, the Company may provide advisory services. For services that are separately identifiable and external evidence exists to substantiate fair value, income is recognized as earned, which is generally when the investment transaction closes. The Company had no income from advisory services in the three and nine months ended September 30, 2016 and 2015.

Table of Contents

Index to Financial Statements

3. Fair Value of Financial Instruments

Fair value estimates are made at discrete points in time based on relevant information. These estimates may be subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. The Company believes that the carrying amounts of its financial instruments, consisting of cash and cash equivalents, receivables including escrow receivables, accounts payable and accrued liabilities, approximate the fair values of such items due to the short maturity of such instruments. The April 2019 Notes, the September 2019 Notes (together with the April 2019 Notes, the 2019 Notes), the 2024 Notes, the 2021 Asset-Backed Notes, and the SBA debentures, provide a strategic advantage as sources of liquidity due to their flexible structure, long-term duration, and low fixed interest rates. At September 30, 2016, the April 2019 Notes were trading on the New York Stock Exchange, or NYSE, for $25.55 per share at par value, the September 2019 Notes were trading on the NYSE for $25.47 per share at par value and the 2024 Notes were trading on the NYSE for $25.66 per share at par value. The par value at underwriting for each of these notes was $25.00 per share. Based on market quotations on or around September 30, 2016, the 2021 Asset-Backed Notes were quoted for 0.997 per dollar at par value. Calculated based on the net present value of payments over the term of the notes using estimated market rates for similar notes and remaining terms, the fair value of the SBA debentures would be approximately $199.8 million, compared to the carrying amount of $190.2 million as of September 30, 2016.

See the accompanying Consolidated Schedule of Investments for the fair value of the Company s investments. The methodology for the determination of the fair value of the Company s investments is discussed in Note 2.

The liabilities of the Company are recorded at amortized cost and not at fair value on the Consolidated Statement of Assets and Liabilities. The following tables provide additional information about the fair value and level in the fair value hierarchy of the Company s liabilities at September 30, 2016 and December 31, 2015:

(in thousands)

Description	September 30, 2016	Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
2021 Asset-Backed Notes	$ 116,639	$	$ 116,639	$
April 2019 Notes	65,909		65,909	
September 2019 Notes	46,737		46,737	
2024 Notes	251,412		251,412	
SBA Debentures	199,785			199,785
Total	$ 680,482	$	$ 480,697	$ 199,785

(in thousands)

Description	December 31, 2015	Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Convertible Senior Notes(1)	$ 19,540	$	$ 19,540	$
Wells Facility(2)	50,000			50,000
2021 Asset-Backed Notes	128,775		128,775	
April 2019 Notes	65,573		65,573	
September 2019 Notes	46,297		46,297	
2024 Notes	104,401		104,401	
SBA Debentures	194,121			194,121
Total	$ 608,707	$	$ 364,586	$ 244,121

(1) The Convertible Senior Notes were fully settled on or before their contractual maturity date of April 15, 2016.
(2) As of September 30, 2016 there were no borrowings outstanding on the Wells Facility.

Table of Contents

Index to Financial Statements

4. Borrowings

Outstanding Borrowings

At September 30, 2016 and December 31, 2015, the Company had the following available and outstanding borrowings:

	September 30, 2016			December 31, 2015		
(in thousands)	Total Available	Principal	Carrying Value(1)	Total Available	Principal	Carrying Value(1)
SBA Debentures(2)	$ 190,200	$ 190,200	$ 187,333	$ 190,200	$ 190,200	$ 186,829
2019 Notes	110,364	110,364	108,659	110,364	110,364	108,179
2024 Notes	244,945	244,945	237,663	103,000	103,000	100,128
2021 Asset-Backed Notes	117,004	117,004	115,531	129,300	129,300	126,995
Convertible Senior Notes(3)				17,604	17,604	17,478
Wells Facility(4)	120,000			75,000	50,000	50,000
Union Bank Facility(4)	75,000			75,000		
Total	$ 857,513	$ 662,513	$ 649,186	$ 700,468	$ 600,468	$ 589,609

(1) Except for the Wells Facility and Union Bank Facility, all carrying values represent the principal amount outstanding less the remaining unamortized debt issuance costs and unaccreted discount, if any, associated with the loan as of the balance sheet date. See Note 2 Summary of Significant Accounting Policies for the amount of debt issuance cost associated with each borrowing.

(2) At both September 30, 2016 and December 31, 2015, the total available borrowings under the SBA debentures were $190.2 million, of which $41.2 million was available in HT II and $149.0 million was available in HT III.

(3) The Convertible Senior Notes were fully settled on or before their contractual maturity date of April 15, 2016.

(4) Availability subject to the Company meeting the borrowing base requirements. As the Union Bank Facility was replaced on May 5, 2016, amounts included above prior to May 5, 2016 relate to the Prior Union Bank Facility (as defined herein).

Long-Term SBA Debentures

On September 27, 2006, HT II received a license to operate as a SBIC under the SBIC program and is able to borrow funds from the SBA against eligible investments and additional contributions to regulatory capital. Under the Small Business Investment Company Act and current SBA policy applicable to SBICs, a SBIC can have outstanding at any time SBA guaranteed debentures up to twice the amount of its regulatory capital. With the Company s net investment of $44.0 million in HT II as of September 30, 2016, HT II has the capacity to issue a total of $41.2 million of SBA guaranteed debentures, subject to SBA approval, of which $41.2 million was outstanding as of September 30, 2016. As of September 30, 2016, HT II has paid the SBA commitment fees and facility fees of approximately $1.5 million and $3.6 million, respectively. As of September 30, 2016 the Company held investments in HT II in 36 companies with a fair value of approximately $68.7 million, accounting for approximately 5.2% of the Company s total investment portfolio at September 30, 2016. HT II held approximately $100.4 million in assets and accounted for approximately 5.5% of the Company s total assets prior to consolidation at September 30, 2016.

On May 26, 2010, HT III received a license to operate as a SBIC under the SBIC program and is able to borrow funds from the SBA against eligible investments and additional contributions to regulatory capital. With the Company s net investment of $74.5 million in HT III as of September 30, 2016, HT III has the capacity to issue a total of $149.0 million of SBA guaranteed debentures, of which $149.0 million was outstanding as of September 30, 2016. As of September 30, 2016, HT III has paid the SBA commitment fees and facility fees of approximately $1.5 million and $3.6 million, respectively. As of September 30, 2016, the Company held investments in HT III in 51 companies with a fair value of approximately $230.7 million, accounting for approximately 17.5% of the Company s total investment portfolio at September 30, 2016. HT III held approximately $252.7 million in assets and accounted for approximately 14.0% of the Company s total assets prior to consolidation at September 30, 2016.

SBICs are designed to stimulate the flow of private equity capital to eligible small businesses. Under present SBA regulations, eligible small businesses include businesses that have a tangible net worth not exceeding $19.5 million and have average annual fully taxed net income not exceeding $6.5 million for the two most recent fiscal

years. In addition, SBICs must devote 25.0% of its investment activity to smaller enterprises as defined by the SBA. A smaller enterprise is one that has a tangible net worth not exceeding $6.0 million and has average annual fully taxed net income not exceeding $2.0 million for the two most recent fiscal years. SBA regulations also provide alternative size standard criteria to determine eligibility, which depend on the industry in which the business is engaged and are based on such factors as the number of employees and gross sales. According to SBA regulations, SBICs may make long-term loans to small businesses, invest in the equity securities of such businesses and provide them with consulting and advisory services. Through the Company s wholly owned subsidiaries HT II and HT III, the Company plans to provide long-term loans to qualifying small businesses, and in connection therewith, make equity investments.

HT II and HT III are periodically examined and audited by the SBA s staff to determine their compliance with SBA regulations. If HT II or HT III fails to comply with applicable SBA regulations, the SBA could, depending on the severity of the violation, limit or prohibit HT II s or HT III s use of debentures, declare outstanding debentures immediately due and payable, and/or limit HT II or HT III from making new investments. In addition, HT II or HT III may also be limited in their ability to make distributions to the Company if they do not have sufficient capital in accordance with SBA regulations. Such actions by the SBA would, in turn, negatively affect the Company because HT II and HT III are the Company s wholly owned subsidiaries. HT II and HT III were in compliance with the terms of the SBIC s leverage as of September 30, 2016 as a result of having sufficient capital as defined under the SBA regulations.

The rates of borrowings under various draws from the SBA beginning in March 2009 are set semiannually in March and September and range from 2.25% to 4.62% excluding annual fees. Interest payments on SBA debentures are payable semiannually. There are no principal payments required on these issues prior to maturity and no prepayment penalties. Debentures under the SBA generally mature ten years after being borrowed. Based on the initial draw down date of March 2009, the initial maturity of SBA debentures will occur in March 2019. In addition, the SBA charges a fee that is set annually, depending on the Federal fiscal year the leverage commitment was delegated by the SBA, regardless of the date that the leverage was drawn by the SBIC. The annual fees related to HT II debentures that pooled on September 22, 2010 were 0.406% and 0.285%, depending upon the year in which the underlying commitment was closed. The annual fees on other debentures have been set at 0.906%. The annual fees related to HT III debentures that pooled on March 27, 2013 were 0.804%. The annual fees on other debentures have been set at 0.515%. The rates of borrowings on the Company s SBA debentures range from 3.05% to 5.53% when including these annual fees.

The average amount of debentures outstanding for the three months ended September 30, 2016 for HT II was approximately $41.2 million with an average interest rate of approximately 4.52%. The average amount of debentures outstanding for the three months ended September 30, 2016 for HT III was approximately $149.0 million with an average interest rate of approximately 3.43%. The average amount of debentures outstanding for the nine months ended September 30, 2016 for HT II was approximately $41.2 million with an average interest rate of approximately 4.52%. The average amount of debentures outstanding for the nine months ended September 30, 2016 for HT III was approximately $149.0 million with an average interest rate of approximately 3.43%.

For the three and nine months ended September 30, 2016 and 2015, the components of interest expense and related fees and cash paid for interest expense for the SBA debentures are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	**2016**	**2015**	**2016**	**2015**
Interest expense	$ 1,757	$ 1,757	$ 5,231	$ 5,212
Amortization of debt issuance cost (loan fees)	168	168	504	499
Total interest expense and fees	$ 1,925	$ 1,925	$ 5,735	$ 5,711
Cash paid for interest expense and fees	$ 3,499	$ 3,499	$ 6,961	$ 6,942

Table of Contents

Index to Financial Statements

As of September 30, 2016, the maximum statutory limit on the dollar amount of combined outstanding SBA guaranteed debentures is $350.0 million, subject to periodic adjustments by the SBA. In aggregate, at September 30, 2016, with the Company s net investment of $118.5 million, HT II and HT III have the capacity to issue a total of $190.2 million of SBA-guaranteed debentures, subject to SBA approval. At September 30, 2016, the Company has issued $190.2 million in SBA-guaranteed debentures in the Company s SBIC subsidiaries.

The Company reported the following SBA debentures outstanding principal balances as of September 30, 2016 and December 31, 2015:

(in thousands) Issuance/Pooling Date	Maturity Date	Interest Rate[1]	September 30, 2016	December 31, 2015
March 25, 2009	March 1, 2019	5.53%	$ 18,400	$ 18,400
September 23, 2009	September 1, 2019	4.64%	3,400	3,400
September 22, 2010	September 1, 2020	3.62%	6,500	6,500
September 22, 2010	September 1, 2020	3.50%	22,900	22,900
March 29, 2011	March 1, 2021	4.37%	28,750	28,750
September 21, 2011	September 1, 2021	3.16%	25,000	25,000
March 21, 2012	March 1, 2022	3.28%	25,000	25,000
March 21, 2012	March 1, 2022	3.05%	11,250	11,250
September 19, 2012	September 1, 2022	3.05%	24,250	24,250
March 27, 2013	March 1, 2023	3.16%	24,750	24,750
Total SBA Debentures			$ 190,200	$ 190,200

(1) Interest rate includes annual charge

2019 Notes

On March 6, 2012, the Company and U.S. Bank National Association (the 2019 Trustee) entered into an indenture (the Base Indenture). On April 17, 2012, the Company and the 2019 Trustee entered into the First Supplemental Indenture to the Base Indenture (the First Supplemental Indenture), dated April 17, 2012, relating to the Company s issuance, offer and sale of $43.0 million aggregate principal amount of 7.00% notes due 2019 (the April 2019 Notes).

In July 2012, the Company reopened the Company s April 2019 Notes and issued an additional $41.5 million in aggregate principal amount of April 2019 Notes, which included the exercise of an over-allotment option, bringing the total amount of the April 2019 Notes issued to approximately $84.5 million in aggregate principal amount.

On September 24, 2012, the Company and the 2019 Trustee, entered into the Second Supplemental Indenture to the Base Indenture (the Second Supplemental Indenture), dated as of September 24, 2012, relating to the Company s issuance, offer and sale of $75.0 million aggregate principal amount of 7.00% notes due 2019 (the September 2019 Notes).

In October 2012, the underwriters exercised their over-allotment option for an additional $10.9 million of the September 2019 Notes, bringing the total amount of the September 2019 Notes issued to approximately $85.9 million in aggregate principal outstanding.

In April 2015, the Company redeemed $20.0 million of the $84.5 million issued and outstanding aggregate principal amount of April 2019 Notes, as previously approved by the Board of Directors. In December 2015 the Company redeemed $40.0 million of the $85.9 million issued and outstanding aggregate principal amount of September 2019 Notes, as previously approved by the Board of Directors.

Table of Contents

Index to Financial Statements

As of September 30, 2016 and December 31, 2015, the 2019 Notes payable outstanding principal balance consists of:

(in thousands)	September 30, 2016	December 31, 2015
April 2019 Notes	$ 64,490	$ 64,490
September 2019 Notes	45,874	45,874
Total 2019 Notes Principal Outstanding	$ 110,364	$ 110,364

April 2019 Notes

The April 2019 Notes will mature on April 30, 2019 and may be redeemed in whole or in part at the Company s option at any time or from time to time on or after April 30, 2015, upon not less than 30 days nor more than 60 days written notice by mail prior to the date fixed for redemption thereof, at a redemption price of 100% of the outstanding principal amount thereof plus accrued and unpaid interest payments otherwise payable for the then-current quarterly interest period accrued to but not including the date fixed for redemption. The April 2019 Notes bear interest at a rate of 7.00% per year payable quarterly on January 30, April 30, July 30 and October 30 of each year, commencing on July 30, 2012, and trade on the NYSE under the trading symbol HTGZ.

The April 2019 Notes are the Company s direct unsecured obligations and rank: (i) *pari passu* with the Company s other outstanding and future senior unsecured indebtedness; (ii) senior to any of the Company s future indebtedness that expressly provides it is subordinated to the April 2019 Notes; (iii) effectively subordinated to all the Company s existing and future secured indebtedness (including indebtedness that is initially unsecured to which the Company subsequently grant security), to the extent of the value of the assets securing such indebtedness; (iv) structurally subordinated to all existing and future indebtedness and other obligations of any of the Company s subsidiaries.

The Base Indenture, as supplemented by the First Supplemental Indenture, contains certain covenants including covenants requiring the Company s compliance with (regardless of whether it is subject to) the asset coverage requirements set forth in Section 18(a)(1)(A) of the 1940 Act as modified by Section 61(a)(1) of the 1940 Act to comply with the restrictions on dividends, distributions and purchase of capital stock set forth in Section 18(a)(1)(B) of the 1940 Act as modified by Section 61(a)(1) of the 1940 Act and to provide financial information to the holders of the April 2019 Notes and the 2019 Trustee if the Company should no longer be subject to the reporting requirements under the Securities Exchange Act of 1934, as amended (the Exchange Act). These covenants are subject to important limitations and exceptions that are described in the Base Indenture, as supplemented by the First Supplemental Indenture. The Base Indenture provides for customary events of default and further provides that the 2019 Trustee or the holders of 25% in aggregate principal amount of the outstanding April 2019 Notes in a series may declare such April 2019 Notes immediately due and payable upon the occurrence of any event of default after expiration of any applicable grace period.

September 2019 Notes

The September 2019 Notes will mature on September 30, 2019 and may be redeemed in whole or in part at the Company s option at any time or from time to time on or after September 30, 2015, upon not less than 30 days nor more than 60 days written notice by mail prior to the date fixed for redemption thereof, at a redemption price of 100% of the outstanding principal amount thereof plus accrued and unpaid interest payments otherwise payable for the then-current quarterly interest period accrued to but not including the date fixed for redemption. The September 2019 Notes bear interest at a rate of 7.00% per year payable quarterly on March 30, June 30, September 30 and December 30 of each year, commencing on December 30, 2012, and trade on the NYSE under the trading symbol HTGY.

The September 2019 Notes are the Company s direct unsecured obligations and rank: (i) *pari passu* with the Company s other outstanding and future senior unsecured indebtedness; (ii) senior to any of the Company s

Table of Contents

Index to Financial Statements

future indebtedness that expressly provides it is subordinated to the September 2019 Notes; (iii) effectively subordinated to all the Company s existing and future secured indebtedness (including indebtedness that is initially unsecured to which the Company subsequently grants security), to the extent of the value of the assets securing such indebtedness; (iv) structurally subordinated to all existing and future indebtedness and other obligations of any of the Company s subsidiaries.

The Base Indenture, as supplemented by the Second Supplemental Indenture, contains certain covenants including covenants requiring the Company to comply with (regardless of whether it is subject to) the asset coverage requirements set forth in Section 18 (a)(1)(A) of the 1940 Act as modified by Section 61(a)(1) of the 1940 Act to comply with the restrictions on dividends, distributions and purchase of capital stock set forth in Section 18(a)(1)(B) of the 1940 Act as modified by Section 61(a)(1) of the 1940 Act and to provide financial information to the holders of the September 2019 Notes and the 2019 Trustee if the Company should no longer be subject to the reporting requirements under the Exchange Act. These covenants are subject to important limitations and exceptions that are described in the Base Indenture, as supplemented by the Second Supplemental Indenture. The Base Indenture provides for customary events of default and further provides that the 2019 Trustee or the holders of 25% in aggregate principal amount of the outstanding September 2019 Notes in a series may declare such September 2019 Notes immediately due and payable upon the occurrence of any event of default after expiration of any applicable grace period.

For the three and nine months ended September 30, 2016 and 2015, the components of interest expense and related fees and cash paid for interest expense for the April 2019 Notes and September 2019 Notes are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	**2016**	**2015**	**2016**	**2015**
Interest expense	$ 1,931	$ 2,631	$ 5,794	$ 8,361
Amortization of debt issuance cost (loan fees)	160	211	480	1,163
Total interest expense and fees	$ 2,091	$ 2,842	$ 6,274	$ 9,524
Cash paid for interest expense and fees	$ 1,931	$ 2,631	$ 5,794	$ 8,594

As of September 30, 2016, the Company was in compliance with the terms of the Base Indenture, and respective supplemental indentures thereto, governing the April 2019 Notes and September 2019 Notes.

2024 Notes

On July 14, 2014, the Company and U.S. Bank, N.A. (the 2024 Trustee), entered into the Third Supplemental Indenture (the Third Supplemental Indenture) to the Base Indenture between the Company and the 2024 Trustee, dated July 14, 2014, relating to the Company s issuance, offer and sale of $100.0 million aggregate principal amount of 6.25% unsecured notes due 2024 (the 2024 Notes). On August 6, 2014, the underwriters issued notification to exercise their over-allotment option for an additional $3.0 million in aggregate principal amount of the 2024 Notes.

On May 2, 2016, the Company closed an underwritten public offering of an additional $72.9 million in aggregate principal amount of the 2024 Notes. The $72.9 million in aggregate principal amount includes $65.4 million from the initial offering on April 21, 2016 and $7.5 million as a result of underwriters exercising a portion of their option to purchase up to an additional $9.8 million in aggregate principal to cover overallotments on April 29, 2016.

On June 27, 2016, the Company closed an underwritten public offering of an additional $60.0 million in aggregate principal amount of the 2024 Notes. On June 30, 2016, the underwriters exercised their option to purchase up to an additional $9.0 million in aggregate principal to cover overallotments, resulting in total aggregate principal of $69.0 million from the offering.

Table of Contents

Index to Financial Statements

All issuances of 2024 Notes rank equally in right of payment and form a single series of notes.

The 2024 Notes will mature on July 30, 2024 and may be redeemed in whole or in part at the Company s option at any time or from time to time on or after July 30, 2017, upon not less than 30 days nor more than 60 days written notice by mail prior to the date fixed for redemption thereof, at a redemption price of 100% of the outstanding principal amount thereof plus accrued and unpaid interest payments otherwise payable for the then-current quarterly interest period accrued to but not including the date fixed for redemption. The 2024 Notes bear interest at a rate of 6.25% per year payable quarterly on January 30, April 30, July 30 and October 30 of each year, commencing on July 30, 2014, and trade on the NYSE under the trading symbol HTGX.

The 2024 Notes are the Company s direct unsecured obligations and rank: (i) *pari passu* with the Company s other outstanding and future senior unsecured indebtedness; (ii) senior to any of the Company s future indebtedness that expressly provides it is subordinated to the 2024 Notes; (iii) effectively subordinated to all the Company s existing and future secured indebtedness (including indebtedness that is initially unsecured to which the Company subsequently grants security), to the extent of the value of the assets securing such indebtedness; (iv) structurally subordinated to all existing and future indebtedness and other obligations of any of the Company s subsidiaries.

The Base Indenture, as supplemented by the Third Supplemental Indenture, contains certain covenants including covenants requiring the Company to comply with (regardless of whether it is subject to) the asset coverage requirements set forth in Section 18(a)(1)(A) of the 1940 Act as modified by Section 61(a)(1) of the 1940 Act and to comply with the restrictions on dividends, distributions and purchase of capital stock set forth in Section 18(a)(1)(B) of the 1940 Act as modified by Section 61(a)(1) of the 1940 Act. These covenants are subject to important limitations and exceptions that are described in the Base Indenture, as supplemented by the Third Supplemental Indenture. The Base Indenture, as supplemented by the Third Supplemental Indenture, also contains certain reporting requirements, including a requirement that the Company provide financial information to the holders of the 2024 Notes and the 2024 Trustee if the Company should no longer be subject to the reporting requirements under the Exchange Act. The Base Indenture provides for customary events of default and further provides that the 2024 Trustee or the holders of 25% in aggregate principal amount of the outstanding 2024 Notes in a series may declare such 2024 Notes immediately due and payable upon the occurrence of any event of default after expiration of any applicable grace period. As of September 30, 2016, the Company was in compliance with the terms of the Base Indenture as supplemented by the Third Supplemental Indenture.

At September 30, 2016 and December 31, 2015, the 2024 Notes had an outstanding principal balance of $244.9 million and $103.0 million, respectively. See Note 12 Subsequent Events .

For the three and nine months ended September 30, 2016 and 2015, the components of interest expense and related fees and cash paid for interest expense for the 2024 Notes are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	**2016**	**2015**	**2016**	**2015**
Interest expense	$ 3,926	$ 1,609	$ 7,910	$ 4,828
Amortization of debt issuance cost (loan fees)	229	83	448	250
Total interest expense and fees	$ 4,155	$ 1,692	$ 8,358	$ 5,078
Cash paid for interest expense and fees	$ 3,827	$ 1,609	$ 7,046	$ 4,828

2021 Asset-Backed Notes

On November 13, 2014, the Company completed a $237.4 million term debt securitization in connection with which an affiliate of the Company made an offer of $129.3 million in aggregate principal amount of fixed rate asset-backed notes (the 2021 Asset-Backed Notes), which were rated A(sf) by Kroll Bond Rating Agency,

Table of Contents

Index to Financial Statements

Inc. (KBRA). The 2021 Asset-Backed Notes were sold by Hercules Capital Funding Trust 2014-1 pursuant to a note purchase agreement, dated as of November 13, 2014, by and among the Company, Hercules Capital Funding 2014-1, LLC as trust depositor (the 2014 Trust Depositor), Hercules Capital Funding Trust 2014-1 as issuer (the 2014 Securitization Issuer), and Guggenheim Securities, LLC, as initial purchaser, and are backed by a pool of senior loans made to certain of the Company s portfolio companies and secured by certain assets of those portfolio companies and are to be serviced by the Company. The securitization has an 18-month reinvestment period during which time principal collections may be reinvested into additional eligible loans. Interest on the 2021 Asset-Backed Notes is paid, to the extent of funds available, at a fixed rate of 3.524% per annum. The 2021 Asset-Backed Notes have a stated maturity of April 16, 2021.

As part of this transaction, the Company entered into a sale and contribution agreement with the 2014 Trust Depositor under which the Company has agreed to sell or have contributed to the 2014 Trust Depositor certain senior loans made to certain of the Company s portfolio companies (the 2014 Loans). The Company has made customary representations, warranties and covenants in the sale and contribution agreement with respect to the 2014 Loans as of the date of their transfer to the 2014 Trust Depositor.

In connection with the issuance and sale of the 2021 Asset-Backed Notes, the Company has made customary representations, warranties and covenants in the note purchase agreement. The 2021 Asset-Backed Notes are secured obligations of the 2014 Securitization Issuer and are non-recourse to the Company. The 2014 Securitization Issuer also entered into an indenture governing the 2021 Asset-Backed Notes, which includes customary representations, warranties and covenants. The 2021 Asset-Backed Notes were sold without being registered under the Securities Act of 1933, as amended, (the Securities Act) (A) in the United States to qualified institutional buyers as defined in Rule 144A under the Securities Act and to institutional accredited investors (as defined in Rules 501(a)(1), (2), (3) or (7) under the Securities Act) who in each case, are qualified purchasers as defined in Sec. 2 (a)(51)(A) of the 1940 Act and pursuant to an exemption under the Securities Act and (B) to non-U.S. purchasers acquiring interest in the 2021 Asset-Backed Notes outside the United States in accordance with Regulation S under the Securities Act. The 2014 Securitization Issuer is not registered under the 1940 Act in reliance on an exemption provided by Section 3(c)(7) thereof and Rule 3a-7 thereunder. In addition, the 2014 Trust Depositor entered into an amended and restated trust agreement in respect of the 2014 Securitization Issuer, which includes customary representation, warranties and covenants.

The 2014 Loans are serviced by the Company pursuant to a sale and servicing agreement, which contains customary representations, warranties and covenants. The Company performs certain servicing and administrative functions with respect to the 2014 Loans. The Company is entitled to receive a monthly fee from the 2014 Securitization Issuer for servicing the 2014 Loans. This servicing fee is equal to the product of one-twelfth (or in the case of the first payment date, a fraction equal to the number of days from and including October 5, 2014 through and including December 5, 2014 over 360) of 2.00% and the aggregate outstanding principal balance of the 2014 Loans plus collections on deposit in the 2014 Securitization Issuer s collections account, as of the first day of the related collection period (the period from the 5th day of the immediately preceding calendar month through the 4th day of the calendar month in which a payment date occurs, and for the first payment date, the period from and including October 5, 2014, to the close of business on December 5, 2014).The Company also serves as administrator to the 2014 Securitization Issuer under an administration agreement, which includes customary representations, warranties and covenants.

At September 30, 2016 and December 31, 2015, the 2021 Asset-Backed Notes had an outstanding principal balance of $117.0 million and $129.3 million, respectively.

Table of Contents

Index to Financial Statements

For the three and nine months ended September 30, 2016 and 2015, the components of interest expense and related fees and cash paid for interest expense for the 2021 Asset-Backed Notes are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	**2016**	**2015**	**2016**	**2015**
Interest expense	$ 1,103	$ 1,139	$ 3,381	$ 3,417
Amortization of debt issuance cost (loan fees)	366	227	832	673
Total interest expense and fees	$ 1,469	$ 1,366	$ 4,213	$ 4,090
Cash paid for interest expense and fees	$ 1,110	$ 1,139	$ 3,388	$ 3,417

Under the terms of the 2021 Asset-Backed Notes, the Company is required to maintain a reserve cash balance, funded through interest and principal collections from the underlying securitized debt portfolio, which may be used to pay monthly interest and principal payments on the 2021 Asset-Backed Notes. The Company has segregated these funds and classified them as restricted cash. There was approximately $9.0 million and $9.2 million of restricted cash as of September 30, 2016 and December 31, 2015, respectively, funded through interest collections.

Convertible Senior Notes

In April 2011, the Company issued $75.0 million in aggregate principal amount of 6.00% convertible senior notes due 2016 (the Convertible Senior Notes). The Convertible Senior Notes were fully settled on or before their contractual maturity date of April 15, 2016.

Prior to the close of business on October 14, 2015, holders were able to convert their Convertible Senior Notes only under certain circumstances set forth in the indenture governing the Convertible Senior Notes. On or after October 15, 2015 until the close of business on the scheduled trading day immediately preceding the maturity date, holders were able to convert their Convertible Senior Notes at any time. Throughout the life of the Convertible Senior Notes, holders of approximately $74.8 million of the Convertible Senior Notes exercised their conversion rights. These Convertible Senior Notes were settled with a combination of cash equal to the outstanding principal amount of the Convertible Senior Notes and approximately 1.6 million shares of the Company s common stock, or $24.3 million.

The Company recorded a loss on extinguishment of debt for the proportionate amount of unamortized debt issuance costs and original issue discount. The loss was partially offset by a gain in the amount of the difference between the outstanding principal balance of the Convertible Senior Notes and the fair value of the debt instrument. The net loss on extinguishment of debt the Company recorded for the year ended December 31, 2015 was $1,000. The Company did not record a loss on extinguishment of debt in the three and nine months ended September 30, 2016. The loss on extinguishment of debt was classified as a component of net investment income in the Company s Consolidated Statement of Operations.

The Convertible Senior Notes were accounted for in accordance with ASC Subtopic 470-20 (Debt Instruments with Conversion and Other Options). In accounting for the Convertible Senior Notes, the Company estimated at the time of issuance that the values of the debt and the embedded conversion feature of the Convertible Senior Notes were approximately 92.8% and 7.2%, respectively. The original issue discount of 7.2% attributable to the conversion feature of the Convertible Senior Notes was recorded in capital in excess of par value in the Consolidated Statement of Assets and Liabilities. As a result, the Company recorded interest expense comprised of both stated interest expense as well as accretion of the original issue discount resulting in an estimated effective interest rate of approximately 8.1%.

Table of Contents

Index to Financial Statements

As of December 31, 2015, the components of the carrying value of the Convertible Senior Notes were as follows:

(in thousands)	December 31, 2015
Principal amount of debt	$ 17,604
Unamortized debt issuance cost	(44)
Original issue discount, net of accretion	(82)
Carrying value of Convertible Senior Notes	$ 17,478

For the three and nine months ended September 30, 2016 and 2015, the components of interest expense, fees and cash paid for interest expense for the Convertible Senior Notes were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2016	2015	2016	2015
Interest expense	$	$ 264	$ 352	$ 743
Accretion of original issue discount		61	82	185
Amortization of debt issuance cost (loan fees)		33	44	98
Total interest expense and fees	$	$ 358	$ 478	$ 1,026
Cash paid for interest expense and fees	$	$	$ 440	$ 529

The estimated effective interest rate of the debt component of the Convertible Senior Notes, equal to the stated interest of 6.0% plus the accretion of the original issue discount, was approximately 8.1% for the nine months ended September 30, 2016 and the three and nine months ended September 30, 2015.

Wells Facility

On June 29, 2015, the Company, through a special purpose wholly owned subsidiary, Hercules Funding II LLC (Hercules Funding II), entered into an Amended and Restated Loan and Security Agreement (the Wells Facility) with Wells Fargo Capital Finance, LLC, as a lender and as the arranger and the administrative agent, and the lenders party thereto from time to time.

The Wells Facility matures on August 2, 2019, unless terminated sooner in accordance with its terms.

Under the Wells Facility, Wells Fargo Capital Finance, LLC made commitments of $75.0 million, Alostar Bank of Commerce made commitments of $20.0 million, and Everbank Commercial Finance Inc. made commitments of $25.0 million. The Wells Facility contains an accordion feature, in which the Company can increase the credit line up to an aggregate of $300.0 million, funded by additional lenders and with the agreement of Wells Fargo and subject to other customary conditions. The Company expects to continue discussions with various other potential lenders to join the facility; however, there can be no assurances that additional lenders will join the Wells Facility. Borrowings under the Wells Facility generally bear interest at a rate per annum equal to LIBOR plus 3.25%, and the Wells Facility has an advance rate of 50% against eligible debt investments. The Wells Facility is secured by all of the assets of Hercules Funding II. The Wells Facility requires payment of a non-use fee on a scale of 0.0% to 0.50% depending on the average monthly outstanding balance under the facility relative to the maximum amount of commitments at such time. For the three and nine months ended September 30, 2016, this non-use fee was $155,000 and $336,000, respectively. For the three and nine months ended September 30, 2015, this non-use fee was $41,000 and $229,000, respectively.

The Wells Facility also includes various financial and other covenants applicable to the Company and the Company s subsidiaries, in addition to those applicable to Hercules Funding II, including covenants relating to certain changes of control of the Company and Hercules Funding II. Among other things, these covenants also require the Company to maintain certain financial ratios, including a maximum debt to worth ratio, minimum interest coverage ratio, minimum portfolio funding liquidity, and a minimum tangible net worth in an amount,

Table of Contents

Index to Financial Statements

when added to outstanding subordinated indebtedness, that is in excess of $500.0 million plus 90% of the cumulative amount of equity raised after June 30, 2014. As of September 30, 2016, the minimum tangible net worth covenant increased to $637.2 million as a result of the March 2015 follow-on public offering of 7.6 million shares of common stock for total gross proceeds of approximately $100.4 million and the 4.1 million shares of common stock issued under the At-The-Market (ATM) equity distribution agreement with JMP Securities (JMP) for gross proceeds of $52.0 million during the nine months ended September 30, 2016. The Wells Facility provides for customary events of default, including, without limitation, with respect to payment defaults, breach of representations and covenants, certain key person provisions, cross acceleration provisions to certain other debt, lien and judgment limitations, and bankruptcy.

On June 20, 2011 the Company paid $1.1 million in structuring fees in connection with the original Wells Facility. In connection with an amendment to the original Wells Facility in August 2014, the Company paid an additional $750,000 in structuring fees and in connection with the amendment in December 2015, the Company paid an additional $188,000 in structuring fees. These fees are being amortized through the end of the term of the Wells Facility.

The Company had aggregate draws of $168.3 million on the available facility during the nine months ended September 30, 2016 offset by repayments of $218.3 million. At December 31, 2015 there was $50.0 million, respectively, of borrowings outstanding on this facility. There were no borrowings outstanding on the facility as of September 30, 2016

For the three and nine months ended September 30, 2016 and 2015, the components of interest expense and related fees and cash paid for interest expense for the Wells Facility are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	**2016**	**2015**	**2016**	**2015**
Interest expense	$	$ 356	$ 501	$ 356
Amortization of debt issuance cost (loan fees)	115	92	341	264
Total interest expense and fees	$ 115	$ 448	$ 842	$ 620
Cash paid for interest expense and fees	$	$ 289	$ 577	$ 289

Union Bank Facility

On May 5, 2016, the Company, through a special purpose wholly owned subsidiary, Hercules Funding III, as borrower, entered into the credit facility (the Union Bank Facility) with MUFG Union Bank, as the arranger and administrative agent, and the lenders party to the Union Bank Facility from time to time. The Union Bank Facility replaced the company s credit facility (the Prior Union Bank Facility) entered into on August 14, 2014 (as amended and restated from time to time) with MUFG Union Bank, as the arranger and administrative agent, and the lenders party to the Prior Union Bank Facility from time to time. Any references to amounts related to the Union Bank Facility prior to May 5, 2016 were incurred and relate to the Prior Union Bank Facility.

On July 18, 2016, the Company entered into the First Amendment to the Loan and Security Agreement, dated as of May 5, 2016 with MUFG Union Bank, N.A. The Amendment amends certain definitions relating to borrowings which accrue interest based on the London Interbank Offered Rate (LIBOR Loans) and (ii) the method(s) for calculating interest on and the paying of certain fees related to such LIBOR Loans.

Under the Union Bank Facility, MUFG Union Bank made commitments of $75.0 million. The Union Bank Facility contains an accordion feature, in which the Company can increase the credit line up to an aggregate of $200.0 million, funded by additional lenders and with the agreement of MUFG Union Bank and subject to other customary conditions. There can be no assurances that additional lenders will join the Union Bank Facility to increase available borrowings. Borrowings under the Union Bank Facility generally bear interest at either (i) if

Table of Contents

Index to Financial Statements

such borrowing is a base rate loan, a base rate per annum equal to the federal funds rate plus 1.00%, LIBOR plus 1.00% or MUFG Union Bank s prime rate, in each case, plus a margin of 1.25% or (ii) if such borrowing is a LIBOR loan, a rate per annum equal to LIBOR plus 3.25%, and the Union Bank Facility generally has an advance rate of 50% against eligible debt investments. The Union Bank Facility is secured by all of the assets of HT III.

The Union Bank Facility requires payment of a non-use fee during the revolving credit availability period on a scale of 0.25% to 0.50% depending on the average monthly outstanding balance under the facility relative to the maximum amount of commitments at such time. The Company paid a one-time $562,500 structuring fee in connection with the Union Bank Facility. Although the Company did not incur any non-use fees under the Union Bank Facility prior to May 5, 2016, for the three and nine months ended September 30, 2016, the company incurred non-use fees under the existing and previous Union Bank Facility of $96,000 and $277,000, respectively. For the three and nine months ended September 30, 2015, the non-use fee was $96,000 and $284,000, respectively.

The Union Bank Facility also includes various financial and other covenants applicable to the Company and the Company s subsidiaries, in addition to those applicable to HT III, including covenants relating to certain changes of control of the Company and HT III. Among other things, these covenants also require the Company to maintain certain financial ratios, including a maximum debt to worth ratio, minimum interest coverage ratio, minimum portfolio funding liquidity, and a minimum tangible net worth in an amount that is in excess of $500.0 million plus 90% of the cumulative amount of equity raised after June 30, 2014. As of September 30, 2016, the minimum tangible net worth covenant increased to $685.2 million as a result of the March 2015 follow-on public offering of 7.6 million shares of common stock for total net proceeds of approximately $100.1 million and the 4.1 million shares of common stock issued under the ATM equity distribution agreement with JMP for net proceeds of $50.2 million during the nine months ended September 30, 2016. The Union Bank Facility provides for customary events of default, including with respect to payment defaults, breach of representations and covenants, servicer defaults, certain key person provisions, cross default provisions to certain other debt, lien and judgment limitations, and bankruptcy.

The Union Bank Facility matures on May 5, 2020, unless sooner terminated in accordance with its terms.

In connection with the Union Bank Facility, the Company and HT III also entered into the Sale Agreement, by and among HT III, as borrower, the Company, as originator and servicer, and MUFG Union Bank, as agent. Under the Sale Agreement, the Company agrees to (i) sell or transfer certain loans to HT III under the MUFG Union Bank Facility and (ii) act as servicer for the loans sold or transferred.

The Company had aggregate draws of $25.0 million on the available facility during the nine months ended September 30, 2016 offset by repayments of $25.0 million. At September 30, 2016 there were no borrowings outstanding on the Union Bank Facility.

For the three and nine months ended September 30, 2016 and 2015, the components of interest expense and related fees and cash paid for interest expense for the previous and current Union Bank Facility are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	**2016**	**2015**	**2016**	**2015**
Interest expense	$	$	$ 55	$
Amortization of debt issuance cost (loan fees)	112	15	244	45
Total interest expense and fees	$ 112	$ 15	$ 299	$ 45
Cash paid for interest expense and fees	$	$	$ 38	$

S-140

Table of Contents

Index to Financial Statements

Citibank Credit Facility

The Company, through Hercules Funding Trust I, an affiliated statutory trust, had a securitized credit facility (the Citibank Credit Facility) with Citigroup Global Markets Realty Corp. (Citigroup), which expired under normal terms. During the first quarter of 2009, the Company paid off all principal and interest owed under the Citibank Credit Facility. Citigroup has an equity participation right through a warrant participation agreement on the pool of debt investments and warrants collateralized under the Citibank Credit Facility. Pursuant to the warrant participation agreement, the Company granted to Citigroup a 10% participation in all warrants held as collateral. However, no additional warrants were included in collateral subsequent to the facility amendment on May 2, 2007. As a result, Citigroup is entitled to 10% of the realized gains on the warrants until the realized gains paid to Citigroup pursuant to the agreement equal $3.75 million (the Maximum Participation Limit). The obligations under the warrant participation agreement continue even after the Citibank Credit Facility is terminated until the Maximum Participation Limit has been reached.

During the nine months ended September 30, 2016, the Company reduced its realized gain by approximately $146,000 for Citigroup s participation from the acquisition proceeds received on equity exercised from warrants that were included in the collateral pool. The Company also recorded a decrease in participation liability and an increase in unrealized appreciation by a net amount of approximately $3,000 primarily due to depreciation of fair value on the pool of warrants collateralized under the warrant participation and the acquisition proceeds received on the Company s Ping Identity Corporation equity investment. The remaining value of Citigroup s participation right on unrealized gains in the related equity investments is approximately $114,000 as of September 30, 2016 and is included in accrued liabilities. There can be no assurances that the unrealized appreciation of the warrants will not be higher or lower in future periods due to fluctuations in the value of the warrants, thereby increasing or reducing the effect on the cost of borrowing. Since inception of the agreement, the Company has paid Citigroup approximately $2.4 million under the warrant participation agreement thereby reducing realized gains by this amount. The Company will continue to pay Citigroup under the warrant participation agreement until the Maximum Participation Limit is reached or the warrants expire. The remaining warrants subject to the Citigroup participation agreement are set to expire in January 2017.

5. Income taxes

The Company intends to operate so as to qualify to be taxed as a RIC under Subchapter M of the Code and, as such, will not be subject to federal income tax on the portion of taxable income and gains distributed as dividends to stockholders. Taxable income includes the Company s taxable interest, dividend and fee income, reduced by certain deductions, as well as taxable net realized securities gains. Taxable income generally differs from net income for financial reporting purposes due to temporary and permanent differences in the recognition of income and expenses, and generally excludes net unrealized appreciation or depreciation, as such gains or losses are not included in taxable income until they are realized.

To qualify and be subject to tax as a RIC, the Company is required to meet certain income and asset diversification tests in addition to distributing dividends of an amount generally at least equal to 90% of its investment company taxable income, as defined by the Code and determined without regard to any deduction for distributions paid, to its stockholders. The amount to be paid out as a distribution is determined by the Board of Directors each quarter and is based upon the annual earnings estimated by the management of the Company. To the extent that the Company s earnings fall below the amount of dividend distributions declared, however, a portion of the total amount of the Company s distributions for the fiscal year may be deemed a return of capital for tax purposes to the Company s stockholders.

During the three months ended September 30, 2016, the Company declared a distribution of $0.31 per share. The determination of the tax attributes of the Company s distributions is made annually as of the end of the Company s taxable year generally based upon its taxable income for the full taxable year and distributions paid for the full taxable year. As a result, a determination made on a quarterly basis may not be representative of the

Table of Contents

Index to Financial Statements

actual tax attributes of the Company s distributions for a full taxable year. If the Company had determined the tax attributes of our distributions taxable year-to-date as of September 30, 2016, 100% would be from our current and accumulated earnings and profits. However, there can be no certainty to stockholders that this determination is representative of what the actual tax attributes of the Company s 2016 distributions to stockholders will be.

As a RIC, the Company will be subject to a 4% nondeductible U.S. federal excise tax on certain undistributed income unless the Company distributes dividends in a timely manner to our stockholders in respect of each calendar year of an amount at least equal to the sum of (1) 98% of the Company s ordinary income (taking into account certain deferrals and elections) for each calendar year, (2) 98.2% of the Company s capital gain net income for the 1-year period ending October 31 of each such calendar year and (3) any ordinary income and capital gain net income realized, but not distributed, in preceding calendar years. The Company will not be subject to excise taxes on amounts on which the Company is required to pay corporate income tax (such as retained net capital gains).

Depending on the level of taxable income earned in a taxable year, the Company may choose to carry over taxable income in excess of current taxable year distributions from such taxable income into the next taxable year and incur a 4% excise tax on such taxable income, as required. The maximum amount of excess taxable income that may be carried over for distribution in the next taxable year under the Code is the total amount of distributions paid in the following taxable year, subject to certain declaration and payment guidelines. To the extent the Company chooses to carry over taxable income into the next taxable year, dividend distributions declared and paid by the Company in a taxable year may differ from the Company s taxable income for that taxable year as such dividend distributions may include the distribution of current taxable year taxable income, the distribution of prior taxable year taxable income carried over into and distributed in the current taxable year, or returns of capital.

The Company has taxable subsidiaries which are designed to hold certain portfolio investments in an effort to limit potential legal liability and/or comply with source-income type requirements contained in the RIC tax provisions of the Code. These taxable subsidiaries are consolidated for U.S. GAAP financial reporting purposes and the portfolio investments held by the taxable subsidiaries are included in the Company s consolidated financial statements, and recorded at fair value. These taxable subsidiaries are not consolidated with the Company for income tax purposes and may generate income tax expense, or benefit, and tax assets and liabilities as a result of their ownership of certain portfolio investments. Any income generated by these taxable subsidiaries would be taxed at normal corporate tax rates based on its taxable income.

Taxable income for the nine months ended September 30, 2016 was approximately $66.1 million or $0.91 per share. Taxable net realized gains for the same period was $8.1 million or approximately $0.11 per share. Taxable income for the nine months ended September 30, 2015 was approximately $49.6 million or $0.72 per share. Taxable net realized gains for the same period were $9.1 million or approximately $0.13 per share.

For the nine months ended September 30, 2016, the Company paid approximately $201,000 of tax expense and had approximately $333,000 of accrued but unpaid tax expense as of the balance sheet date. For the nine months ended September 30, 2015, the Company paid approximately $736,000 of tax expense and did not have an accrued but unpaid amount as of the balance sheet date.

The Company intends to distribute approximately $8.2 million of spillover earnings from ordinary income from the year ended December 31, 2015 to the Company s stockholders in 2016.

6. Stockholders Equity

On August 16, 2013, the Company entered into an ATM equity distribution agreement (the Equity Distribution Agreement) with JMP and on March 7, 2016, the Company renewed the Equity Distribution Agreement. The Equity Distribution Agreement provides that the Company may offer and sell up to 8.0 million

Table of Contents

Index to Financial Statements

shares of its common stock from time to time through JMP, as its sales agent. Sales of the Company s common stock, if any, may be made in negotiated transactions or transactions that are deemed to be at the market, as defined in Rule 415 under the Securities Act, including sales made directly on the NYSE or similar securities exchange or sales made to or through a market maker other than on an exchange, at prices related to the prevailing market prices or at negotiated prices.

During the three and nine months ended September 30, 2016 the Company sold 2.1 million and 4.1 million shares of common stock for total accumulated net proceeds of approximately $26.5 million and $50.2 million, respectively, including $986,000 and $1.8 million of offering expenses, respectively. The Company did not sell any shares under the program during the year ended December 31, 2015. The Company generally uses net proceeds from these offerings to make investments, to repurchase or pay down liabilities and for general corporate purposes. As of September 30, 2016 approximately 3.2 million shares remain available for issuance and sale under the equity distribution agreement. See Note 12 Subsequent Events .

On February 24, 2015, the Company s Board of Directors authorized a stock repurchase plan permitting the Company to repurchase up to $50.0 million of its common stock. This plan expired on August 24, 2015. On August 27, 2015, the Company s Board of Directors authorized a replacement stock repurchase plan permitting the Company to repurchase up to $50.0 million of its common stock and on February 17, 2016 the Board of Directors extended the program until August 23, 2016, after which the plan expired. During the nine months ended September 30, 2016 the Company repurchased 449,588 shares of its common stock at an average price per share of $10.64 per share and a total cost of approximately $4.8 million. The Company did not make any repurchases during the three months ended September 30, 2016. See Item 2. Unregistered Sales of Equity Securities and Use of Proceeds for further information on the repurchases made during the period.

On March 27, 2015, the Company raised approximately $100.1 million, after deducting offering expenses of $323,000, in a public offering of 7,590,000 shares of its common stock.

At the 2015 Annual Meeting of Stockholders on July 7, 2015, the Company s common stockholders approved a proposal to allow the Company to issue common stock at a discount from its then current net asset value (NAV) per share, which was effective until the 2016 annual meeting of stockholders on July 7, 2016. Such authorization was not sought at the 2016 annual meeting of stockholders. During the three and nine months ended September 30, 2016 and the year ended December 31, 2015 the Company did not issue common stock at a discount to NAV.

The Company has issued stock options for common stock subject to future issuance, of which 681,004 and 622,171 were outstanding at September 30, 2016 and December 31, 2015, respectively.

7. Equity Incentive Plan

The Company and its stockholders have authorized and adopted the 2004 Equity Incentive Plan (the 2004 Plan) for purposes of attracting and retaining the services of its executive officers and key employees. Under the 2004 Plan, the Company is authorized to issue 12.0 million shares of common stock.

The Company and its stockholders have authorized and adopted the 2006 Non-Employee Director Plan (the 2006 Plan and, together with the 2004 Plan, the Plans) for purposes of attracting and retaining the services of its Board of Directors. Under the 2006 Plan, the Company is authorized to issue 1.0 million shares of common stock. The Company filed an exemptive relief request with the Securities and Exchange Commission (SEC) to allow options to be issued under the 2006 Plan which was approved on October 10, 2007.

On June 21, 2007, the stockholders approved amendments to the 2004 Plan and the 2006 Plan allowing for the grant of restricted stock. The amended Plans limit the combined maximum amount of restricted stock that may be issued under both Plans to 10% of the outstanding shares of the Company s stock on the effective date of

Table of Contents

Index to Financial Statements

the Plans plus 10% of the number of shares of stock issued or delivered by the Company during the terms of the Plans. The amendments further specify that no one person shall be granted awards of restricted stock relating to more than 25% of the shares available for issuance under the 2004 Plan. Further, the amount of voting securities that would result from the exercise of all of the Company s outstanding warrants, options and rights, together with any restricted stock issued pursuant to the Plans, at the time of issuance shall not exceed 25% of its outstanding voting securities, except that if the amount of voting securities that would result from such exercise of all of the Company s outstanding warrants, options and rights issued to the Company s directors, officers and employees, together with any restricted stock issued pursuant to the Plans, would exceed 15% of the Company s outstanding voting securities, then the total amount of voting securities that would result from the exercise of all outstanding warrants, options and rights, together with any restricted stock issued pursuant to the Plans, at the time of issuance shall not exceed 20% of the Company s outstanding voting securities.

The following table summarizes the common stock option activities for the nine months ended September 30, 2016 and 2015:

	Nine Months Ended September 30,			
	2016		2015	
	Common Stock Options	Weighted Average Exercise Price	Common Stock Options	Weighted Average Exercise Price
Outstanding at December 31,	622,171	$ 14.25	695,672	$ 14.58
Granted	200,000	$ 11.94	163,500	$ 12.68
Exercised	(23,334)	$ 10.85	(36,331)	$ 10.81
Forfeited	(64,338)	$ 13.98	(183,726)	$ 14.78
Expired	(53,495)	$ 14.96	(4,610)	$ 12.28
Outstanding at September 30,	681,004	$ 13.66	634,505	$ 14.27
Shares Expected to Vest at September 30,	323,213	$ 13.66	390,283	$ 14.27

The following table summarizes common stock options outstanding and exercisable at September 30, 2016:

(Dollars in thousands, except exercise price)	Options Outstanding				Options Exercisable			
Range of exercise prices	Number of shares	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value	Weighted Average Exercise Price	Number of shares	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value	Weighted Average Exercise Price
$9.25 - $14.02	334,310	6.31	$ 595,370	$ 11.79	78,829	4.82	$ 172,996	$ 11.40
$14.60 - $16.34	346,694	4.74		$ 15.45	278,962	4.57		$ 15.44
$9.25 - $16.34	681,004	5.51	$ 595,370	$ 13.66	357,791	4.62	$ 172,996	$ 14.55

Options generally vest 33% one year after the date of grant and ratably over the succeeding 24 months.

All options may be exercised for a period ending seven years after the date of grant. At September 30, 2016 options for 357,791 shares were exercisable at a weighted average exercise price of approximately $14.55 per share with a weighted average remaining contractual term of 4.62 years.

The Company determined that the fair value of options granted under the 2006 and 2004 Plans during the nine months ended September 30, 2016 and 2015 was approximately $89,000 and $57,000, respectively. During the nine months ended September 30, 2016 and 2015, approximately $144,000 and $201,000 of share-based cost due to stock option grants was expensed, respectively. As of September 30, 2016 there was approximately $127,000 of total unrecognized compensation costs related to stock options. These costs are expected to be recognized over a weighted average remaining vesting period of 2.0 years.

The Company follows ASC Topic 718 (Compensation Stock Compensation) to account for stock options granted. Under ASC Topic 718, compensation expense associated with stock-based compensation is

Table of Contents

Index to Financial Statements

measured at the grant date based on the fair value of the award and is recognized over the vesting period. Determining the appropriate fair value model and calculating the fair value of stock-based awards at the grant date requires judgment, including estimating stock price volatility, forfeiture rate and expected option life. The fair value of options granted is based upon a Black Scholes option pricing model using the assumptions in the following table for the nine months ended September 30, 2016 and 2015:

	Nine Months Ended September 30, 2016	2015
Expected Volatility	23.73%	18.94%
Expected Dividends	10%	10%
Expected term (in years)	4.5	4.5
Risk-free rate	0.87% 1.63%	1.08% 1.64%

During the nine months ended September 30, 2016 and 2015 the Company granted 552,214 shares and 676,340 shares, respectively, of restricted stock pursuant to the Plans. The Company determined that the fair value of restricted stock granted under the 2006 and 2004 Plans during the nine months ended September 30, 2016 and 2015 was approximately $6.6 million and $9.2 million, respectively. During the nine months ended September 30, 2016 and 2015, the Company expensed approximately $5.5 million and $7.0 million of compensation expense related to restricted stock, respectively. As of September 30, 2016, there was approximately $9.2 million of total unrecognized compensation costs related to restricted stock. These costs are expected to be recognized over a weighted average remaining vesting period of 1.87 years.

The following table summarizes the activities for the Company s unvested restricted stock for the nine months ended September 30, 2016 and 2015:

	Nine Months Ended September 30, 2016		2015	
	Restricted Stock Awards	Weighted Average Grant Date Fair Value	Restricted Stock Awards	Weighted Average Grant Date Fair Value
Unvested at December 31,	850,072	$ 13.59	1,302,780	$ 13.23
Granted	552,214	$ 12.01	676,340	$ 13.67
Vested	(505,182)	$ 13.59	(703,703)	$ 13.28
Forfeited	(26,573)	$ 12.85	(297,468)	$ 13.25
Unvested at September 30,	870,531	$ 12.61	977,949	$ 13.49

The SEC, through an exemptive order granted on June 22, 2010, approved amendments to the Plans which allow participants to elect to have the Company withhold shares of the Company s common stock to pay for the exercise price and applicable taxes with respect to an option exercise (net issuance exercise). The exemptive order also permits the holders of restricted stock to elect to have the Company withhold shares of the Company s stock to pay the applicable taxes due on restricted stock at the time of vesting. Each individual can make a cash payment at the time of option exercise or to pay taxes on restricted stock.

Table of Contents

Index to Financial Statements

8. Earnings Per Share

Shares used in the computation of the Company s basic and diluted earnings per share are as follows:

(in thousands, except per share data)	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Numerator				
Net increase in net assets resulting from operations	$ 30,812	$ 4,075	$ 54,582	$ 28,746
Less: Distributions declared-common and restricted shares	(23,201)	(22,472)	(68,408)	(65,238)
Undistributed (distributions in excess of) earnings	7,611	(18,397)	(13,826)	(36,494)
Undistributed (distributions in excess of) earnings-common shares	7,516	(18,397)	(13,826)	(36,492)
Add: Distributions declared-common shares	22,911	22,164	67,406	64,031
Numerator for basic and diluted change in net assets per common share	$ 30,427	$ 3,767	$ 53,580	$ 27,539
Denominator				
Basic weighted average common shares outstanding	74,122	71,462	72,685	68,897
Common shares issuable	35	34	17	226
Weighted average common shares outstanding assuming dilution	74,157	71,496	72,702	69,123
Change in net assets per common share				
Basic	$ 0.41	$ 0.05	$ 0.74	$ 0.40
Diluted	$ 0.41	$ 0.05	$ 0.74	$ 0.40

In the table above, unvested share-based payment awards that have non-forfeitable rights to distributions or distribution equivalents are treated as participating securities for calculating earnings per share.

Unvested common stock options are also included in the denominator for the purpose of calculating diluted earnings per share. For the three and nine months ended September 30, 2015, the dilutive effect of the Convertible Senior Notes under the treasury stock method was also included in this calculation because the Company s share price was greater than the conversion price in effect ($11.12 as of September 30, 2015) for the Convertible Senior Notes for such periods. The Convertible Senior Notes were fully settled on or before their contractual maturity date of April 15, 2016, as such there is no potential additional dilutive effect for the three and nine months ended September 30, 2016.

The calculation of change in net assets resulting from operations per common share assuming dilution, excludes all anti-dilutive shares. For the three months ended September 30, 2016 and 2015, the number of anti-dilutive shares, as calculated based on the weighted average closing price of the Company s common stock for the periods, was approximately 646,783 shares and 642,088 shares, respectively. For the nine months ended September 30, 2016 and 2015, the number of anti-dilutive shares, as calculated based on the weighted average closing price of the Company s common stock for the periods, was approximately 679,253 shares and 627,526 shares, respectively.

At September 30, 2016, the Company was authorized to issue 200.0 million shares of common stock with a par value of $0.001. Each share of common stock entitles the holder to one vote.

Table of Contents

Index to Financial Statements

9. Financial Highlights

Following is a schedule of financial highlights for the nine months ended September 30, 2016 and 2015:

	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Per share data [1]:		
Net asset value at beginning of period	$ 9.94	$ 10.18
Net investment income	0.92	0.78
Net realized gain on investments	0.05	0.12
Net unrealized appreciation (depreciation) on investments	(0.22)	(0.48)
Total from investment operations	0.75	0.42
Net increase (decrease) in net assets from capital share transactions [1]	0.03	0.26
Distributions of net investment income [6]	(0.94)	(0.95)
Stock-based compensation expense included in investment income [2]	0.08	0.11
Net asset value at end of period	$ 9.86	$ 10.02
Ratios and supplemental data:		
Per share market value at end of period	$ 13.56	$ 10.11
Total return [3]	19.47%	(27.25%)
Shares outstanding at end of period	76,400	72,109
Weighted average number of common shares outstanding	72,685	68,897
Net assets at end of period	$ 753,589	$ 722,793
Ratio of total expense to average net assets [4]	11.13%	11.87%
Ratio of net investment income before investment gains and losses to average net assets [4]	12.39%	9.84%
Portfolio turnover rate [5]	28.69%	34.90%
Average debt outstanding	$ 620,769	$ 617,503
Weighted average debt per common share	$ 8.54	$ 8.96

(1) All per share activity is calculated based on the weighted average shares outstanding for the relevant period, except net increase (decrease) in net assets from capital share transactions, which is based on the common shares outstanding as of the relevant balance sheet date.
(2) Stock option expense is a non-cash expense that has no effect on net asset value. Pursuant to ASC Topic 718, net investment income includes the expense associated with the granting of stock options which is offset by a corresponding increase in paid-in capital.
(3) The total return for the nine months ended September 30, 2016 and 2015 equals the change in the ending market value over the beginning of the period price per share plus distributions paid per share during the period, divided by the beginning price assuming the distribution is reinvested on the date of the distribution. As such, the total return is not annualized. The total return does not reflect any sales load that must be paid by investors.
(4) All ratios are calculated based on weighted average net assets for the relevant period and are annualized.
(5) The portfolio turnover rate for the nine months ended September 30, 2016 and 2015 equals the lesser of investment portfolio purchases or sales during the period, divided by the average investment portfolio value during the period. As such, portfolio turnover rate is not annualized.
(6) Includes distributions on unvested shares.

10. Commitments and Contingencies

The Company s commitments and contingencies consist primarily of unused commitments to extend credit in the form of loans to the Company s portfolio companies. A portion of these unfunded contractual commitments are dependent upon the portfolio company reaching certain milestones before the debt commitment becomes available. Furthermore, our credit agreements contain customary lending provisions which allow us relief from funding obligations for previously made commitments in instances where the underlying company experiences materially adverse events that affect the financial condition or business outlook for the Company. Since a portion of these commitments may expire without being drawn, unfunded contractual commitments do not necessarily represent future cash requirements. As such, the Company s disclosure of unfunded contractual commitments includes only those which are available at the request of the portfolio company and unencumbered by milestones.

At September 30, 2016, the Company had approximately $73.9 million of unfunded commitments, including undrawn revolving facilities, which were available at the request of the portfolio company and unencumbered by milestones.

Table of Contents

Index to Financial Statements

The Company also had approximately $100.0 million of non-binding term sheets outstanding at September 30, 2016. Non-binding outstanding term sheets are subject to completion of the Company s due diligence and final investment committee approval process, as well as the negotiation of definitive documentation with the prospective portfolio companies. These non-binding term sheets generally convert to contractual commitments in approximately 90 days from signing. Not all non-binding term sheets are expected to close and do not necessarily represent future cash requirements.

The fair value of the Company s unfunded commitments is considered to be immaterial as the yield determined at the time of underwriting is expected to be materially consistent with the yield upon funding, given that interest rates are generally pegged to a market indices and given the existence of milestones, conditions and/or obligations imbedded in the borrowing agreements.

As of September 30, 2016, the Company s unfunded contractual commitments available at the request of the portfolio company, including undrawn revolving facilities, and unencumbered by milestones are as follows:

(in thousands)

Portfolio Company	**Unfunded Commitments (1)**
Paratek Pharmaceuticals, Inc.	$ 20,000
NewVoiceMedia Limited	15,000
Evernote Corporation	14,000
Aquantia Corp.	11,500
Genocea Biosciences, Inc.	5,000
Edge Therapeutics, Inc.	5,000
Druva, Inc.	3,000
RedSeal Inc.	365
Total	$ 73,865

(1) Amount represents unfunded commitments, including undrawn revolving facilities, which are available at the request of the portfolio company. Amount excludes unfunded commitments which are unavailable due to the borrower having not met certain milestones.

Certain premises are leased under agreements which expire at various dates through March 2020. Total rent expense amounted to approximately $420,000 and $1.3 million during the three and nine months ended September 30, 2016. Total rent expense amounted to approximately $414,000 and $1.2 million during the same periods ended September 30, 2015. The Company s contractual obligations as of September 30, 2016 include:

	Payments due by period (in thousands)				
Contractual Obligations (1)(2)	**Total**	**Less than 1 year**	**1 - 3 years**	**3 - 5 years**	**After 5 years**
Borrowings(3) (4)	$ 662,513	$	$ 249,168	$ 83,150	$ 330,195
Operating Lease Obligations(5)	3,707	1,658	1,931	118	
Total	$ 666,220	$ 1,658	$ 251,099	$ 83,268	$ 330,195

(1) Excludes commitments to extend credit to the Company s portfolio companies.
(2) The Company also has a warrant participation agreement with Citigroup. See Note 4 to the Company s consolidated financial statements.
(3) Includes $190.2 million in principal outstanding under the SBA debentures, $110.4 million of the 2019 Notes, $244.9 million of the 2024 Notes, and $117.0 million of the 2021 Asset-Backed Notes as of September 30, 2016.
(4) Amounts represent future principal repayments and not the carrying value of each liability. See Note 4 to the Company s consolidated financial statements.
(5) Long-term facility leases.

The Company may, from time to time, be involved in litigation arising out of its operations in the normal course of business or otherwise. Furthermore, third parties may try to seek to impose liability on the Company in connection with the activities of its portfolio companies. While the outcome of any current legal proceedings cannot at this time be predicted with certainty, the Company does not expect any current matters will materially

Table of Contents

Index to Financial Statements

affect the Company s financial condition or results of operations; however, there can be no assurance whether any pending legal proceedings will have a material adverse effect on the Company s financial condition or results of operations in any future reporting period.

11. Recent Accounting Pronouncements

In January 2016, the FASB issued ASU 2016-01, Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which, among other things, requires that (i) all equity investments, other than equity-method investments, in unconsolidated entities generally be measured at fair value through earnings and (ii) an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. Additionally, the ASU changes the disclosure requirements for financial instruments. ASU 2016-01 is effective for annual reporting periods, and the interim periods within those periods, beginning after December 15, 2017. Early adoption is permitted for certain provisions. The Company is currently evaluating the impact that ASU 2016-01 will have on its consolidated financial statements and disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which, among other things, requires recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. Additionally, the ASU requires the classification of all cash payments on leases within operating activities in the Consolidated Statement of Cash Flows. ASU 2016-02 is effective for annual reporting periods, and the interim periods within those periods, beginning after December 15, 2018. Early adoption is permitted. The Company is currently evaluating the impact that ASU 2016-02 will have on its consolidated financial statements and disclosures.

In March 2016, the FASB issued ASU 2016-09, Compensation Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, which, among other things, simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for annual reporting periods, and the interim periods within those periods, beginning after December 15, 2016. Early adoption is permitted. The Company is currently evaluating the impact that ASU 2016-09 will have on its consolidated financial statements and disclosures.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which addresses eight specific cash flow issues including, among other things, the classification of debt prepayment or debt extinguishment costs. ASU 2016-15 is effective for annual reporting periods, and the interim periods within those periods, beginning after December 15, 2017. Early adoption is permitted. The Company is currently evaluating the impact that ASU 2016-15 will have on its consolidated financial statements and disclosures

12. Subsequent Events

Dividend Distribution Declaration

On October 26, 2016 the Board of Directors declared a cash dividend distribution of $0.31 per share to be paid on November 21, 2016 to stockholders of record as of November 14, 2016. This dividend distribution represents the Company s forty-fifth consecutive dividend declaration since the Company s IPO, bringing the total cumulative dividend declared to date to $12.47 per share.

2024 Notes ATM Program

The Company entered into a debt distribution agreement, dated October 11, 2016, pursuant to which it may offer for sale, from time to time, up to $150,000,000 in aggregate principal amount of 6.25% notes due 2024 (the

Table of Contents

Index to Financial Statements

Additional 2024 Notes) through FBR Capital Markets & Co. acting as its sales agent (the 2024 Notes Agent). Sales of the Additional 2024 Notes, if any, may be made in negotiated transactions or transactions that are deemed to be at the market offerings as defined in Rule 415 under the Securities Act, including sales made directly on the NYSE, or similar securities exchange or sales made through a market maker other than on an exchange at prices related to prevailing market prices or at negotiated prices.

The 2024 Notes Agent will receive a commission from the Company equal to up to 2.00% of the gross sales of any Additional 2024 Notes sold through the 2024 Notes Agent under the agreement. The 2024 Notes Agent is not required to sell any specific principal amount of Notes, but will use its commercially reasonable efforts consistent with its sales and trading practices to sell the Additional 2024 Notes.

The Additional 2024 Notes offered hereby will be a further issuance of, are fungible with, rank equally in right of payment with, and form a single series for all purposes under the indenture governing the 2024 Notes initially issued by the Company on July 14, 2014, May 2, 2016, and June 27, 2016, respectively. The 2024 Notes will mature on July 30, 2024. The Company will pay interest on the Additional 2024 Notes on January 30, April 30, July 30 and October 30 of each year, beginning on October 30, 2016. Any purchaser of the Additional 2024 Notes will pay for any interest accrued from the interest payment date preceding the issuance date of the Additional 2024 Notes up to, but excluding, the issuance date of the Additional 2024 Notes. The Company may redeem the 2024 Notes in whole or in part at any time or from time to time, at the redemption price set forth under the terms of the indenture. The Additional 2024 Notes will be issued in minimum denominations of $25 and integral multiples of $25 in excess thereof.

The Additional 2024 Notes will be the Company s direct unsecured obligations and rank pari passu, or equally in right of payment, with all outstanding and future unsecured unsubordinated indebtedness issued by Hercules Capital, Inc.

The 2024 Notes are listed on the NYSE, and trade on the NYSE under the symbol HTGX. The Additional 2024 Notes are expected to trade flat, which means that purchasers in the secondary market will not pay, and sellers will not receive, any accrued and unpaid interest on the Additional 2024 Notes that is not reflected in the trading price.

Subsequent to September 30, 2016 and as of October 31, 2016, the Company sold 137,250 notes for approximately $3.5 million in aggregate principal amount. As of October 31, 2016 approximately $146.5 million in aggregate principal amount remains available for issuance and sale under the debt distribution agreement.

ATM Equity Program Issuances

Subsequent to September 30, 2016 and as of October 31, 2016, the Company sold 786,000 shares of common stock for total accumulated net proceeds of approximately $10.6 million, including $107,000 of offering expenses, under its ATM equity distribution agreement with JMP. As of October 31, 2016 approximately 2.4 million shares remain available for issuance and sale under the equity distribution agreement.

Portfolio Company Developments

As of October 31, 2016, the Company held warrants or equity positions in four companies that have filed registration statements on Form S-1 with the SEC in contemplation of potential initial public offerings. All four companies filed confidentially under the Jumpstart Our Business Startups Act. There can be no assurance that companies that have yet to complete their initial public offerings will do so in a timely matter or at all. In addition, subsequent to September 30, 2016 the following portfolio companies announced liquidity events:

1. In October 2016, Napo Pharmaceuticals, a company that focuses on the development and commercialization of proprietary pharmaceuticals for the global marketplace in collaboration with local partners, signed a non-binding letter-of-intent (LOI) to merge with the Company s portfolio company Jaguar Animal Health, Inc.

Table of Contents

Index to Financial Statements

Schedule 12-14

HERCULES CAPITAL, INC.

SCHEDULE OF INVESTMENTS IN AND ADVANCES TO AFFILIATES

As of and for the Nine Months Ended September 30, 2016

(in thousands)

Portfolio Company	Investment[1]	Amount of Interest Credited to Income[2]	As of December 31, 2015 Fair Value	Gross Additions[3]	Gross Reductions[4]	Net Change in Unrealized Appreciation/ (Depreciation)	As of September 30, 2016 Fair Value
Control Investments							
SkyCross, Inc.[5]	Senior Debt	$	$	$ 16,900	$ (13,479)	$ (3,421)	$
	Preferred Warrants			394	(394)		
Achilles Technology Management Co II, Inc.[5]	Senior Debt	15		991			991
	Common Stock			4,000			4,000
Total Control Investments		$ 15	$	$ 22,285	$ (13,873)	$ (3,421)	$ 4,991
Affiliate Investments							
Optiscan BioMedical, Corp.	Senior Debt	$ 12	$	$ 431	$ (431)	$	$
	Preferred Stock		6,661	962		(2,688)	4,934
	Preferred Warrants		313			(145)	168
Stion Corporation	Senior Debt	133	1,013		(1,379)	1,187	821
Total Affiliate Investments		$ 145	$ 7,986	$ 1,393	$ (1,810)	$ (1,646)	$ 5,923
Total Control and Affiliate Investments		$ 160	$ 7,986	$ 23,678	$ (15,683)	$ (5,067)	$ 10,914

(1) Stock and warrants are generally non-income producing and restricted. The principal amount for debt is shown in the Consolidated Schedule of Investments as of September 30, 2016

(2) Represents the total amount of interest or dividends credited to income for the period an investment was an affiliate or control investment.

(3) Gross additions include increases in the cost basis of investments resulting from new portfolio investments, paid-in-kind interest or dividends, the amortization of discounts and closing fees and the exchange of one or more existing securities for one or more new securities.

(4) Gross reductions include decreases in the cost basis of investments resulting from principal repayments or sales and the exchange of one or more existing securities for one or more new securities. Gross reductions also include previously recognized depreciation on investments that become control or affiliate investments during the period.

(5) In June 2016, the Company s investments in SkyCross, Inc. became classified as a control investment as a result of obtaining more than 50% representation on a portfolio company s board. In June 2016 the Company also acquired 100% ownership of the equity of Achilles Technology Management Co II, Inc. and classified it as a control investment in accordance with the requirements of the 1940 Act. In June 2016, Achilles Technology Management Co II, Inc. acquired the assets of a global antenna company that produces radio frequency system solutions as part of an article 9 consensual foreclosure and public auction for total consideration in the amount of $4.0 million. In September 2016 the Company made a $1.0 million debt investment in Achilles Technology Management II to provide working capital under the terms of a loan servicing agreement. The Company s investments in Achilles Technology Management Co II, Inc. are carried on the consolidated statement of assets and liabilities at fair value.

Table of Contents

Index to Financial Statements

$500,000,000

Common Stock

Preferred Stock

Warrants

Subscription Rights

Debt Securities

This prospectus relates to the offer, from time to time, in one or more offerings or series, up to $500,000,000 of shares of our common stock, par value $0.001 per share, preferred stock, par value $0.001 per share, warrants representing rights to purchase shares of our common stock, preferred stock or debt securities, subscription rights or debt securities, which we refer to, collectively, as the securities. The preferred stock, debt securities, subscription rights and warrants offered hereby may be convertible or exchangeable into shares of our common stock. We may sell our securities through underwriters or dealers, at-the-market to or through a market maker into an existing trading market or otherwise directly to one or more purchasers, including existing stockholders in a rights offering, or through agents or through a combination of methods of sale, including auctions. The identities of such underwriters, dealers, market makers or agents, as the case may be, will be described in one or more supplements to this prospectus. The securities may be offered at prices and on terms to be described in one or more supplements to this prospectus.

In the event we offer common stock, the offering price per share will not be less than the net asset value per share of our common stock at the time we make the offering except (1) in connection with a rights offering to our existing stockholders, (2) with the consent of the holders of the majority of our voting securities and approval of our Board of Directors, or (3) under such circumstances as the Securities and Exchange Commission may permit. See Risk Factors for more information.

We are a specialty finance company focused on providing senior secured loans to high-growth, innovative venture capital-backed companies in a variety of technology, life sciences and sustainable and renewable technology industries. We primarily finance privately-held companies backed by leading venture capital and private equity firms and publicly-traded companies that lack access to public capital or are sensitive to equity ownership dilution. We source our investments through our principal office located in Palo Alto, CA, as well as through additional offices in Boston, MA, New York, NY, Washington, DC, Santa Monica, CA, Hartford, CT and San Diego, CA. Our goal is to be the leading structured debt financing provider for venture capital-backed companies in technology-related industries requiring sophisticated and customized financing solutions. We invest primarily in structured debt with warrants and, to a lesser extent, in senior debt and equity investments. We use the term structured debt with warrants to refer to any debt investment, such as a senior or subordinated secured loan, that is coupled with an equity component, including warrants, options or other rights to purchase common or preferred stock. Our structured debt with warrants investments typically are secured by some or all of the assets of the portfolio company. We invest primarily in private companies but also have investments in public companies.

Our investment objective is to maximize our portfolio total return by generating current income from our debt investments and capital appreciation from our equity-related investments. We are an internally-managed, non-diversified closed-end investment company that has elected to be regulated as a business development company under the Investment Company Act of 1940, as amended.

Our common stock is traded on the New York Stock Exchange, or NYSE, under the symbol HTGC. On August 16, 2016, the last reported sale price of a share of our common stock on the NYSE, was $13.58. The net asset value per share of our common stock at June 30, 2016 (the last date prior to the date of this prospectus on which we determined net asset value) was $9.66.

An investment in our securities may be speculative and involves risks including a heightened risk of total loss of investment. In addition, the companies in which we invest are subject to special risks. See "Risk Factors" beginning on page 11 to read about risks that you should consider before investing in our securities, including the risk of leverage.

Please read this prospectus before investing and keep it for future reference. It contains important information about us that a prospective investor ought to know before investing in our securities. We file annual, quarterly and current reports, proxy statements and other information about us with the Securities and Exchange Commission. The information is available free of charge by contacting us at 400 Hamilton Avenue, Suite 310, Palo Alto, California 94301 or by telephone calling collect at (650) 289-3060 or on our website at www.htgc.com. The SEC also maintains a website at www.sec.gov that contains such information.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

This prospectus may not be used to consummate sales of any securities unless accompanied by a prospectus supplement.

The date of this prospectus is August 24, 2016

Table of Contents

Index to Financial Statements

You should rely only on the information contained in this prospectus. We have not authorized any dealer, salesperson or other person to provide you with different information or to make representations as to matters not stated in this prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. This prospectus is not an offer to sell, or a solicitation of an offer to buy, any securities by any person in any jurisdiction where it is unlawful for that person to make such an offer or solicitation or to any person in any jurisdiction to whom it is unlawful to make such an offer or solicitation. The information in this prospectus is accurate only as of its date, and under no circumstances should the delivery of this prospectus or the sale of any securities imply that the information in this prospectus is accurate as of any later date or that the affairs of Hercules Capital, Inc. have not changed since the date hereof. This prospectus will be updated to reflect material changes.

TABLE OF CONTENTS

Table of Contents

Index to Financial Statements

ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we have filed with the Securities and Exchange Commission using the shelf registration process. Under the shelf registration process, which constitutes a delayed offering in reliance on Rule 415 under the Securities Act of 1933, as amended (the Securities Act), we may offer, from time to time, up to $500,000,000 of our common stock, preferred stock, warrants representing rights to purchase shares of our common stock, preferred stock or debt securities, subscription rights or debt securities on the terms to be determined at the time of the offering. We may sell our securities through underwriters or dealers, at-the-market to or through a market maker, into an existing trading market or otherwise directly to one or more purchasers, including existing stockholders in a rights offering, or through agents or through a combination of methods of sale. The identities of such underwriters, dealers, market makers or agents, as the case may be, will be described in one or more supplements to this prospectus. The securities may be offered at prices and on terms described in one or more supplements to this prospectus. This prospectus provides you with a general description of the securities that we may offer. Each time we use this prospectus to offer securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. Please carefully read this prospectus and any such supplements together with the additional information described under Where You Can Find Additional Information in the Summary and Risk Factors sections before you make an investment decision.

A prospectus supplement may also add to, update or change information contained in this prospectus.

Table of Contents

Index to Financial Statements

SUMMARY

This summary highlights some of the information in this prospectus and may not contain all of the information that is important to you. For a more complete understanding of this offering, we encourage you to read this entire prospectus and the documents that are referenced in this prospectus, together with any accompanying supplements. In this prospectus, unless the context otherwise requires, the Company, Hercules, HTGC, we, us and our refer to Hercules Capital, Inc. and its wholly owned subsidiaries and its affiliated securitization trusts on or after February 25, 2016 and Hercules Technology Growth Capital, Inc. and its wholly owned subsidiaries and its affiliated securitization trusts prior to February 25, 2016 unless the context otherwise requires.

Our Company

We are a specialty finance company focused on providing senior secured loans to high-growth, innovative venture capital-backed companies in a variety of technology, life sciences and sustainable and renewable technology industries. Our investment objective is to maximize our portfolio total return by generating current income from our debt investments and capital appreciation from our warrant and equity-related investments. We are an internally-managed, non-diversified closed-end investment company that has elected to be regulated as a business development company under the Investment Company Act of 1940, as amended, or the 1940 Act. Effective January 1, 2006, we elected to be treated for tax purposes as a regulated investment company, or RIC, under the Internal Revenue Code of 1986, as amended, or the Code.

As of June 30, 2016, our total assets were approximately $1.4 billion, of which our investments comprised $1.3 billion at fair value and $1.4 billion at cost. Since inception through June 30, 2016, we have made debt and equity commitments of almost $6.1 billion to our portfolio companies.

We also make investments in qualifying small businesses through our two wholly-owned small business investment companies, or SBICs. Our SBIC subsidiaries, Hercules Technology II, L.P., or HT II, and Hercules Technology III, L.P., or HT III, hold approximately $112.9 million and $286.3 million in assets, respectively, and accounted for approximately 6.6% and 16.7% of our total assets, respectively, prior to consolidation at June 30, 2016. As of June 30, 2016, the maximum statutory limit on the dollar amount of combined outstanding Small Business Administration, or SBA, guaranteed debentures is $350.0 million, subject to periodic adjustments by the SBA. At June 30, 2016, we have issued $190.2 million in SBA-guaranteed debentures in our SBIC subsidiaries. See Regulation Small Business Administration Regulations for additional information regarding our SBIC subsidiaries. As of June 30, 2016, our investment professionals, including Manuel A. Henriquez, our co-founder, Chairman, President and Chief Executive Officer, are currently comprised of 34 professionals who have, on average, more than 15 years of experience in venture capital, structured finance, commercial lending or acquisition finance with the types of technology-related companies that we are targeting. We believe that we can leverage the experience and relationships of our management team to successfully identify attractive investment opportunities, underwrite prospective portfolio companies and structure customized financing solutions.

Table of Contents

Index to Financial Statements

The following chart shows the ownership structure and relationship of certain entities with us.

Our Market Opportunity

We believe that technology-related companies compete in one of the largest and most rapidly growing sectors of the U.S. economy and that continued growth is supported by ongoing innovation and performance improvements in technology products as well as the adoption of technology across virtually all industries in response to competitive pressures. We believe that an attractive market opportunity exists for a specialty finance company focused primarily on investments in structured debt with warrants in technology- related companies for the following reasons:

- technology-related companies have generally been underserved by traditional lending sources;
- unfulfilled demand exists for structured debt financing to technology-related companies due to the complexity of evaluating risk in these investments; and
- structured debt with warrants products are less dilutive and complement equity financing from venture capital and private equity funds.

Technology-Related Companies are Underserved by Traditional Lenders. We believe many viable technology-related companies backed by financial sponsors have been unable to obtain sufficient growth financing from traditional lenders, including financial services companies such as commercial banks and finance companies because traditional lenders have continued to consolidate and have adopted a more risk-averse approach to lending. More importantly, we believe traditional lenders are typically unable to underwrite the risk associated with these companies effectively.

Table of Contents

Index to Financial Statements

The unique cash flow characteristics of many technology-related companies typically include significant research and development expenditures and high projected revenue growth thus often making such companies difficult to evaluate from a credit perspective. In addition, the balance sheets of these companies often include a disproportionately large amount of intellectual property assets, which can be difficult to value. Finally, the speed of innovation in technology and rapid shifts in consumer demand and market share add to the difficulty in evaluating technology-related companies.

Due to the difficulties described above, we believe traditional lenders generally refrain from entering the structured debt financing marketplace, instead preferring the risk-reward profile of asset based lending. Traditional lenders generally do not have flexible product offerings that meet the needs of technology-related companies. The financing products offered by traditional lenders typically impose on borrowers many restrictive covenants and conditions, including limiting cash outflows and requiring a significant depository relationship to facilitate rapid liquidation.

Unfulfilled Demand for Structured Debt Financing to Technology-Related Companies. Private debt capital in the form of structured debt financing from specialty finance companies continues to be an important source of funding for technology-related companies. We believe that the level of demand for structured debt financing is a function of the level of annual venture equity investment activity.

We believe that demand for structured debt financing is currently underserved. The venture capital market for the technology-related companies in which we invest has been active. Therefore, to the extent we have capital available, we believe this is an opportune time to be active in the structured lending market for technology-related companies.

Structured Debt with Warrants Products Complement Equity Financing From Venture Capital and Private Equity Funds. We believe that technology-related companies and their financial sponsors will continue to view structured debt securities as an attractive source of capital because it augments the capital provided by venture capital and private equity funds. We believe that our structured debt with warrants product provides access to growth capital that otherwise may only be available through incremental investments by existing equity investors. As such, we provide portfolio companies and their financial sponsors with an opportunity to diversify their capital sources. Generally, we believe many technology-related companies at all stages of development target a portion of their capital to be debt in an attempt to achieve a higher valuation through internal growth. In addition, because financial sponsor-backed companies have reached a more mature stage prior to reaching a liquidity event, we believe our investments could provide the debt capital needed to grow or recapitalize during the extended period sometimes required prior to liquidity events.

Our Business Strategy

Our strategy to achieve our investment objective includes the following key elements:

Leverage the Experience and Industry Relationships of Our Management Team and Investment Professionals. We have assembled a team of experienced investment professionals with extensive experience as venture capitalists, commercial lenders, and originators of structured debt and equity investments in technology-related companies. Our investment professionals have, on average, more than 15 years of experience as equity investors in, and/or lenders to, technology-related companies. In addition, our team members have originated structured debt, debt with warrants and equity investments in over 355 technology-related companies, representing almost $6.1 billion in commitments from inception to June 30, 2016, and have developed a network of industry contacts with investors and other participants within the venture capital and private equity communities. In addition, members of our management team also have operational, research and development and finance experience with technology-related companies. We have established contacts with leading venture capital and private equity fund sponsors, public and private companies, research institutions and other industry participants, which we believe will enable us to identify and attract well-positioned prospective portfolio companies.

Table of Contents

Index to Financial Statements

We focus our investing activities generally in industries in which our investment professionals have investment experience. We believe that our focus on financing technology-related companies will enable us to leverage our expertise in structuring prospective investments, to assess the value of both tangible and intangible assets, to evaluate the business prospects and operating characteristics of technology-related companies and to identify and originate potentially attractive investments with these types of companies.

Mitigate Risk of Principal Loss and Build a Portfolio of Equity-Related Securities. We expect that our investments have the potential to produce attractive risk-adjusted returns through current income, in the form of interest and fee income, as well as capital appreciation from warrant and equity-related securities. We believe that we can mitigate the risk of loss on our debt investments through the combination of loan principal amortization, cash interest payments, relatively short maturities (typically between 24-48 months), security interests in the assets of our portfolio companies, and on select investment covenants requiring prospective portfolio companies to have certain amounts of available cash at the time of our investment and the continued support from a venture capital or private equity firm at the time we make our investment.

Historically our structured debt investments to technology-related companies typically include warrants or other equity interests, giving us the potential to realize equity-like returns on a portion of our investment. In addition, in some cases, we receive the right to make additional equity investments in our portfolio companies, including the right to convert some portion of our debt into equity, in connection with future equity financing rounds. We believe these equity interests will create the potential for meaningful long-term capital gains in connection with the future liquidity events of these technology-related companies.

Provide Customized Financing Complementary to Financial Sponsors Capital. We offer a broad range of investment structures and possess expertise and experience to effectively structure and price investments in technology-related companies. Unlike many of our competitors that only invest in companies that fit a specific set of investment parameters, we have the flexibility to structure our investments to suit the particular needs of our portfolio companies. We offer customized financing solutions ranging from senior debt to equity capital, with a focus on structured debt with warrants.

We use our relationships in the financial sponsor community to originate investment opportunities. Because venture capital and private equity funds typically invest solely in the equity securities of their portfolio companies, we believe that our debt investments will be viewed as an attractive and complimentary source of capital, both by the portfolio company and by the portfolio company s financial sponsor. In addition, we believe that many venture capital and private equity fund sponsors encourage their portfolio companies to use debt financing for a portion of their capital needs as a means of potentially enhancing equity returns, minimizing equity dilution and increasing valuations prior to a subsequent equity financing round or a liquidity event.

Invest at Various Stages of Development. We provide growth capital to technology-related companies at all stages of development, including select publicly listed companies and select special opportunity lower middle market companies that require additional capital to fund acquisitions, recapitalizations and refinancings and established-stage companies. We believe that this provides us with a broader range of potential investment opportunities than those available to many of our competitors, who generally focus their investments on a particular stage in a company s development. Because of the flexible structure of our investments and the extensive experience of our investment professionals, we believe we are well positioned to take advantage of these investment opportunities at all stages of prospective portfolio companies development.

Benefit from Our Efficient Organizational Structure. We believe that the perpetual nature of our corporate structure enables us to be a long-term partner for our portfolio companies in contrast to traditional investment funds, which typically have a limited life. In addition, because of our access to the equity markets, we believe that we may benefit from a lower cost of capital than that available to private investment funds. We are not

Table of Contents

Index to Financial Statements

subject to requirements to return invested capital to investors nor do we have a finite investment horizon. Capital providers that are subject to such limitations are often required to seek a liquidity event more quickly than they otherwise might, which can result in a lower overall return on an investment.

Deal Sourcing Through Our Proprietary Database. We have developed a proprietary and comprehensive structured query language-based (SQL) database system to track various aspects of our investment process including sourcing, originations, transaction monitoring and post-investment performance. As of June 30, 2016, our proprietary SQL-based database system included approximately 45,000 technology-related companies and approximately 9,200 venture capital firms, private equity sponsors/investors, as well as various other industry contacts. This proprietary SQL system allows us to maintain, cultivate and grow our industry relationships while providing us with comprehensive details on companies in the technology-related industries and their financial sponsors.

Dividend Reinvestment Plan

We maintain an opt-out dividend reinvestment plan that provides for reinvestment of our distribution on behalf of our stockholders, unless a stockholder elects to receive cash. See Dividend Reinvestment Plan. Those stockholders whose shares are held by a broker or other financial intermediary may receive distributions in cash by notifying their broker or other financial intermediary of their election.

Taxation

Effective January 1, 2006, we elected to be treated for tax purposes as a RIC under the Code. As a RIC, we generally will not pay corporate-level federal income taxes on any ordinary income or capital gains that we distribute to our stockholders as dividends, which allows us to reduce or eliminate our corporate level tax. See Certain United States Federal Income Tax Considerations. To maintain our RIC status, we must meet specified source-of-income and asset diversification requirements and distribute annually an amount equal to at least 90% of the sum of our net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, out of assets legally available for distribution. There is no assurance that we will meet these tests and be able to maintain our RIC status. If we do not qualify as a RIC, we would be taxed as a C corporation.

Use of Proceeds

We intend to use the net proceeds from selling our securities for general corporate purposes, which includes investing in debt and equity securities, repayment of indebtedness and other general corporate purposes. The supplement to this prospectus relating to an offering will more fully identify the use of proceeds from such offering.

Leverage

We borrow funds to make additional investments, and we have granted, and may in the future grant, a security interest in our assets to a lender in connection with any such borrowings, including any borrowings by any of our subsidiaries. We use this practice, which is known as leverage, to attempt to increase returns to our common stockholders. However, leverage involves significant risks. See Risk Factors. With certain limited exceptions, we are only allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowing. We received an exemptive order from the Securities and Exchange Commission, or SEC, that allows us to exclude all SBA leverage from our asset coverage ratio. The amount of leverage that we employ will depend on our assessment of market and other factors at the time of any proposed borrowing. See Management s Discussion and Analysis of Financial Condition and Results of Operations Financial Condition, Liquidity, and Capital Resources for additional information related to our outstanding debt.

Table of Contents

Index to Financial Statements

Distributions

As a RIC, we are required to distribute annually to our stockholders at least 90% of the sum of our net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any. We are not subject to corporate level income taxation on income we timely distribute to our stockholders as dividend distributions. See Certain United States Federal Income Tax Considerations. We pay regular quarterly distributions based upon an estimate of annual taxable income available for distribution to stockholders and the amount of taxable income carried over from the prior year for distribution in the current year.

Principal Risk Factors

Investing in our common stock may be speculative and involves certain risks relating to our structure and our investment objective that you should consider before deciding whether to invest. In addition, we expect that our portfolio will continue to consist primarily of securities issued by privately-held technology-related companies, which generally require additional capital to become profitable. These investments may involve a high degree of business and financial risk, and they are generally illiquid. Our portfolio companies typically will require additional outside capital beyond our investment in order to succeed or to fully repay the amounts owed to us. A large number of entities compete for the same kind of investment opportunities as we seek.

We borrow funds to make our investments in portfolio companies. As a result, we are exposed to the risks of leverage, which may be considered a speculative investment technique. Borrowings magnify the potential for gain and loss on amounts invested and, therefore increase the risks associated with investing in our common stock. Also, we are subject to certain risks associated with valuing our portfolio, changing interest rates, accessing additional capital, fluctuating quarterly results, and operating in a regulated environment. See Risk Factors for a discussion of factors you should carefully consider before deciding whether to invest in our securities.

Certain Anti-Takeover Provisions

Our charter and bylaws, as well as certain statutes and regulations, contain provisions that may have the effect of discouraging a third party from making an acquisition proposal for our company. This could delay or prevent a transaction that could give our stockholders the opportunity to realize a premium over the price for their securities.

General Information

Our principal executive offices are located at 400 Hamilton Avenue, Suite 310, Palo Alto, California 94301, and our telephone number is (650) 289-3060. We also have offices in Boston, MA, New York, NY, Washington, DC, Santa Monica, CA, Hartford, CT and San Diego, CA. We maintain a website on the Internet at www.htgc.com. We make available, free of charge, on our website our proxy statement, annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Information contained in our website is not incorporated by reference into this prospectus, and you should not consider that information to be part of this prospectus.

We file annual, quarterly and current periodic reports, proxy statements and other information with the SEC under the Securities Exchange Act of 1934, which we refer to as the Exchange Act. This information is available at the SEC s public reference room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information about the operation of the SEC s public reference room by calling the SEC at (202) 551-8090. In addition, the SEC maintains an Internet website, at www.sec.gov, that contains reports, proxy and information statements, and other information regarding issuers, including us, who file documents electronically with the SEC.

Table of Contents

Index to Financial Statements

FEES AND EXPENSES

The following table is intended to assist you in understanding the various costs and expenses that an investor in our common stock will bear directly or indirectly. However, we caution you that some of the percentages indicated in the table below are estimates and may vary. The footnotes to the fee table state which items are estimates. Except where the context suggests otherwise, whenever this prospectus contains a reference to fees or expenses paid by you or us or that we will pay fees or expenses, stockholders will indirectly bear such fees or expenses as investors in Hercules Capital, Inc.

Stockholder Transaction Expenses (as a percentage of the public offering price):	
Sales load (as a percentage of offering price)[1]	%
Offering expenses	%[2]
Dividend reinvestment plan fees	%[3]
Total stockholder transaction expenses (as a percentage of the public offering price)	%[4]
Annual Expenses (as a percentage of net assets attributable to common stock):[5]	
Operating expenses	6.15%[6][7]
Interest and fees paid in connection with borrowed funds	4.67%[8]
Total annual expenses	10.82%[9]

(1) In the event that our securities are sold to or through underwriters, a corresponding prospectus supplement to this prospectus will disclose the applicable sales load.

(2) In the event that we conduct an offering of our securities, a corresponding prospectus supplement to this prospectus will disclose the estimated offering expenses.

(3) The expenses associated with the administration of our dividend reinvestment plan are included in Operating expenses. We pay all brokerage commissions incurred with respect to open market purchases, if any, made by the administrator under the plan. For more details about the plan, see Dividend Reinvestment Plan .

(4) Total stockholder transaction expenses may include sales load and will be disclosed in a future prospectus supplement, if any.

(5) Net assets attributable to common stock equals the weighted average net assets for the six-months ended June 30, 2016, which is approximately $721.1 million.

(6) Operating expenses represent our estimated operating expenses by annualizing our actual operating expenses incurred for the six-months ended June 30, 2016, including all fees and expenses of our consolidated subsidiaries and excluding interests and fees on indebtedness. This percentage for the year ended December 31, 2015 was 6.45%. See Management s Discussion and Analysis of Financial Condition and Results of Operations and Management .

(7) We do not have an investment adviser and are internally managed by our executive officers under the supervision of our board of directors (Board of Directors). As a result, we do not pay investment advisory fees, but instead we pay the operating costs associated with employing investment management professionals.

(8) Interest and fees paid in connection with borrowed funds represents our estimated interest, fees and credit facility expenses by annualizing our actual interest, fees and credit facility expenses incurred for the six-months ended June 30, 2016, including our Wells Facility, Union Bank Facility, the 2019 Notes, the 2024 Notes, the 2021 Asset-Backed Notes and the SBA debentures, each of which is defined herein. This percentage for the year ended December 31, 2015 was 5.10%.

(9) Total annual expenses is the sum of operating expenses, and interest and fees paid in connection with borrowed funds. This percentage for the year ended December 31, 2015 was 11.55%. Total annual expenses is presented as a percentage of weighted average net assets attributable to common stockholders, because the holders of shares of our common stock (and not the holders of our debt securities or preferred stock, if any) bear all of our fees and expenses, including the fees and expenses of our wholly-owned consolidated subsidiaries, all of which are included in this fee table presentation.

Table of Contents

Index to Financial Statements

Example

The following example demonstrates the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in our common stock. These amounts are based upon our payment of annual operating expenses at the levels set forth in the table above and assume no additional leverage.

	1 Year	3 Years	5 Years	10 Years
You would pay the following expenses on a $1,000 common stock investment, assuming a 5% annual return	$ 105	$ 298	$ 470	$ 820

The example and the expenses in the tables above should not be considered a representation of our future expenses, and actual expenses may be greater or lesser than those shown. Moreover, while the example assumes, as required by the applicable rules of the SEC, a 5% annual return, our performance will vary and may result in a return greater or lesser than 5%. In addition, while the example assumes reinvestment of all dividends and distributions at net asset value (NAV), participants in our dividend reinvestment plan may receive shares valued at the market price in effect at that time. This price may be at, above or below NAV. See Dividend Reinvestment Plan for additional information regarding our dividend reinvestment plan.

Table of Contents

Index to Financial Statements

SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations, Senior Securities and the consolidated financial statements and related notes included elsewhere herein. The selected balance sheet data as of the end of fiscal year 2015, 2014, 2013, 2012 and 2011 and the financial statement of operations data for fiscal 2015, 2014, 2013, 2012 and 2011 has been derived from our audited financial statements, which have been audited by PricewaterhouseCoopers LLP, our independent registered public accounting firm, but not all of which are presented in this Form N-2. The historical data are not necessarily indicative of results to be expected for any future period. The selected financial and other data for the six months ended June 30, 2016 and other quarterly financial information is derived from our unaudited financial statements, but in the opinion of management, reflects all adjustments (consisting only of normal recurring adjustments) that are necessary to present fairly the results of such interim periods. Interim results as of and for the six months ended June 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

(in thousands, except per share amounts)	For the Six Months Ended June 30 (unaudited) 2016	2015	For the Year Ended December 31, 2015	2014	2013	2012	2011
Investment income:							
Interest	$ 76,095	$ 65,800	$ 140,266	$ 126,618	$ 123,671	$ 87,603	$ 70,346
Fees	6,382	4,820	16,866	17,047	16,042	9,917	9,509
Total investment income	82,477	70,620	157,132	143,665	139,713	97,520	79,855
Operating expenses:							
Interest	14,589	15,425	30,834	28,041	30,334	19,835	13,252
Loan fees	2,267	3,093	6,055	5,919	4,807	3,917	2,635
General and administrative	7,980	7,687	16,658	10,209	9,354	8,108	7,992
Employee Compensation:							
Compensation and benefits	10,016	9,653	20,713	16,604	16,179	13,326	13,260
Stock-based compensation	4,174	4,987	9,370	9,561	5,974	4,227	3,128
Total employee compensation	14,190	14,640	30,083	26,165	22,153	17,553	16,388
Total operating expenses	39,026	40,845	83,630	70,334	66,648	49,413	40,267
Loss on debt extinguishment (Long-term Liabilities - Convertible Senior Notes)		(1)	(1)	(1,581)			
Net investment income	43,451	29,774	73,501	71,750	73,065	48,107	39,588
Net realized gain (loss) on investments	(4,443)	2,058	5,147	20,112	14,836	3,168	2,741
Net change in unrealized appreciation (depreciation) on investments	(15,238)	(7,162)	(35,732)	(20,674)	11,545	(4,516)	4,607
Total net realized and unrealized gain (loss)	(19,681)	(5,104)	(30,585)	(562)	26,381	(1,348)	7,348
Net increase in net assets resulting from operations	$ 23,770	$ 24,670	$ 42,916	$ 71,188	$ 99,446	$ 46,759	$ 46,936
Change in net assets per common share (basic)	$ 0.32	$ 0.35	$ 0.60	$ 1.12	$ 1.67	$ 0.93	$ 1.08
Dividend distributions declared per common share	$ 0.62	$ 0.62	$ 1.24	$ 1.24	$ 1.11	$ 0.95	$ 0.88

Table of Contents

Index to Financial Statements

(in thousands, except per share amounts)	For the Six Months Ended June 30 (unaudited) 2016	2015	For the Year Ended December 31, 2015	2014	2013	2012	2011
Balance sheet data:							
Investments, at value	$ 1,302,778	$ 1,238,655	$ 1,200,638	$ 1,020,737	$ 910,295	$ 906,300	$ 652,870
Cash and cash equivalents	59,715	115,987	95,196	227,116	268,368	182,994	64,474
Total assets	1,395,171	1,396,553	1,334,761	1,299,223	1,221,715	1,123,643	747,394
Total liabilities	677,376	652,862	617,627	640,359	571,708	607,675	316,353
Total net assets	717,795	743,691	717,134	658,864	650,007	515,968	431,041
Other Data:							
Total debt investments, at value	1,211,782	1,137,619	1,110,209	923,906	821,988	827,540	585,767
Total warrant investments, at value	25,091	29,842	22,987	25,098	35,637	29,550	30,045
Total equity investments, at value	65,905	71,194	67,442	71,733	52,670	49,210	37,058
Unfunded Commitments(2)	71,157	159,128	75,402	147,689	69,091	19,265	76,128
Net asset value per share(1)	$ 9.66	$ 10.26	$ 9.94	$ 10.18	$ 10.51	$ 9.75	$ 9.83

(1) Based on common shares outstanding at period end.
(2) Amount represents unfunded commitments, including undrawn revolving facilities, which are available at the request of the portfolio company. Amount excludes unfunded commitments which are unavailable due to the borrower having not met certain milestones.

The following tables set forth certain quarterly financial information for each of the eight quarters up to and ending December 31, 2015 and the quarters ending March 31, 2016 and June 30, 2016. This information was derived from our unaudited consolidated financial statements. Results for any quarter are not necessarily indicative of results for the full year or for any future quarter.

(in thousands, except per share data)	For the Quarter Ended (unaudited) June 30, 2016	March 31, 2016
Total investment income	$ 43,538	$ 38,939
Net investment income before investment gains and losses	23,354	20,097
Net increase (decrease) in net assets resulting from operations	9,475	14,295
Change in net assets per common share (basic)	$ 0.13	$ 0.20

(in thousands, except per share data)	Quarter Ended March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015
Total investment income	$ 32,494	$ 38,126	$ 47,132	$ 39,380
Net investment income before investment gains and losses	12,993	16,781	23,590	20,137
Net increase (decrease) in net assets resulting from operations	21,919	2,752	4,075	14,170
Change in net assets per common share (basic)	$ 0.33	$ 0.03	$ 0.05	$ 0.20

	Quarter Ended March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014
Total investment income	$ 35,770	$ 34,001	$ 37,019	$ 36,875
Net investment income before investment gains and losses	18,304	18,551	18,995	15,899
Net increase (decrease) in net assets resulting from operations	22,185	13,191	15,177	20,635
Change in net assets per common share (basic)	$ 0.36	$ 0.21	$ 0.24	$ 0.32

Table of Contents

Index to Financial Statements

RISK FACTORS

Investing in our securities may be speculative and involves a high degree of risk. You should consider carefully the risks described below and all other information contained in this prospectus, including our financial statements and the related notes and the schedules and exhibits to this prospectus. The risks set forth below are not the only risks we face. If any of the following risks occur, our business, financial condition and results of operations could be materially adversely affected. In such case, our NAV and the trading price of our securities could decline, and you may lose all or part of your investment.

Risks Related to our Business Structure

We are dependent upon key management personnel for their time availability and for our future success and if we are not able to hire and retain qualified personnel, or if we lose any member of our senior management team, our ability to implement our business strategy could be significantly harmed.

We depend upon the members of our senior management as well as other key personnel for the identification, final selection, structuring, closing and monitoring of our investments. These employees have critical industry experience and relationships on which we rely to implement our business plan. If we lose the services of any senior management members we may not be able to operate the business as we expect, and our ability to compete could be harmed, which could cause our operating results to suffer. Furthermore, we do not have an employment agreement with our senior management that restricts them from creating new investment vehicles subject to compliance with applicable law. We believe our future success will depend, in part, on our ability to identify, attract and retain sufficient numbers of highly skilled employees. If we do not succeed in identifying, attracting and retaining such personnel, we may not be able to operate our business as we expect.

Our business model depends to a significant extent upon strong referral relationships with venture capital and private equity fund sponsors, and our inability to develop or maintain these relationships, or the failure of these relationships to generate investment opportunities, could adversely affect our business.

We expect that members of our management team will maintain their relationships with venture capital and private equity firms, and we will rely to a significant extent upon these relationships to provide us with our deal flow. If we fail to maintain our existing relationships, our relationships become strained as a result of enforcing our rights with respect to non-performing portfolio companies in protecting our investments or we fail to develop new relationships with other firms or sources of investment opportunities, then we will not be able to grow our investment portfolio. In addition, persons with whom members of our management team have relationships are not obligated to provide us with investment opportunities and, therefore, there is no assurance that such relationships will lead to the origination of debt or other investments.

We operate in a highly competitive market for investment opportunities, and we may not be able to compete effectively.

A number of entities compete with us to make the types of investments that we plan to make in prospective portfolio companies. We compete with a large number of venture capital and private equity firms, as well as with other investment funds, business development companies, investment banks and other sources of financing, including traditional financial services companies such as commercial banks and finance companies. Many of our competitors are substantially larger and have considerably greater financial, technical, marketing and other resources than we do. For example, some competitors may have a lower cost of funds and/or access to funding sources that are not available to us. This may enable some competitors to make loans with interest rates that are comparable to or lower than the rates that we typically offer. A significant increase in the number and/or the size of our competitors, including traditional commercial lenders and other financing sources, in technology-related industries could force us to accept less attractive investment terms. We may be unable to capitalize on certain opportunities if we do not match competitors pricing, terms and structure. If we do match competitors pricing,

Table of Contents

Index to Financial Statements

terms or structure, we may experience decreased net interest income and increased risk of credit losses. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments, establish more relationships and build their market shares. Furthermore, many potential competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a business development company or that the Code imposes on us as a RIC. If we are not able to compete effectively, our business, financial condition, and results of operations will be adversely affected. As a result of this competition, there can be no assurance that we will be able to identify and take advantage of attractive investment opportunities, or that we will be able to fully invest our available capital.

If we are unable to manage our future growth effectively, we may be unable to achieve our investment objective, which could adversely affect our financial condition and results of operations and cause the value of your investment to decline.

Our ability to achieve our investment objective will depend on our ability to sustain growth. Sustaining growth will depend, in turn, on our senior management team s ability to identify, evaluate, finance and invest in suitable companies that meet our investment criteria. Accomplishing this result on a cost-effective basis is largely a function of our marketing capabilities, our management of the investment process, our ability to provide efficient services and our access to financing sources on acceptable terms. Organizational growth and scale-up of our investments could strain our existing managerial, investment, financial and other resources. Management of the Company s growth divert financial resources from other projects. Failure to manage our future growth effectively could have a material adverse effect on our business, financial condition and results of operations.

Because we intend to distribute substantially all of our income to our stockholders in order to qualify as a RIC, we will continue to need additional capital to finance our growth. If additional funds are unavailable or not available on favorable terms, our ability to grow will be impaired.

In order to satisfy the tax requirements applicable to a RIC, to avoid payment of excise taxes and to minimize or avoid payment of income taxes, we intend to distribute to our stockholders substantially all of our net ordinary income and realized net capital gains except for certain realized net capital gains, which we may retain, pay applicable income taxes with respect thereto and elect to treat as deemed distributions to our stockholders. As a business development company, we generally are required to meet a coverage ratio of total assets to total borrowings and other senior securities, which includes all of our borrowings and any preferred stock that we may issue in the future, of at least 200%. This requirement limits the amount that we may borrow. This limitation may prevent us from incurring debt and require us to raise additional equity at a time when it may be disadvantageous to do so. We cannot assure you that debt and equity financing will be available to us on favorable terms, or at all, and debt financings may be restricted by the terms of any of our outstanding borrowings. If we are unable to incur additional debt, we may be required to raise additional equity at a time when it may be disadvantageous to do so. In addition, shares of closed-end investment companies have recently traded at discounts to their NAV. This characteristic of closed-end investment companies is separate and distinct from the risk that our NAV per share may decline. We cannot predict whether shares of our common stock will trade above, at or below our NAV. If our common stock trades below its NAV, we generally will not be able to issue additional shares of our common stock at its market price without first obtaining the approval for such issuance from our stockholders and our independent directors. If additional funds are not available to us, we could be forced to curtail or cease new lending and investment activities, and our NAV could decline. In addition, our results of operations and financial condition could be adversely affected.

Because most of our investments typically are not in publicly-traded securities, there is uncertainty regarding the value of our investments, which could adversely affect the determination of our NAV.

At June 30, 2016, portfolio investments, whose fair value is determined in good faith by the Board of Directors, were approximately 93.4% of our total assets. We expect our investments to continue to consist primarily of securities issued by privately-held companies, the fair value of which is not readily determinable. In addition, we are not permitted to maintain a general reserve for anticipated loan losses. Instead, we are required by the 1940 Act to specifically value each investment and record an unrealized gain or loss for any asset that we believe has increased or decreased in value.

There is no single standard for determining fair value in good faith. We value these securities at fair value as determined in good faith by our Board of Directors, based on the recommendations of our Audit Committee. In making a good faith determination of the value of these securities, we generally start with the cost basis of each security, which includes the amortized original issue discount, or OID, and payment-in-kind, or PIK, interest, if any. The Audit Committee uses its best judgment in arriving at the fair value of these securities. As a result, determining fair value requires that judgment be applied to the specific facts and circumstances of each portfolio investment while applying a valuation process for the types of investments we make, which includes but is not limited to deriving a hypothetical exit price. However, the Board of Directors retains ultimate authority as to the appropriate valuation of each investment. Because such valuations are inherently uncertain and may be based on estimates, our determinations of fair value may differ materially from the values that would be assessed if a ready market for these securities existed. We adjust quarterly the valuation of our portfolio to reflect the Board of Directors determination of the fair value of each investment in our portfolio. Any changes in fair value are recorded in our statement of operations as net change in unrealized appreciation or depreciation. Our NAV could be adversely affected if our determinations regarding the fair value of our investments were materially higher than the values that we ultimately realize upon the disposal of such securities.

Because we have substantial indebtedness, there could be increased risk in investing in our company.

Lenders have fixed dollar claims on our assets that are superior to the claims of stockholders, and we have granted, and may in the future grant, lenders a security interest in our assets in connection with borrowings. In the case of a liquidation event, those lenders would receive proceeds before our stockholders. In addition, borrowings, also known as leverage, magnify the potential for gain or loss on amounts invested and, therefore, increase the risks associated with investing in our securities. Leverage is generally considered a speculative investment technique. If the value of our assets increases, then leverage would cause the NAV attributable to our common stock to increase more than it otherwise would have had we not leveraged. Conversely, if the value of our assets decreases, leverage would cause the NAV attributable to our common stock to decline more than it otherwise would have had we not used leverage. Similarly, any increase in our revenue in excess of interest expense on our borrowed funds would cause our net income to increase more than it would without the leverage. Any decrease in our revenue would cause our net income to decline more than it would have had we not borrowed funds and could negatively affect our ability to make distributions on common stock. Our ability to service any debt that we incur will depend largely on our financial performance and will be subject to prevailing economic conditions and competitive pressures. We and, indirectly, our stockholders will bear the cost associated with our leverage activity. If we are not able to service our substantial indebtedness, our business could be harmed materially.

Our secured credit facilities with Wells Fargo Capital Finance LLC (the Wells Facility) and MUFG Union Bank, N.A. (the Union Bank Facility, and together with the Wells Facility, our Credit Facilities), our 2019 Notes, our 2024 Notes and our 2021 Asset-Backed Notes (as each term is defined below) contain financial and operating covenants that could restrict our business activities, including our ability to declare dividend distributions if we default under certain provisions.

As of June 30, 2016, there were no borrowings outstanding under the Wells Facility or Union Bank Facility. In addition, as of June 30, 2016, we had approximately $190.2 million of indebtedness outstanding incurred by our SBIC subsidiaries, approximately $110.4 million in aggregate principal amount of 7.00% notes due 2019 (the 2019 Notes), approximately $103.0 million in aggregate principal amount of 6.25% notes due 2024 (the 2024 Notes) and approximately $129.3 million in aggregate principal amount of fixed rate asset-backed notes issued in November 2014 (the 2021 Asset-Backed Notes) in connection with our $237.4 million debt securitization (the 2014 Debt Securitization).

There can be no assurance that we will be successful in obtaining any additional debt capital on terms acceptable to us or at all. If we are unable to obtain debt capital, then our equity investors will not benefit from the potential for increased returns on equity resulting from leverage to the extent that our investment strategy is successful and we may be limited in our ability to make new commitments or fundings to our portfolio companies.

As a business development company, generally, we are not permitted to incur indebtedness unless immediately after such borrowing we have an asset coverage for total borrowings of at least 200% (i.e., the amount of debt may not exceed 50% of the value of our assets). In addition, we may not be permitted to declare any cash dividend distribution on our outstanding common shares, or purchase any such shares, unless, at the time of such declaration or purchase, we have asset coverage of at least 200% after deducting the amount of such distribution or purchase price. If this ratio declines below 200%, we may not be able to incur additional debt and may need to sell a portion of our investments to repay some debt when it is disadvantageous to do so, and we may not be able to make distributions. As of June 30, 2016 our asset coverage ratio under our regulatory requirements as a business development company was 248.1% excluding our SBIC debentures as a result of our exemptive order from the SEC that allows us to exclude all SBA leverage from our asset coverage ratio and was 206.4% when including all SBA leverage at June 30, 2016.

Illustration. The following table illustrates the effect of leverage on returns from an investment in our common stock assuming various annual returns, net of expenses. The calculations in the table below are hypothetical and actual returns may be higher or lower than those appearing below.

	Annual Return on Our Portfolio (Net of Expenses)				
	-10%	**-5%**	**0%**	**5%**	**10%**
Corresponding return to stockholder[(1)]	(24.77%)	(15.05%)	(5.34%)	4.38%	14.10%

(1) Assumes $1.4 billion in total assets, $674.8 million in debt outstanding, $717.8 million in stockholders equity, and an average cost of funds of 5.68%, which is the approximate average cost of borrowed funds, including our Credit Facilities, our 2019 Notes, 2024 Notes, our SBA debentures and our 2021 Asset-Backed Notes for the period ended June 30, 2016. Actual interest payments may be different.

It is likely that the terms of any current or future long-term or revolving credit or warehouse facility we may enter into in the future could constrain our ability to grow our business.

Under our borrowings and our Credit Facilities, current lenders have, and any future lender or lenders may have, fixed dollar claims on our assets that are senior to the claims of our stockholders and, thus, will have a preference over our stockholders with respect to our assets pledged as collateral under the Credit Facilities. Our Credit Facilities and borrowings also subject us to various financial and operating covenants, including, but not limited to, maintaining certain financial ratios and minimum tangible net worth amounts. Future credit facilities and borrowings will likely subject us to similar or additional covenants. In addition, we may grant a security interest in our assets in connection with any such credit facilities and borrowings.

Our Credit Facilities generally contain customary default provisions such as a minimum net worth amount, a profitability test, and a restriction on changing our business and loan quality standards. In addition, our Credit Facilities require or are expected to require the repayment of all outstanding debt on the maturity which may disrupt our business and potentially the business of our portfolio companies that are financed through the facilities. An event of default under these facilities would likely result, among other things, in termination of the availability of further funds under the facilities and accelerated maturity dates for all amounts outstanding under the facilities, which would likely disrupt our business and, potentially, the business of the portfolio companies whose loans we finance through the facilities. This could reduce our revenues and, by delaying any cash payment allowed to us under our facilities until the lender has been paid in full, reduce our liquidity and cash flow and impair our ability to grow our business and our ability to make distributions sufficient to maintain our ability to be subject to tax as a RIC.

Table of Contents

Index to Financial Statements

The terms of future available financing may place limits on our financial and operation flexibility. If we are unable to obtain sufficient capital in the future, we may be forced to reduce or discontinue our operations, not be able to make new investments, or otherwise respond to changing business conditions or competitive pressures.

In addition to regulatory requirements that restrict our ability to raise capital, our Credit Facilities, the 2019 Notes and the 2024 Notes contain various covenants which, if not complied with, could require accelerated repayment under the facility or require us to repurchase the 2019 Notes and the 2024 Notes thereby materially and adversely affecting our liquidity, financial condition, results of operations and ability to pay distributions.

The credit agreements governing our Credit Facilities, the 2019 Notes, and the 2024 Notes require us to comply with certain financial and operational covenants. These covenants require us to, among other things, maintain certain financial ratios, including asset coverage, debt to equity and interest coverage. Our ability to continue to comply with these covenants in the future depends on many factors, some of which are beyond our control. There are no assurances that we will be able to comply with these covenants. Failure to comply with these covenants would result in a default which, if we were unable to obtain a waiver from the lenders under our Credit Facilities and could accelerate repayment under the facilities or the 2019 Notes or 2024 Notes and thereby have a material adverse impact on our liquidity, financial condition, results of operations and ability to pay a sufficient amount of distributions and maintain our ability to be subject to tax as a RIC. We may not have enough available cash or be able to obtain financing at the time we are required to make repurchases. See Management s Discussion and Analysis of Financial Condition of Results of Operations Borrowings.

We may be unable to obtain debt capital on favorable terms or at all, in which case we would not be able to use leverage to increase the return on our investments.

If we are unable to obtain debt capital, then our equity investors will not benefit from the potential for increased returns on equity resulting from leverage to the extent that our investment strategy is successful and we may be limited in our ability to make new commitments or fundings to our portfolio companies. An inability to obtain debt capital may also limit our ability to refinance existing indebtedness, particularly during periods of adverse credit market conditions when refinancing indebtedness may not be available under interest rates and other terms acceptable to us or at all.

We are subject to certain risks as a result of our interests in connection with the 2014 Debt Securitization and our equity interest in the 2014 Securitization Issuer.

On November 13, 2014, in connection with the 2014 Debt Securitization and the offering of the 2021 Asset-Backed Notes by Hercules Capital Funding Trust 2014-1 (the 2014 Securitization Issuer), we sold and/or contributed to Hercules Capital Funding 2014-1 LLC, as trust depositor (the 2014 Trust Depositor), certain senior loans made to certain of our portfolio companies (the 2014 Loans), which the 2014 Trust Depositor in turn sold and/or contributed to the 2014 Securitization Issuer in exchange for 100% of the equity interest in the 2014 Securitization Issuer, cash proceeds and other consideration. Following these transfers, the 2014 Securitization Issuer, and not the 2014 Trust Depositor or us, held all of the ownership interest in the 2014 Loans.

As a result of the 2014 Debt Securitization, we hold, indirectly through the 2014 Trust Depositor, 100% of the equity interests in the 2014 Securitization Issuer. As a result, we consolidate the financial statements of the 2014 Trust Depositor and the 2014 Securitization Issuer, as well as our other subsidiaries, in our consolidated financial statements. Because the 2014 Trust Depositor and the 2014 Securitization Issuer is disregarded as an entity separate from its owners for U.S. federal income tax purposes, the sale or contribution by us to the 2014 Trust Depositor, and by the 2014 Trust Depositor to the 2014 Securitization Issuer, as applicable, did not constitute a taxable event for U.S. federal income tax purposes. If the U.S. Internal Revenue Service (IRS) were to take a contrary position, there could be a material adverse effect on our business, financial condition, results of operations or cash flows.

Table of Contents

Index to Financial Statements

Further, a failure of the 2014 Securitization Issuer to be treated as a disregarded entity for U.S. federal income tax purposes would constitute an event of default pursuant to the indenture under the 2014 Debt Securitization, upon which the trustee under the 2014 Debt Securitization (the 2014 Trustee), may and will at the direction of a supermajority of the holders of the 2021 Asset-Backed Notes (the 2021 Noteholders), declare the 2021 Asset-Backed Notes, to be immediately due and payable and exercise remedies under the applicable indenture, including (i) to institute proceedings for the collection of all amounts then payable on the 2021 Asset-Backed Notes, or under the applicable indenture, enforce any judgment obtained, and collect from the 2014 Securitization Issuer and any other obligor upon the 2021 Asset-Backed Notes monies adjudged due; (ii) institute proceedings from time to time for the complete or partial foreclosure of the applicable indenture with respect to the property of the 2014 Securitization Issuer; (iii) exercise any remedies as a secured party under the relevant Uniform Commercial Code and take other appropriate action under applicable law to protect and enforce the rights and remedies of the 2014 Trustee and the 2021 Noteholders; or (iv) sell the property of the 2014 Securitization Issuer or any portion thereof or rights or interest therein at one or more public or private sales called and conducted in any matter permitted by law. Any such exercise of remedies could have a material adverse effect on our business, financial condition, results of operations or cash flows.

An event of default in connection with the 2014 Debt Securitization could give rise to a cross-default under our other material indebtedness.

The documents governing our other material indebtedness contain customary cross-default provisions that could be triggered if an event of default occurs in connection with the 2014 Debt Securitization. An event of default with respect to our other indebtedness could lead to the acceleration of such indebtedness and the exercise of other remedies as provided in the documents governing such other indebtedness. This could have a material adverse effect on our business, financial condition, results of operations and cash flows and may result in our inability to make distributions sufficient to maintain our ability to be subject to tax as a RIC.

We may not receive cash distributions in respect of our indirect ownership interests in the 2014 Securitization Issuer.

Apart from fees payable to us in connection with our role as servicer of the 2014 Loans and the reimbursement of related amounts under the documents governing the 2014 Debt Securitization, we receive cash in connection with the 2014 Debt Securitization only to the extent that the 2014 Trust Depositor receives payments in respect of its equity interests in the 2014 Securitization Issuer. The respective holders of the equity interests in the 2014 Securitization Issuer are the residual claimants on distributions, if any, made by the 2014 Securitization Issuer after the respective 2014 Noteholders and other claimants have been paid in full on each payment date or upon maturity of the 2021 Asset-Backed Notes, subject to the priority of payments under the 2014 Debt Securitization documents governing the 2014 Debt Securitization. To the extent that the value of a 2014 Securitization Issuer s portfolio of loans is reduced as a result of conditions in the credit markets (relevant in the event of a liquidation event), other macroeconomic factors, distressed or defaulted loans or the failure of individual portfolio companies to otherwise meet their obligations in respect of the loans, or for any other reason, the ability of the 2014 Securitization Issuer to make cash distributions in respect of the 2014 Trust Depositor s equity interests would be negatively affected and consequently, the value of the equity interests in the 2014 Securitization Issuer would also be reduced. In the event that we fail to receive cash indirectly from the 2014 Securitization Issuer, we could be unable to make distributions, if at all, in amounts sufficient to maintain our ability to be subject to tax as a RIC.

The interests of the 2014 Noteholders may not be aligned with our interests.

The 2021 Asset-Backed Notes are debt obligations ranking senior in right of payment to the rights of the holder of the equity interests in the 2014 Securitization Issuer, as residual claimants in respect of distributions, if any, made by the 2014 Securitization Issuer. As such, there are circumstances in which the interests of the 2014 Noteholders may not be aligned with the interests of holders of the equity interests in the 2014 Securitization

Table of Contents

Index to Financial Statements

Issuer. For example, under the terms of the documents governing the 2014 Debt Securitization, the 2014 Noteholders have the right to receive payments of principal and interest prior to holders of the equity interests.

For as long as the 2021 Asset-Backed Notes remain outstanding, the respective 2014 Noteholders have the right to act in certain circumstances with respect to the 2014 Loans in ways that may benefit their interests but not the interests of the respective holders of the equity interests in the 2014 Securitization Issuer, including by exercising remedies under the documents governing the 2014 Debt Securitization.

If an event of default occurs, the 2014 Noteholders will be entitled to determine the remedies to be exercised, subject to the terms of the documents governing the 2014 Debt Securitization. For example, upon the occurrence of an event of default with respect to the 2021 Asset-Backed Notes, the 2014 Trustee may and will at the direction of the holders of a supermajority of the applicable 2021 Asset-Backed Notes declare the principal, together with any accrued interest, of the notes to be immediately due and payable. This would have the effect of accelerating the principal on such notes, triggering a repayment obligation on the part of the 2014 Securitization Issuer. The 2021 Asset-Backed Notes then outstanding will be paid in full before any further payment or distribution on the equity interest is made. There can be no assurance that there will be sufficient funds through collections on the 2014 Loans or through the proceeds of the sale of the 2014 Loans in the event of a bankruptcy or insolvency to repay in full the obligations under the 2021 Asset-Backed Notes, or to make any distribution to holders of the equity interests in the 2014 Securitization Issuer.

Remedies pursued by the 2014 Noteholders could be adverse to our interests as the indirect holder of the equity interests in the 2014 Securitization Issuer. The 2014 Noteholders have no obligation to consider any possible adverse effect on such other interests. Thus, there can be no assurance that any remedies pursued by the 2014 Noteholders will be consistent with the best interests of the 2014 Trust Depositor or that we will receive, indirectly through the 2014 Trust Depositor, any payments or distributions upon an acceleration of the 2021 Asset-Backed Notes. Any failure of the 2014 Securitization Issuer to make distributions in respect of the equity interests that we indirectly hold, whether as a result of an event of default and the acceleration of payments on the 2021 Asset-Backed Notes or otherwise, could have a material adverse effect on our business, financial condition, results of operations and cash flows and may result in our inability to make distributions sufficient to maintain our ability to be subject to tax as a RIC.

Certain events related to the performance of 2014 Loans could lead to the acceleration of principal payments on the 2021 Asset-Backed Notes.

The following constitute rapid amortization events (Rapid Amortization Events) under the documents governing the 2014 Debt Securitization: (i) the aggregate outstanding principal balance of delinquent 2014 Loans, and restructured 2014 Loans that would have been delinquent 2014 Loans had such loans not become restructured loans exceeds 10% of the current aggregate outstanding principal balance of the 2014 Loans for a period of three consecutive months; (ii) the aggregate outstanding principal balance of defaulted 2014 Loans exceeds 5% of the initial outstanding principal balance of the 2014 Loans determined as November 13, 2014 for a period of three consecutive months; (iii) the aggregate outstanding principal balance of the 2021 Asset-Backed Notes exceeds the borrowing base for a period of three consecutive months; (iv) the 2014 Securitization Issuer s pool of 2014 Loans contains 2014 Loans to ten or fewer obligors; and (v) the occurrence of an event of default under the documents governing the 2014 Debt Securitization. After a Rapid Amortization Event has occurred, subject to the priority of payments under the documents governing the 2014 Debt Securitization, principal collections on the 2014 Loans will be used to make accelerated payments of principal on the 2021 Asset-Backed Notes until the principal balance of the 2021 Asset-Back Notes is reduced to zero. Such an event could delay, reduce or eliminate the ability of the 2014 Securitization Issuer to make distributions in respect of the equity interests that we indirectly hold, which could have a material adverse effect on our business, financial condition, results of operations and cash flows and may result in our inability to make distributions sufficient to maintain our ability to be subject to tax as a RIC.

We have certain repurchase obligations with respect to the 2014 Loans transferred in connection with the 2014 Debt Securitization.

As part of the 2014 Debt Securitization, we entered into a sale and contribution agreement and a sale and servicing agreement under which we would be required to repurchase any 2014 Loan (or participation interest therein) which was sold to the 2014 Securitization Issuer in breach of certain customary representations and warranty made by us or by the 2014 Trust Depositors with respect to such 2014 Loan or the legal structure of the 2014 Debt Securitization. To the extent that there is a breach of such representations and warranties and we fail to satisfy any such repurchase obligation, a 2014 Trustee may, on behalf of the 2014 Securitization Issuer, bring an action against us to enforce these repurchase obligations.

Our investments in a portfolio company, whether debt, equity, or a combination thereof, may lead to our receiving material non-public information (MNPI) or obtaining control of the target company. Our ability to exit an investment where we have MNPI or control could be limited and could result in a realized loss on the investment.

If we receive MNPI, or a controlling interest in a portfolio company, our ability to divest ourselves from a debt or equity investment could be restricted. Causes of such restriction could include market factors, such as liquidity in a private stock, or limited trading volume in a public company s securities, or regulatory factors, such as the receipt of MNPI or insider blackout periods, where we are under legal obligation not to sell. Additionally, we may choose not to take certain actions to protect a debt investment in a control investment portfolio company. As a result, we could experience a decrease in the value of our portfolio company holdings and potentially incur a realized loss on the investment.

Regulations governing our operations as a business development company may affect our ability to, and the manner in which, we raise additional capital, which may expose us to risks.

Our business will require a substantial amount of capital. We may acquire additional capital from the issuance of senior securities, including borrowings, securitization transactions or other indebtedness, or the issuance of additional shares of our common stock. However, we may not be able to raise additional capital in the future on favorable terms or at all. We may issue debt securities, other evidences of indebtedness or preferred stock, and we may borrow money from banks or other financial institutions, which we refer to collectively as senior securities, up to the maximum amount permitted by the 1940 Act. Under the 1940 Act, we are not permitted to incur indebtedness unless immediately after such borrowing we have an asset coverage for total borrowings of at least 200% (i.e., the amount of debt may not exceed 50% of the value of our assets). In addition, we may not be permitted to declare any cash dividend distribution on our outstanding common shares, or purchase any such shares, unless, at the time of such declaration or purchase, we have asset coverage of at least 200% after deducting the amount of such distribution or purchase price. Our ability to pay distributions or issue additional senior securities would be restricted if our asset coverage ratio were not at least 200%.

If the value of our assets declines, we may be unable to satisfy this test. If that happens, we may be required to liquidate a portion of our investments and repay a portion of our indebtedness at a time when such transaction may be disadvantageous. As a result of issuing senior securities, we would also be exposed to risks associated with leverage, including an increased risk of loss. If we issue preferred stock, the preferred stock would rank senior to common stock in our capital structure, preferred stockholders would have separate voting rights and might have rights, preferences, or privileges more favorable than those of our common stockholders and the issuance of preferred stock could have the effect of delaying, deferring, or preventing a transaction or a change of control that might involve a premium price for holders of our common stock or otherwise be in your best interest.

To the extent that we are constrained in our ability to issue debt or other senior securities, we will depend on issuances of common stock to finance operations. Other than in certain limited situations such as rights offerings, as a business development company, we are generally not able to issue our common stock at a price below NAV

Table of Contents

Index to Financial Statements

without first obtaining required approvals from our stockholders and our independent directors. If we raise additional funds by issuing more common stock or senior securities convertible into, or exchangeable for, our common stock, then the percentage ownership of our stockholders at that time will decrease, and you might experience dilution. Moreover, we can offer no assurance that we will be able to issue and sell additional equity securities in the future, on favorable terms or at all.

When we are a debt or minority equity investor in a portfolio company, we may not be in a position to control the entity, and management of the company may make decisions that could decrease the value of our portfolio holdings.

We make both debt and minority equity investments; therefore, we are subject to the risk that a portfolio company may make business decisions with which we disagree, and the stockholders and management of such company may take risks or otherwise act in ways that do not serve our interests. As a result, a portfolio company may make decisions that could decrease the value of our portfolio holdings.

If we do not invest a sufficient portion of our assets in qualifying assets, we could fail to qualify as a business development company or be precluded from investing according to our current business strategy.

As a business development company, we may not acquire any assets other than qualifying assets as defined under the 1940 Act, unless, at the time of and after giving effect to such acquisition, at least 70% of our total assets are qualifying assets. See Regulation.

We believe that most of the senior loans we make will constitute qualifying assets. However, we may be precluded from investing in what we believe are attractive investments if such investments are not qualifying assets for purposes of the 1940 Act. If we do not invest a sufficient portion of our assets in qualifying assets, we could lose our status as a business development company, which would have a material adverse effect on our business, financial condition and results of operations. Similarly, these rules could prevent us from making follow-on investments in existing portfolio companies (which could result in the dilution of our position) or could require us to dispose of investments at inopportune times in order to comply with the 1940 Act. If we need to dispose of such investments quickly, it would be difficult to dispose of such investments on favorable terms. For example, we may have difficulty in finding a buyer and, even if we do find a buyer, we may have to sell the investments at a substantial loss.

A failure on our part to maintain our qualification as a business development company would significantly reduce our operating flexibility.

If we fail to continuously qualify as a business development company, we might be subject to regulation as a registered closed-end investment company under the 1940 Act, which would significantly decrease our operating flexibility, and lead to situations where we might have to restrict our borrowings, reduce our leverage, sell securities and pursue other activities that we are allowed to engage in as a business development company. In addition, failure to comply with the requirements imposed on business development companies by the 1940 Act could cause the SEC to bring an enforcement action against us. For additional information on the qualification requirements of a business development company, see Regulation.

Table of Contents

Index to Financial Statements

To the extent OID and PIK interest constitute a portion of our income, we will be exposed to risks associated with such income being required to be included in taxable and accounting income prior to receipt of cash representing such income.

Our investments may include OID instruments and contractual PIK interest arrangements, which represents contractual interest added to a loan balance and due at the end of such loan s term. To the extent OID or PIK interest constitute a portion of our income, we are exposed to risks associated with such income being required to be included in taxable and accounting income prior to receipt of cash, including the following:

- The higher interest rates of OID and PIK instruments reflect the payment deferral and increased credit risk associated with these instruments, and OID and PIK instruments generally represent a significantly higher credit risk than coupon loans.

- Even if the accounting conditions for income accrual are met, the borrower could still default when our actual collection is supposed to occur at the maturity of the obligation.

- OID and PIK instruments may have unreliable valuations because their continuing accruals require continuing judgments about the collectability of the deferred payments and the value of any associated collateral. OID and PIK income may also create uncertainty about the source of our cash distributions.

- For accounting purposes, any cash distributions to stockholders representing OID and PIK income are not treated as coming from paid-in capital, even though the cash to pay them comes from the offering proceeds. As a result, despite the fact that a distribution representing OID and PIK income could be paid out of amounts invested by our stockholders, the 1940 Act does not require that stockholders be given notice of this fact by reporting it as a return of capital.

- The deferral of PIK interest may have a negative impact on our liquidity as it represents non-cash income that may require cash distributions to our stockholders in order to maintain our ability to be subject to tax as a RIC.

If we are unable to satisfy Code requirements for qualification as a RIC, then we will be subject to corporate-level income tax, which would adversely affect our results of operations and financial condition.

We elected to be treated as a RIC for federal income tax purposes with the filing of our federal corporate income tax return for 2006. We will not qualify for the tax treatment allowable to RICs if we are unable to comply with the source of income, asset diversification and distribution requirements contained in Subchapter M of the Code, or if we fail to maintain our election to be regulated as a business development company under the 1940 Act. If we fail to qualify for the federal income tax benefits allowable to RICs for any reason and become subject to a corporate-level income tax, the resulting taxes could substantially reduce our net assets, the amount of income available for distribution to our stockholders and the actual amount of our distributions. Such a failure would have a material adverse effect on us, the NAV of our common stock and the total return, if any, obtainable from your investment in our common stock.

We may have difficulty paying our required distributions under applicable tax rules if we recognize income before or without receiving cash representing such income.

In accordance with U.S. federal tax requirements, we are required to include in income for tax purposes certain amounts that we have not yet received in cash, such as OID and contractual PIK interest arrangements, which represents contractual interest added to a loan balance and due at the end of such loan s term. In addition to the cash yields received on our loans, in some instances, our loans generally include one or more of the following: end-of-term payments, exit fees, balloon payment fees, commitment fees, success fees or prepayment fees. In some cases our loans also include contractual PIK interest arrangements. The increases in loan balances as a result of contractual PIK arrangements are included in income for the period in which such PIK interest was accrued, which is often in advance of receiving cash payment, and are separately identified on our statements of cash flows. We also may be required to include in income for tax purposes certain other amounts prior to receiving the related cash.

Table of Contents

Index to Financial Statements

Any warrants that we receive in connection with our debt investments will generally be valued as part of the negotiation process with the particular portfolio company. As a result, a portion of the aggregate purchase price for the debt investments and warrants will be allocated to the warrants that we receive. This will generally result in OID for tax purposes, which we must recognize as ordinary income, increasing the amount that we are required to distribute to qualify for the federal income tax benefits applicable to RICs. Because these warrants generally will not produce distributable cash for us at the same time as we are required to make distributions in respect of the related OID, if ever, we would need to obtain cash from other sources or to pay a portion of our distributions using shares of newly issued common stock, consistent with IRS requirements, to satisfy such distribution requirements.

Other features of the debt instruments that we hold may also cause such instruments to generate OID, resulting in a dividend distribution requirement in excess of current cash interest received. Since in certain cases we may recognize income before or without receiving cash representing such income, we may have difficulty meeting the RIC tax requirement to distribute dividends each taxable year to our stockholders generally of an amount equal to at least 90% of our investment company taxable income. Under such circumstances, we may have to sell some of our assets, raise additional debt or equity capital or reduce new investment originations to meet these distribution requirements. If we are unable to obtain cash from other sources and are otherwise unable to satisfy such distribution requirements, we may fail to qualify for the federal income tax benefits allowable to RICs and, thus, become subject to a corporate-level income tax on all our taxable income (including any net realized securities gains).

Furthermore, we may invest in the equity securities of non-U.S. corporations (or other non-U.S. entities classified as corporations for U.S. federal income tax purposes) that could be treated under the Code and U.S. Treasury regulations as passive foreign investment companies and/or controlled foreign corporations. The rules relating to investment in these types of non-U.S. entities are designed to ensure that U.S. taxpayers are either, in effect, taxed currently (or on an accelerated basis with respect to corporate level events) or taxed at increased tax rates at distribution or disposition. In certain circumstances, these rules also could require us to recognize taxable income or gains where we do not receive a corresponding payment in cash.

Our portfolio investments may present special tax issues.

Investments in below-investment grade debt instruments and certain equity securities may present special tax issues for us. U.S. federal income tax rules are not entirely clear about issues such as when we may cease to accrue interest, OID or market discount, when and to what extent deductions may be taken for bad debts or worthless debt in equity securities, how payments received on obligations in default should be allocated between principal and interest income, as well as whether exchanges of debt instruments in a bankruptcy or workout context are taxable. Such matters could cause us to recognize taxable income for U.S. federal income tax purposes, even in the absence of cash or economic gain, and require us to make taxable distributions to our stockholders to maintain our RIC status or preclude the imposition of either U.S. federal corporate income or excise taxation. Additionally, because such taxable income may not be matched by corresponding cash received by us, we may be required to borrow money or dispose of other investments to be able to make distributions to our stockholders. These and other issues will be considered by us, to the extent determined necessary, in order that we minimize the level of any U.S. federal income or excise tax that we would otherwise incur. See Certain United States Federal Income Tax Considerations Taxation as a Regulated Investment Company.

Legislative or regulatory tax changes could adversely affect you.

At any time, the federal income tax laws governing RICs or the administrative interpretations of those laws or regulations may be amended. Any of those new laws, regulations or interpretations may take effect retroactively and could adversely affect the taxation of us or of you as a stockholder. Therefore, changes in tax laws, regulations or administrative interpretations or any amendments thereto could diminish the value of an investment in our shares or the value or the resale potential of our investments.

There is a risk that you may not receive distributions or that our distributions may not grow over time.

We intend to make distributions on a quarterly basis to our stockholders. We cannot assure you that we will achieve investment results, or our business may not perform in a manner that will allow us to make a specified level of distributions or year-to-year increases in cash distributions. In addition, due to the asset coverage test applicable to us as a business development company, we may be limited in our ability to make distributions. Also, our Credit Facilities limit our ability to declare dividend distributions if we default under certain provisions of our Credit Facilities.

We have and may in the future choose to pay distributions in our own stock, in which case you may be required to pay tax in excess of the cash you receive.

Under applicable Treasury regulations and other administrative authorities issued by the IRS, RICs are permitted to treat certain distributions payable in their stock, as taxable dividends that will satisfy their annual distribution obligations for federal income tax and excise tax purposes provided that stockholders have the opportunity to elect to receive all or a portion of such distribution in cash. Taxable stockholders receiving such dividends will be required to include the full amount of the dividend as ordinary income (or as long-term capital gain to the extent such distribution is properly designated as a capital gain dividend) to the extent of our current and accumulated earnings and profits for federal income tax purposes. As a result, a U.S. stockholder may be required to pay tax with respect to such dividends in excess of any cash received. If a U.S. stockholder sells the stock it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our stock at the time of the sale. Furthermore, with respect to non-U.S. stockholders, we may be required to withhold federal income tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. In addition, if a significant number of our stockholders determine to sell shares of our stock in order to pay taxes owed on dividends, then such sales may put downward pressure on the trading price of our stock. We may in the future determine to distribute taxable dividends that are partially payable in our common stock.

We are exposed to risks associated with changes in interest rates, including fluctuations in interest rates which could adversely affect our profitability or the value of our portfolio

General interest rate fluctuations may have a substantial negative impact on our investments and investment opportunities, and, accordingly, may have a material adverse effect on our investment objective and rate of return on investment capital. A portion of our income will depend upon the difference between the rate at which we borrow funds and the interest rate on the debt securities in which we invest. Because we will borrow money to make investments and may issue debt securities, preferred stock or other securities, our net investment income is dependent upon the difference between the rate at which we borrow funds or pay interest or dividends on such debt securities, preferred stock or other securities and the rate at which we invest these funds. Typically, we anticipate that our interest-earning investments will accrue and pay interest at both variable and fixed rates, and that our interest-bearing liabilities will generally accrue interest at fixed rates.

A significant increase in market interest rates could harm our ability to attract new portfolio companies and originate new loans and investments. We expect that most of our current initial investments in debt securities will be at floating rate with a floor. However, in the event that we make investments in debt securities at variable rates, a significant increase in market interest rates could also result in an increase in our non-performing assets and a decrease in the value of our portfolio because our floating-rate loan portfolio companies may be unable to meet higher payment obligations. As of June 30, 2016, approximately 92.8% of our loans were at floating rates or floating rates with a floor and 7.2% of the loans were at fixed rates.

In periods of rising interest rates, our cost of funds would increase, resulting in a decrease in our net investment income. In addition, a decrease in interest rates may reduce net income, because new investments may be made at lower rates despite the increased demand for our capital that the decrease in interest rates may

Table of Contents

Index to Financial Statements

produce. We may, but will not be required to, hedge against the risk of adverse movement in interest rates in our short-term and long-term borrowings relative to our portfolio of assets. If we engage in hedging activities, it may limit our ability to participate in the benefits of lower interest rates with respect to the hedged portfolio. Adverse developments resulting from changes in interest rates or hedging transactions could have a material adverse effect on our business, financial condition, and results of operations.

We may expose ourselves to risks if we engage in hedging transactions.

If we engage in hedging transactions, we may expose ourselves to risks associated with such transactions. We may utilize instruments such as forward contracts, currency options and interest rate swaps, caps, collars and floors to seek to hedge against fluctuations in the relative values of our portfolio positions from changes in currency exchange rates and market interest rates. Hedging against a decline in the values of our portfolio positions does not eliminate the possibility of fluctuations in the values of such positions or prevent losses if the values of such positions decline. However, such hedging can establish other positions designed to gain from those same developments, thereby offsetting the decline in the value of such portfolio positions. Such hedging transactions may also limit the opportunity for gain if the values of the underlying portfolio positions should increase. It may not be possible to hedge against an exchange rate or interest rate fluctuation that is so generally anticipated that we are not able to enter into a hedging transaction at an acceptable price. Moreover, for a variety of reasons, we may not seek to establish a perfect correlation between such hedging instruments and there can be no assurance that any such hedging arrangements will achieve the desired effect. During the six months ended June 30, 2016, we did not engage in any hedging activities.

Our realized gains are reduced by amounts paid pursuant to the warrant participation agreement.

Citigroup Global Markets Realty Corp. (Citigroup), a former credit facility provider to Hercules, has an equity participation right through a warrant participation agreement on the pool of loans and certain warrants formerly collateralized under its then existing credit facility (the Citibank Credit Facility). Pursuant to the warrant participation agreement, we granted to Citigroup a 10% participation in all warrants held as collateral under the Citibank Credit Facility. As a result, Citigroup is entitled to 10% of the realized gains on certain warrants until the realized gains paid to Citigroup pursuant to the agreement equals $3,750,000 (the Maximum Participation Limit). The obligations under the warrant participation agreement continue even after the Citibank Credit Facility is terminated until the Maximum Participation Limit has been reached.

During the six months ended June 30, 2016, we recorded a decrease in participation liability and an increase in unrealized appreciation by a net amount of approximately $32,000 as a result of depreciation of fair value on the pool of warrants collateralized under the warrant participation agreement and the acquisition proceeds we received on our Ping Identity Corporation equity investment. The remaining value of their participation right on unrealized gains in the related equity investments was approximately $79,000 as of June 30, 2016 and is included in accrued liabilities. There can be no assurances that the unrealized appreciation of the warrants will not be higher or lower in future periods due to fluctuations in the value of the warrants, thereby increasing or reducing the effect on the cost of borrowing. Since inception of the agreement, we have paid approximately $2.4 million under the warrant participation agreement thereby reducing our realized gains by this amount. We will continue to pay Citigroup under the warrant participation agreement until the Maximum Participation Limit is reached or the warrants expire. Warrants subject to the Citigroup warrant participation agreement are set to expire between August 2016 and January 2017.

Legislation may allow us to incur additional leverage.

As a business development company, under the 1940 Act generally we are not permitted to incur indebtedness unless immediately after such borrowing we have an asset coverage for total borrowings of at least 200% (i.e., the amount of debt may not exceed 50% of the value of our assets). If recent legislation in the U.S. House of Representatives is passed, or similar legislation is introduced, it would modify this section of the 1940

Table of Contents

Index to Financial Statements

Act and increase the amount of debt that business development companies may incur. As a result, we may be able to incur additional indebtedness in the future and therefore your risk of an investment in us may increase. However, the ultimate form and likely outcome of such legislation or any similar legislation cannot be predicted.

Two of our wholly-owned subsidiaries are licensed by the U.S. Small Business Administration, and as a result, we will be subject to SBA regulations, which could limit our capital or investment decisions.

Our wholly-owned subsidiaries HT II and HT III are licensed to act as SBICs and are regulated by the SBA. HT II and HT III hold approximately $112.9 million and $286.3 million in assets, respectively, and they accounted for approximately 6.6% and 16.7% of our total assets, respectively, prior to consolidation at June 30, 2016. The SBIC licenses allow our SBIC subsidiaries to obtain leverage by issuing SBA-guaranteed debentures, subject to the issuance of a capital commitment by the SBA and other customary procedures.

The SBA regulations require that a licensed SBIC be periodically examined and audited by the SBA to determine its compliance with the relevant SBA regulations. The SBA prohibits, without prior SBA approval, a change of control of an SBIC or transfers that would result in any person (or a group of persons acting in concert) owning 10.0% or more of a class of capital stock of a licensed SBIC. If either HT II or HT III fail to comply with applicable SBA regulations, the SBA could, depending on the severity of the violation, limit or prohibit HT II s or HT III s use of debentures, declare outstanding debentures immediately due and payable, and/ or limit HT II or HT III from making new investments. Such actions by the SBA would, in turn, negatively affect us because HT II and HT III are our wholly owned subsidiaries.

HT II and HT III were in compliance with the terms of the SBIC s leverage as of June 30, 2016 as a result of having sufficient capital as defined under the SBA regulations. Compliance with SBA requirements may cause HT II and HT III to forego attractive investment opportunities that are not permitted under SBA regulations. See Regulation Small Business Administration Regulations.

SBA regulations limit the outstanding dollar amount of SBA guaranteed debentures that may be issued by an SBIC or group of SBICs under common control.

The SBA regulations currently limit the dollar amount of SBA-guaranteed debentures that can be issued by any one SBIC to $150.0 million or to a group of SBICs under common control to $350.0 million.

An SBIC may not borrow an amount in excess of two times (and in certain cases, up to three times) its regulatory capital. As of June 30, 2016, we have issued $190.2 million in SBA-guaranteed debentures in our SBIC subsidiaries, which is the maximum combined capacity for our SBIC subsidiaries under our existing licenses. During times that we reach the maximum dollar amount of SBA-guaranteed debentures permitted, and if we require additional capital, our cost of capital is likely to increase, and there is no assurance that we will be able to obtain additional financing on acceptable terms.

Moreover, the current status of our SBIC subsidiaries as SBICs does not automatically assure that our SBIC subsidiaries will continue to receive SBA-guaranteed debenture funding. Receipt of SBA leverage funding is dependent upon our SBIC subsidiaries continuing to be in compliance with SBA regulations and policies and available SBA funding. The amount of SBA leverage funding available to SBICs is dependent upon annual Congressional authorizations and in the future may be subject to annual Congressional appropriations. There can be no assurance that there will be sufficient debenture funding available at the times desired by our SBIC subsidiaries.

The debentures guaranteed by the SBA have a maturity of ten years and require semi-annual payments of interest. Our SBIC subsidiaries will need to generate sufficient cash flow to make required interest payments on the debentures. If our SBIC subsidiaries are unable to meet their financial obligations under the debentures, the SBA, as a creditor, will have a superior claim to our SBIC subsidiaries assets over our stockholders in the event we liquidate our SBIC subsidiaries or the SBA exercises its remedies under such debentures as the result of a default by us.

Table of Contents

Index to Financial Statements

Our wholly-owned SBIC subsidiaries may be unable to make distributions to us that will enable us to maintain RIC status, which could result in the imposition of an entity-level tax.

In order for us to continue to qualify for RIC tax treatment and to minimize corporate-level taxes, we will be required to distribute substantially all of our investment company taxable income and net capital gains, including income from certain of our subsidiaries, which includes the income from our SBIC subsidiaries. We will be partially dependent on our SBIC subsidiaries for cash distributions to enable us to meet the RIC distribution requirements. Our SBIC subsidiaries may be limited by the Small Business Investment Act of 1958, as amended, and SBA regulations governing SBICs, from making certain distributions to us that may be necessary to maintain our ability to be subject to tax as a RIC. We may have to request a waiver of the SBA s restrictions for our SBIC subsidiaries to make certain distributions to maintain our ability to be subject to tax as a RIC. We cannot assure you that the SBA will grant such waiver. If our SBIC subsidiaries are unable to obtain a waiver, compliance with the SBA regulations may result in loss of RIC tax treatment and a consequent imposition of an entity-level tax on us.

If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results or prevent fraud. As a result, stockholders could lose confidence in our financial and other public reporting, which would harm our business and the trading price of our common stock.

Effective internal controls over financial reporting are necessary for us to provide reliable financial reports and, together with adequate disclosure controls and procedures, are designed to prevent fraud. Any failure to implement required new or improved controls, or difficulties encountered in their implementation could cause us to fail to meet our reporting obligations. In addition, any testing by us conducted in connection with Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, or the subsequent testing by our independent registered public accounting firm (when undertaken, as noted below), may reveal deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses or that may require prospective or retroactive changes to our consolidated financial statements or identify other areas for further attention or improvement. Inferior internal controls could also cause investors and lenders to lose confidence in our reported financial information, which could have a negative effect on the trading price of our common stock.

Our Board of Directors may change our investment objective, operating policies and strategies without prior notice or stockholder approval, the effects of which may be adverse.

Our Board of Directors has the authority, except as otherwise provided in the 1940 Act, to modify or waive certain of our operating policies and strategies without prior notice and without stockholder approval. However, absent stockholder approval, we may not change the nature of our business so as to cease to be, or withdraw our election as, a business development company. We cannot predict the effect any changes to our current operating policies and strategies would have on our business, operating results and the market price of our common stock. Nevertheless, any such changes could materially and adversely affect our business and impair our ability to make distributions to our stockholders.

Changes in laws or regulations governing our business could negatively affect the profitability of our operations.

Changes in the laws or regulations, or the interpretations of the laws and regulations, which govern business development companies, SBICs, RICs or non-depository commercial lenders could significantly affect our operations and our cost of doing business. We are subject to federal, state and local laws and regulations, in addition to applicable foreign and international laws and regulations, and are subject to judicial and administrative decisions that affect our operations, including our loan originations maximum interest rates, fees and other charges, disclosures to portfolio companies, the terms of secured transactions, collection and foreclosure procedures, and other trade practices. If these laws, regulations or decisions change, or if we expand

Table of Contents

Index to Financial Statements

our business into jurisdictions that have adopted more stringent requirements than those in which we currently conduct business, then we may have to incur significant expenses in order to comply or we may have to restrict our operations. In addition, if we do not comply with applicable laws, regulations and decisions, then we may lose licenses needed for the conduct of our business and be subject to civil fines and criminal penalties, any of which could have a material adverse effect upon our business results of operations or financial condition.

Our business is subject to increasingly complex corporate governance, public disclosure and accounting requirements that could adversely affect our business and financial results.

We are subject to changing rules and regulations of federal and state government as well as the stock exchange on which our common stock is listed. These entities, including the Public Company Accounting Oversight Board, the SEC and the NYSE have issued a significant number of new and increasingly complex requirements and regulations over the course of the last several years and continue to develop additional regulations and requirements in response to laws enacted by Congress. On July 21, 2010, the Dodd-Frank Wall Street Reform and Protection Act, or the Dodd-Frank Act, was enacted. There are significant corporate governance and executive compensation-related provisions in the Dodd-Frank Act, and the SEC has adopted, and will continue to adopt, additional rules and regulations that may impact us. Our efforts to comply with these requirements have resulted in, and are likely to continue to result in, an increase in expenses and a diversion of management s time from other business activities.

In addition, our failure to maintain compliance with such rules, or for our management to appropriately address issues relating to our compliance with such rules fully and in a timely manner, exposes us to an increasing risk of inadvertent non-compliance. While the Company s management team takes reasonable efforts to ensure that the Company is in full compliance with all laws applicable to its operations, the increasing rate and extent of regulatory change increases the risk of a failure to comply, which may result in our ability to operate our business in the ordinary course or may subject us to potential fines, regulatory findings or other matters that may materially impact our business.

We incur significant costs as a result of being a publicly traded company.

As a publicly traded company, we incur legal, accounting and other expenses, including costs associated with the periodic reporting requirements applicable to a company whose securities are registered under the Exchange Act as well as additional corporate governance requirements, including requirements under the Sarbanes-Oxley Act and other rules implemented by the SEC.

Results may fluctuate and may not be indicative of future performance.

Our operating results may fluctuate and, therefore, you should not rely on current or historical period results to be indicative of our performance in future reporting periods. Factors that could cause operating results to fluctuate include, but are not limited to, variations in the investment origination volume and fee income earned, changes in the accrual status of our debt investments, variations in timing of prepayments, variations in and the timing of the recognition of net realized gains or losses and changes in unrealized appreciation or depreciation, the level of our expenses, the degree to which we encounter competition in our markets, and general economic conditions.

We face cyber-security risks and the failure in cyber security systems, as well as the occurrence of events unanticipated in our disaster recovery systems and management continuity planning could impair our ability to conduct business effectively.

Our business operations rely upon secure information technology systems for data processing, storage and reporting. Despite careful security and controls design, implementation and updating, our information technology systems could become subject to cyber-attacks. Network, system, application and data breaches could result in operational disruptions or information misappropriation, which could have a material adverse effect on our business, results of operations and financial condition.

Table of Contents

Index to Financial Statements

The occurrence of a disaster such as a cyber-attack, a natural catastrophe, an industrial accident, a terrorist attack or war, events unanticipated in our disaster recovery systems, or a support failure from external providers, could have an adverse effect on our ability to conduct business and on our results of operations and financial condition, particularly if those events affect our computer-based data processing, transmission, storage, and retrieval systems or destroy data. If a significant number of our managers were unavailable in the event of a disaster, our ability to effectively conduct our business could be severely compromised.

We depend heavily upon computer systems to perform necessary business functions. Despite our implementation of a variety of security measures, our computer systems could be subject to cyber-attacks and unauthorized access, such as physical and electronic break-ins or unauthorized tampering. Like other companies, we may experience threats to our data and systems, including malware and computer virus attacks, unauthorized access, system failures and disruptions. If one or more of these events occurs, it could potentially jeopardize the confidential, proprietary and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our operations, which could result in damage to our reputation, financial losses, litigation, increased costs, regulatory penalties and/or customer dissatisfaction or loss.

We are dependent on information systems and systems failures could significantly disrupt our business, which may, in turn, negatively affect the market price of our common stock and our ability to pay distributions.

Our business is dependent on our and third parties communications and information systems. Any failure or interruption of those systems, including as a result of the termination of an agreement with any third-party service providers, could cause delays or other problems in our activities. Our financial, accounting, data processing, backup or other operating systems and facilities may fail to operate properly or become disabled or damaged as a result of a number of factors including events that are wholly or partially beyond our control and adversely affect our business. There could be:

- sudden electrical or telecommunication outages;
- natural disasters such as earthquakes, tornadoes and hurricanes;
- disease pandemics;
- events arising from local or larger scale political or social matters, including terrorist acts; and
- cyber-attacks.

These events, in turn, could have a material adverse effect on our operating results and negatively affect the market price of our common stock and our ability to pay distributions to our stockholders.

Risks Related to Current Economic and Market Conditions

Capital markets may experience periods of disruption and instability and we cannot predict when these conditions will occur. Such market conditions could materially and adversely affect debt and equity capital markets in the United States and abroad, which could have a negative impact on our business, financial condition and results of operations.

The global capital markets have experienced a period of disruption as evidenced by a lack of liquidity in the debt capital markets, write-offs in the financial services sector, the re-pricing of credit risk and the failure of certain major financial institutions. While the capital markets have improved, these conditions could deteriorate again in the future. During such market disruptions, we may have difficulty raising debt or equity capital, especially as a result of regulatory constraints.

Market conditions may in the future make it difficult to extend the maturity of or refinance our existing indebtedness and any failure to do so could have a material adverse effect on our business. The illiquidity of our

Table of Contents

Index to Financial Statements

investments may make it difficult for us to sell such investments if required. As a result, we may realize significantly less than the value at which we have recorded our investments. In addition, significant changes in the capital markets, including the disruption and volatility, have had, and may in the future have, a negative effect on the valuations of our investments and on the potential for liquidity events involving our investments. An inability to raise capital, and any required sale of our investments for liquidity purposes, could have a material adverse impact on our business, financial condition and results of operations.

Various social and political tensions in the United States and around the world, including in the Middle East, Eastern Europe and Russia, may continue to contribute to increased market volatility, may have long-term effects on the United States and worldwide financial markets, and may cause further economic uncertainties or deterioration in the United States and worldwide. Several European Union (EU) countries, including Greece, Ireland, Italy, Spain, and Portugal, continue to face budget issues, some of which may have negative long-term effects for the economies of those countries and other EU countries. There is also continued concern about national-level support for the euro and the accompanying coordination of fiscal and wage policy among European Economic and Monetary Union member countries. In July and August 2015, Greece reached agreements with its creditors for bailouts that provide aid in exchange for certain austerity measures. These and similar austerity measures may adversely affect world economic conditions and have an impact on our business and that of our portfolio companies. In the second quarter of 2015, stock prices in China experienced a significant drop, resulting primarily from continued sell-off of trading in Chinese markets. In August 2015, Chinese authorities sharply devalued China s currency.

These market and economic disruptions affect, and these and other similar market and economic disruptions may in the future affect, the U.S. capital markets, which could adversely affect our business and that of our portfolio companies. We cannot predict the duration of the effects related to these or similar events in the future on the United States economy and securities markets or on our investments. We monitor developments and seek to manage our investments in a manner consistent with achieving our investment objective, but there can be no assurance that we will be successful in doing so.

Depending on funding requirements, we may need to raise additional capital to meet our unfunded commitments either through equity offerings or through additional borrowings.

As of June 30, 2016, we had approximately $71.2 million of unfunded commitments, including undrawn revolving facilities, which were available at the request of the portfolio company and unencumbered by milestones.

Our unfunded contractual commitments may be significant from time to time. A portion of these unfunded contractual commitments are dependent upon the portfolio company reaching certain milestones before the debt commitment becomes available. Furthermore, our credit agreements contain customary lending provisions which allow us relief from funding obligations for previously made commitments in instances where the underlying company experiences materially adverse events that affect the financial condition or business outlook for the company. These commitments will be subject to the same underwriting and ongoing portfolio maintenance as are the on-balance sheet financial instruments that we hold. Since these commitments may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. Closed commitments generally fund 70-80% of the committed amount in aggregate over the life of the commitment. We believe that our assets provide adequate cover to satisfy all of our unfunded comments and we intend to use cash flow from normal and early principal repayments and proceeds from borrowings and notes to fund these commitments. However, there can be no assurance that we will have sufficient capital available to fund these commitments as they come due.

Our ability to secure additional financing and satisfy our financial obligations under indebtedness outstanding from time to time will depend upon our future operating performance, which is subject to the prevailing general economic and credit market conditions, including interest rate levels and the availability of

Table of Contents

Index to Financial Statements

credit generally, and financial, business and other factors, many of which are beyond our control. The prolonged continuation or worsening of current economic and capital market conditions could have a material adverse effect on our ability to secure financing on favorable terms, if at all.

Changes relating to the LIBOR calculation process may adversely affect the value of our portfolio of the LIBOR-indexed, floating-rate debt securities.

In the recent past, concerns have been publicized that some of the member banks surveyed by the British Bankers Association (BBA) in connection with the calculation of the London Interbank Offered Rate, or LIBOR, across a range of maturities and currencies may have been under-reporting or otherwise manipulating the inter-bank lending rate applicable to them in order to profit on their derivatives positions or to avoid an appearance of capital insufficiency or adverse reputational or other consequences that may have resulted from reporting inter-bank lending rates higher than those they actually submitted. A number of BBA member banks entered into settlements with their regulators and law enforcement agencies with respect to alleged manipulation of LIBOR, and investigations by regulators and governmental authorities in various jurisdictions are ongoing.

Actions by the BBA, regulators or law enforcement agencies as a result of these or future events, may result in changes to the manner in which LIBOR is determined. Potential changes, or uncertainty related to such potential changes may adversely affect the market for LIBOR-based securities, including our portfolio of LIBOR-indexed, floating-rate debt securities. In addition, any further changes or reforms to the determination or supervision of LIBOR may result in a sudden or prolonged increase or decrease in reported LIBOR, which could have an adverse impact on the market for LIBOR-based securities or the value of our portfolio of LIBOR-indexed, floating-rate debt securities.

Risks Related to Our Investments

Our investments are concentrated in certain industries and in a number of technology-related companies, which subjects us to the risk of significant loss if any of these companies default on their obligations under any of their debt securities that we hold, or if any of the technology-related industry sectors experience a downturn.

We have invested and intend to continue investing in a limited number of technology-related companies. A consequence of this limited number of investments is that the aggregate returns we realize may be significantly adversely affected if a small number of investments perform poorly or if we need to write down the value of any one investment. Beyond the asset diversification requirements to which we are subject as a business development company and a RIC, we do not have fixed guidelines for diversification or limitations on the size of our investments in any one portfolio company and our investments could be concentrated in relatively few issuers. In addition, we have invested in and intend to continue investing, under normal circumstances, at least 80% of the value of our total assets (including the amount of any borrowings for investment purposes) in technology-related companies.

As of June 30, 2016, approximately 63.4% of the fair value of our portfolio was composed of investments in four industries: 23.8% was composed of investments in the drug discovery and development industry, 14.5% was comprised of investments in the sustainable and renewable technology industry, 13.9% was composed of investments in the software industry, and 11.1% was composed of investments in the drug delivery industry.

As a result, a downturn in technology-related industry sectors and particularly those in which we are heavily concentrated could materially adversely affect our financial condition.

Our financial results could be negatively affected if a significant portfolio investment fails to perform as expected.

Our total investment in companies may be significant individually or in the aggregate. As a result, if a significant investment in one or more companies fails to perform as expected, our financial results could be more

Table of Contents

Index to Financial Statements

negatively affected and the magnitude of the loss could be more significant than if we had made smaller investments in more companies. The following table shows the fair value of the totals of investments held in portfolio companies at June 30, 2016 that represent greater than 5% of our net assets:

(in thousands)	June 30, 2016 Fair Value	June 30, 2016 Percentage of Net Assets
Machine Zone, Inc.	$ 102,668	14.3%
Sungevity Development, LLC.	$ 64,359	9.0%
Actifio, Inc.	$ 40,092	5.6%

Machine Zone, Inc. is a technology company that is best known for building mobile Massively Multiplayer Online games with a focus on community-based gameplay.

Sungevity Development, LLC. is a global residential solar energy provider focused on making it easy and affordable for homeowners to benefit from solar power.

Actifio, Inc. is a software company that helps global enterprise customers and service provider partners virtualize their data in order to improve their data resiliency, agility, and mobility while reducing cost and operational complexity.

Our financial results could be materially adversely affected if these portfolio companies or any of our other significant portfolio companies encounter financial difficulty and fail to repay their obligations or to perform as expected.

Our investments may be in portfolio companies that have limited operating histories and resources.

We expect that our portfolio will continue to consist of investments that may have relatively limited operating histories. These companies may be particularly vulnerable to U.S. and foreign economic downturns may have more limited access to capital and higher funding costs, may have a weaker financial position and may need more capital to expand or compete. These businesses also may experience substantial variations in operating results. They may face intense competition, including from larger, more established companies with greater financial, technical and marketing resources. Furthermore, some of these companies do business in regulated industries and could be affected by changes in government regulation applicable to their given industry. Accordingly, these factors could impair their cash flow or result in other events, such as bankruptcy, which could limit their ability to repay their obligations to us, and may adversely affect the return on, or the recovery of, our investment in these companies. We cannot assure you that any of our investments in our portfolio companies will be successful. We may lose our entire investment in any or all of our portfolio companies.

Investing in publicly traded companies can involve a high degree of risk and can be speculative.

We have invested, and expect to continue to invest, a portion of our portfolio in publicly traded companies or companies that are in the process of completing their initial public offering (IPO). As publicly traded companies, the securities of these companies may not trade at high volumes, and prices can be volatile, particularly during times of general market volatility, which may restrict our ability to sell our positions and may have a material adverse impact on us.

Our ability to invest in public companies may be limited in certain circumstances.

To maintain our status as a business development company, we are not permitted to 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). Subject to certain exceptions for follow-on

Table of Contents

Index to Financial Statements

investments and distressed companies, an investment in an issuer that has outstanding securities listed on a national securities exchange may be treated as a qualifying asset only if such issuer has a market capitalization that is less than $250 million at the time of such investment and meets the other specified requirements.

Our investment strategy focuses on technology-related companies, which are subject to many risks, including volatility, intense competition, shortened product life cycles, changes in regulatory and governmental programs and periodic downturns, and you could lose all or part of your investment.

We have invested and will continue investing primarily in technology-related companies, many of which may have narrow product lines and small market shares, which tend to render them more vulnerable to competitors actions and market conditions, as well as to general economic downturns. The revenues, income (or losses), and valuations of technology-related companies can and often do fluctuate suddenly and dramatically. In addition, technology-related industries are generally characterized by abrupt business cycles and intense competition. Overcapacity in technology-related industries, together with cyclical economic downturns, may result in substantial decreases in the market capitalization of many technology-related companies. Such decreases in market capitalization may occur again, and any future decreases in technology-related company valuations may be substantial and may not be temporary in nature. Therefore, our portfolio companies may face considerably more risk of loss than do companies in other industry sectors.

Because of rapid technological change, the average selling prices of products and some services provided by technology-related companies have historically decreased over their productive lives. As a result, the average selling prices of products and services offered by technology-related companies may decrease over time, which could adversely affect their operating results, their ability to meet obligations under their debt securities and the value of their equity securities. This could, in turn, materially adversely affect our business, financial condition and results of operations.

Our investments in sustainable and renewable technology companies are subject to substantial operational risks, such as underestimated cost projections, unanticipated operation and maintenance expenses, loss of government subsidies, and inability to deliver cost-effective alternative energy solutions compared to traditional energy products. In addition, sustainable and renewable technology companies employ a variety of means of increasing cash flow, including increasing utilization of existing facilities, expanding operations through new construction or acquisitions, or securing additional long-term contracts. Thus, some energy companies may be subject to construction risk, acquisition risk or other risks arising from their specific business strategies. Furthermore, production levels for solar, wind and other renewable energies may be dependent upon adequate sunlight, wind, or biogas production, which can vary from market to market and period to period, resulting in volatility in production levels and profitability. Demand for sustainable and renewable technology is also influenced by the available supply and prices for other energy products, such as coal, oil and natural gases. A change in prices in these energy products could reduce demand for alternative energy.

A natural disaster may also impact the operations of our portfolio companies, including our technology-related portfolio companies. The nature and level of natural disasters cannot be predicted and may be exacerbated by global climate change. A portion of our technology-related portfolio companies rely on items assembled or produced in areas susceptible to natural disasters, and may sell finished goods into markets susceptible to natural disasters. A major disaster, such as an earthquake, tsunami, flood or other catastrophic event could result in disruption to the business and operations of our technology-related portfolio companies.

We will invest in technology-related companies that are reliant on U.S. and foreign regulatory and governmental programs. Any material changes or discontinuation, due to change in administration or U.S. Congress or otherwise could have a material adverse effect on the operations of a portfolio company in these industries and, in turn, impair our ability to timely collect principal and interest payments owed to us to the extent applicable.

Table of Contents

Index to Financial Statements

We have invested in and may continue investing in technology-related companies that do not have venture capital or private equity firms as equity investors, and these companies may entail a higher risk of loss than do companies with institutional equity investors, which could increase the risk of loss of your investment.

Our portfolio companies will often require substantial additional equity financing to satisfy their continuing working capital and other cash requirements and, in most instances, to service the interest and principal payments on our investment. Portfolio companies that do not have venture capital or private equity investors may be unable to raise any additional capital to satisfy their obligations or to raise sufficient additional capital to reach the next stage of development. Portfolio companies that do not have venture capital or private equity investors may be less financially sophisticated and may not have access to independent members to serve on their boards, which means that they may be less successful than portfolio companies sponsored by venture capital or private equity firms. Accordingly, financing these types of companies may entail a higher risk of loss than would financing companies that are sponsored by venture capital or private equity firms.

Sustainable and renewable technology companies are subject to extensive government regulation and certain other risks particular to the sectors in which they operate and our business and growth strategy could be adversely affected if government regulations, priorities and resources impacting such sectors change or if our portfolio companies fail to comply with such regulations.

As part of our investment strategy, we plan to invest in portfolio companies in sustainable and renewable technology sectors that may be subject to extensive regulation by foreign, U.S. federal, state and/or local agencies. Changes in existing laws, rules or regulations, or judicial or administrative interpretations thereof, or new laws, rules or regulations could have an adverse impact on the business and industries of our portfolio companies. In addition, changes in government priorities or limitations on government resources could also adversely impact our portfolio companies. We are unable to predict whether any such changes in laws, rules or regulations will occur and, if they do occur, the impact of these changes on our portfolio companies and our investment returns. Furthermore, if any of our portfolio companies fail to comply with applicable regulations, they could be subject to significant penalties and claims that could materially and adversely affect their operations. Our portfolio companies may be subject to the expense, delay and uncertainty of the regulatory approval process for their products and, even if approved, these products may not be accepted in the marketplace.

In addition, there is considerable uncertainty about whether foreign, U.S., state and/or local governmental entities will enact or maintain legislation or regulatory programs that mandate reductions in greenhouse gas emissions or provide incentives for sustainable and renewable technology companies. Without such regulatory policies, investments in sustainable and renewable technology companies may not be economical and financing for sustainable and renewable technology companies may become unavailable, which could materially adversely affect the ability of our portfolio companies to repay the debt they owe to us. Any of these factors could materially and adversely affect the operations and financial condition of a portfolio company and, in turn, the ability of the portfolio company to repay the debt they owe to us.

Cyclicality within the energy sector may adversely affect some of our portfolio companies.

Industries within the energy sector are cyclical with fluctuations in commodity prices and demand for, and production of commodities driven by a variety of factors. The highly cyclical nature of the industries within the energy sector may lead to volatile changes in commodity prices, which may adversely affect the earnings of energy companies in which we may invest and the performance and valuation of our portfolio.

Volatility of oil and natural gas prices could impair certain of our portfolio companies operations and ability to satisfy obligations to their respective lenders and investors, including us, which could negatively impact our financial condition.

Some of our portfolio companies businesses are heavily dependent upon the prices of, and demand for, oil and natural gas, which have recently declined significantly and such volatility could continue or increase in the

Table of Contents

Index to Financial Statements

future. A substantial or extended decline in oil and natural gas demand or prices may adversely affect the business, financial condition, cash flow, liquidity or results of operations of these portfolio companies and might impair their ability to meet capital expenditure obligations and financial commitments. A prolonged or continued decline in oil prices could therefore have a material adverse effect on our business, financial condition and results of operations.

Our investments in the life sciences industry are subject to extensive government regulation, litigation risk and certain other risks particular to that industry.

We have invested and plan to continue investing in companies in the life sciences industry that are subject to extensive regulation by the Food and Drug Administration, or the FDA, and to a lesser extent, other federal, state and other foreign agencies. If any of these portfolio companies fail to comply with applicable regulations, they could be subject to significant penalties and claims that could materially and adversely affect their operations. Portfolio companies that produce medical devices or drugs are subject to the expense, delay and uncertainty of the regulatory approval process for their products and, even if approved, these products may not be accepted in the marketplace. In addition, governmental budgetary constraints effecting the regulatory approval process, new laws, regulations or judicial interpretations of existing laws and regulations might adversely affect a portfolio company in this industry. Portfolio companies in the life sciences industry may also have a limited number of suppliers of necessary components or a limited number of manufacturers for their products, and therefore face a risk of disruption to their manufacturing process if they are unable to find alternative suppliers when needed. Any of these factors could materially and adversely affect the operations of a portfolio company in this industry and, in turn, impair our ability to timely collect principal and interest payments owed to us.

Our investments in the drug discovery industry are subject to numerous risks, including competition, extensive government regulation, product liability and commercial difficulties.

Our investments in the drug discovery industry are subject to numerous risks. The successful and timely implementation of the business model of our drug discovery portfolio companies depends on their ability to adapt to changing technologies and introduce new products. As competitors continue to introduce competitive products, the development and acquisition of innovative products and technologies that improve efficacy, safety, patient s and clinician s ease of use and cost-effectiveness are important to the success of such portfolio companies. The success of new product offerings will depend on many factors, including the ability to properly anticipate and satisfy customer needs, obtain regulatory approvals on a timely basis, develop and manufacture products in an economic and timely manner, obtain or maintain advantageous positions with respect to intellectual property, and differentiate products from those of competitors. Failure by our portfolio companies to introduce planned products or other new products or to introduce products on schedule could have a material adverse effect on our business, financial condition and results of operations.

Further, the development of products by drug discovery companies requires significant research and development, clinical trials and regulatory approvals. The results of product development efforts may be affected by a number of factors, including the ability to innovate, develop and manufacture new products, complete clinical trials, obtain regulatory approvals and reimbursement in the U.S. and abroad, or gain and maintain market approval of products. In addition, regulatory review processes by U.S. and foreign agencies may extend longer than anticipated as a result of decreased funding and tighter fiscal budgets. Further, patents attained by others can preclude or delay the commercialization of a product. There can be no assurance that any products now in development will achieve technological feasibility, obtain regulatory approval, or gain market acceptance. Failure can occur at any point in the development process, including after significant funds have been invested. Products may fail to reach the market or may have only limited commercial success because of efficacy or safety concerns, failure to achieve positive clinical outcomes, inability to obtain necessary regulatory approvals, failure to achieve market adoption, limited scope of approved uses, excessive costs to manufacture, the failure to establish or maintain intellectual property rights, or the infringement of intellectual property rights of others.

Table of Contents

Index to Financial Statements

Future legislation, and/or regulations and policies adopted by the FDA or other U.S. or foreign regulatory authorities may increase the time and cost required by some of our portfolio companies to conduct and complete clinical trials for the product candidates that they develop, and there is no assurance that these companies will obtain regulatory approval to market and commercialize their products in the U.S. and in foreign countries.

The FDA has established regulations, guidelines and policies to govern the drug development and approval process, as have foreign regulatory authorities, which affect some of our portfolio companies. Any change in regulatory requirements due to the adoption by the FDA and/or foreign regulatory authorities of new legislation, regulations, or policies may require some of our portfolio companies to amend existing clinical trial protocols or add new clinical trials to comply with these changes. Such amendments to existing protocols and/or clinical trial applications or the need for new ones, may significantly impact the cost, timing and completion of the clinical trials.

In addition, increased scrutiny by the U.S. Congress of the FDA s and other authorities approval processes may significantly delay or prevent regulatory approval, as well as impose more stringent product labeling and post-marketing testing and other requirements. Foreign regulatory authorities may also increase their scrutiny of approval processes resulting in similar delays. Increased scrutiny and approvals processes may limit the ability of our portfolio companies to market and commercialize their products in the U.S. and in foreign countries.

Life sciences companies, including drug development companies, device manufacturers, service providers and others, are also subject to material pressures when there are changes in the outlook for healthcare insurance markets. The ability for individuals, along with private and public insurers, to account for the costs of paying for healthcare insurance can place strain on the ability of new technology, devices and services to enter those markets, particularly when they are new or untested. As a result, it is not uncommon for changes in the insurance market place to lead to a slower rate of adoption, price pressure and other forces that may materially limit the success of companies bringing such technologies to market. Changes in the health insurance sector might then have an impact on the value of companies in our portfolio or our ability to invest in the sector generally.

Changes in healthcare laws and other regulations, or the enforcement or interpretation of such laws or regulations, applicable to some of our portfolio companies businesses may constrain their ability to offer their products and services.

Changes in healthcare or other laws and regulations, or the enforcement or interpretation of such laws or regulations, applicable to the businesses of some of our portfolio companies may occur that could increase their compliance and other costs of doing business, require significant systems enhancements, or render their products or services less profitable or obsolete, any of which could have a material adverse effect on their results of operations. There has also been an increased political and regulatory focus on healthcare laws in recent years, and new legislation could have a material effect on the business and operations of some of our portfolio companies.

Price declines and illiquidity in the corporate debt markets could adversely affect the fair value of our portfolio investments, reducing our NAV through increased net unrealized depreciation.

As a business development company, we are required to carry our investments at market value or, if no market value is ascertainable, at fair market value as determined in good faith by or under the direction of our board of directors. As part of the valuation process, we may take into account the following types of factors, if relevant, in determining the fair value of our investments: the enterprise value of a portfolio company (an estimate of the total fair value of the portfolio company s debt and equity), the nature and realizable value of any collateral, the portfolio company s ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business, a comparison of the portfolio company s securities to similar publicly traded securities, changes in the interest rate environment and the credit markets generally that may affect the price at which similar investments may be made in the future and other relevant factors. When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, we use the pricing

Table of Contents

Index to Financial Statements

indicated by the external event to corroborate our valuation. While most of our investments are not publicly traded, applicable accounting standards require us to assume as part of our valuation process that our investments are sold in a principal market to market participants (even if we plan on holding an investment through its maturity). As a result, volatility in the capital markets can also adversely affect our investment valuations. Decreases in the market values or fair values of our investments are recorded as unrealized depreciation. The effect of all of these factors on our portfolio can reduce our NAV by increasing net unrealized depreciation in our portfolio.

Depending on market conditions, we could incur substantial realized losses and may suffer substantial unrealized depreciation in future periods, which could have a material adverse impact on our business, financial condition and results of operations.

Economic recessions or slowdowns could impair the ability of our portfolio companies to repay loans, which, in turn, could increase our non-performing assets, decrease the value of our portfolio, reduce our volume of new loans and have a material adverse effect on our results of operations.

Many of our portfolio companies may be susceptible to economic slowdowns or recessions in both the U.S. and foreign countries, and may be unable to repay our loans during such periods. Therefore, during such periods, our non-performing assets are likely to increase and the value of our portfolio is likely to decrease. Adverse economic conditions also may decrease the value of collateral securing some of our loans and the value of our equity investments. Economic slowdowns or recessions could lead to financial losses in our portfolio and a decrease in revenues, net income and assets. Unfavorable economic conditions also could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. These events could prevent us from increasing investments and harm our operating results.

In particular, intellectual property owned or controlled by our portfolio companies may constitute an important portion of the value of the collateral of our loans to our portfolio companies. Adverse economic conditions may decrease the demand for our portfolio companies intellectual property and consequently its value in the event of a bankruptcy or required sale through a foreclosure proceeding. As a result, our ability to fully recover the amounts owed to us under the terms of the loans may be impaired by such events.

A portfolio company s failure to satisfy financial or operating covenants imposed by us or other lenders could lead to defaults and, potentially, termination of the portfolio company s loans and foreclosure on its secured assets, which could trigger cross-defaults under other agreements and jeopardize the portfolio company s ability to meet its obligations under the debt securities that we hold. We may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms with a defaulting portfolio company.

Our portfolio companies may be unable to repay or refinance outstanding principal on their loans at or prior to maturity, and rising interests rates may make it more difficult for portfolio companies to make periodic payments on their loans.

Our portfolio companies may be unable to repay or refinance outstanding principal on their loans at or prior to maturity. This risk and the risk of default is increased to the extent that the loan documents do not require the portfolio companies to pay down the outstanding principal of such debt prior to maturity. In addition, if general interest rates rise, there is a risk that our portfolio companies will be unable to pay escalating interest amounts, which could result in a default under their loan documents with us. Any failure of one or more portfolio companies to repay or refinance its debt at or prior to maturity or the inability of one or more portfolio companies to make ongoing payments following an increase in contractual interest rates could have a material adverse effect on our business, financial condition, results of operations and cash flows.

The disposition of our investments may result in contingent liabilities.

We currently expect that a portion of our investments will involve private securities. In connection with the disposition of an investment in private securities, we may be required to make representations about the business

Table of Contents

Index to Financial Statements

and financial affairs of the portfolio company typical of those made in connection with the sale of a business. We may also be required to indemnify the purchasers of such investment to the extent that any such representations turn out to be inaccurate or with respect to certain potential liabilities. These arrangements may result in contingent liabilities that ultimately yield funding obligations that must be satisfied through our return of certain distributions previously made to us.

The health and performance of our portfolio companies could be adversely affected by political and economic conditions in the countries in which they conduct business.

Some of the products of our portfolio companies are developed, manufactured, assembled, tested or marketed outside the U.S. Any conflict or uncertainty in these countries, including due to natural disasters, public health concerns, political unrest or safety concerns, among other things, could harm their business, financial condition and results of operations. In addition, if the government of any country in which their products are developed, manufactured or sold sets technical or regulatory standards for products developed or manufactured in or imported into their country that are not widely shared, it may lead some of their customers to suspend imports of their products into that country, require manufacturers or developers in that country to manufacture or develop products with different technical or regulatory standards and disrupt cross-border manufacturing, marketing or business relationships which, in each case, could harm their businesses.

Any unrealized depreciation we experience on our investment portfolio may be an indication of future realized losses, which could reduce our income available for distribution and could impair our ability to service our borrowings.

As a business development company, we are required to carry our investments at market value or, if no market value is ascertainable, at fair value as determined in good faith by our Board of Directors. Decreases in the market values or fair values of our investments will be recorded as unrealized depreciation. Any unrealized depreciation in our investment portfolio could be an indication of a portfolio company s inability to meet its repayment obligations to us with respect to the affected investments. This could result in realized losses in the future and ultimately in reductions of our income available for distribution in future periods and could materially adversely affect our ability to service our outstanding borrowings.

A lack of IPO or merger and acquisition opportunities may cause companies to stay in our portfolio longer, leading to lower returns, unrealized depreciation, or realized losses.

A lack of IPO or merger and acquisition (M&A) opportunities for venture capital-backed companies could lead to companies staying longer in our portfolio as private entities still requiring funding. This situation may adversely affect the amount of available funding for early-stage companies in particular as, in general, venture-capital firms are being forced to provide additional financing to late-stage companies that cannot complete an IPO or M&A transaction. In the best case, such stagnation would dampen returns, and in the worst case, could lead to unrealized depreciation and realized losses as some companies run short of cash and have to accept lower valuations in private fundings or are not able to access additional capital at all. A lack of IPO or M&A opportunities for venture capital-backed companies can also cause some venture capital firms to change their strategies, leading some of them to reduce funding of their portfolio companies and making it more difficult for such companies to access capital and to fulfill their potential, which can result in unrealized depreciation and realized losses in such companies by other companies such as ourselves who are co-investors in such companies.

The majority of our portfolio companies will need multiple rounds of additional financing to repay their debts to us and continue operations. Our portfolio companies may not be able to raise additional financing, which could harm our investment returns.

The majority of our portfolio companies will often require substantial additional equity financing to satisfy their continuing working capital and other cash requirements and, in most instances, to service the interest and principal payments on our investment. Each round of venture financing is typically intended to provide a company with only enough capital to reach the next stage of development. We cannot predict the circumstances or market conditions under which our portfolio companies will seek additional capital. It is possible that one or more of our portfolio companies will not be able to raise additional financing or may be able to do so only at a price or on terms unfavorable to us, either of which would negatively impact our investment returns. Some of these companies may be unable to obtain sufficient financing from private investors, public capital markets or traditional lenders. This may have a significant impact if the companies are unable to obtain certain federal, state or foreign agency approval for their products or the marketing thereof, of if regulatory review processes extend longer than anticipated, and the companies need continued funding for their operations during these times. Accordingly, financing these types of companies may entail a higher risk of loss than would financing companies that are able to utilize traditional credit sources.

If the assets securing the loans that we make decrease in value, then we may lack sufficient collateral to cover losses.

To attempt to mitigate credit risks, we will typically take a security interest in the available assets of our portfolio companies. There is no assurance that we will obtain or properly perfect our liens.

There is a risk that the collateral securing our loans may decrease in value over time, may be difficult to sell in a timely manner, may be difficult to appraise and may fluctuate in value based upon the success of the business and market conditions, including as a result of the inability of a portfolio company to raise additional capital. In some circumstances, our lien could be subordinated to claims of other creditors. Consequently, the fact that a loan is secured does not guarantee that we will receive principal and interest payments according to the loan s terms, or that we will be able to collect on the loan should we be forced to enforce our remedies.

In addition, because we invest in technology-related companies, a substantial portion of the assets securing our investment may be in the form of intellectual property, if any, inventory and equipment and, to a lesser extent, cash and accounts receivable. Intellectual property, if any, that is securing our loan could lose value if, among other things, the company s rights to the intellectual property are challenged or if the company s license to the intellectual property is revoked or expires, the technology fails to achieve its intended results or a new technology makes the intellectual property functionally obsolete. Inventory may not be adequate to secure our loan if our valuation of the inventory at the time that we made the loan was not accurate or if there is a reduction in the demand for the inventory.

Similarly, any equipment securing our loan may not provide us with the anticipated security if there are changes in technology or advances in new equipment that render the particular equipment obsolete or of limited value, or if the company fails to adequately maintain or repair the equipment. Any one or more of the preceding factors could materially impair our ability to recover earned interest and principal in a foreclosure.

At June 30, 2016, approximately 42.8% of our portfolio company debt investments were secured by a first priority security in all of the assets of the portfolio company, including their intellectual property, 45.7% of the debt investments were to portfolio companies that were prohibited from pledging or encumbering their intellectual property, or subject to a negative pledge, 8.2% of the our portfolio company debt investments were secured by a second priority security interest in all of the portfolio company s assets, other than intellectual property and 3.3% of our portfolio company debt investments were subordinated secured by all of the portfolio company s assets, including intellectual property. At June 30, 2016 we had no equipment only liens on any of our portfolio companies.

We may suffer a loss if a portfolio company defaults on a loan and the underlying collateral is not sufficient.

In the event of a default by a portfolio company on a secured loan, we will only have recourse to the assets collateralizing the loan. If the underlying collateral value is less than the loan amount, we will suffer a loss. In addition, we sometimes make loans that are unsecured, which are subject to the risk that other lenders may be directly secured by the assets of the portfolio company. In the event of a default, those collateralized lenders would have priority over us with respect to the proceeds of a sale of the underlying assets. In cases described above, we may lack control over the underlying asset collateralizing our loan or the underlying assets of the portfolio company prior to a default, and as a result the value of the collateral may be reduced by acts or omissions by owners or managers of the assets.

In the event of bankruptcy of a portfolio company, we may not have full recourse to its assets in order to satisfy our loan, or our loan may be subject to equitable subordination. This means that depending on the facts and circumstances, including the extent to which we actually provided significant managerial assistance, if any, to that portfolio company, a bankruptcy court might re-characterize our debt holding and subordinate all or a portion of our claim to that of other creditors. In addition, certain of our loans are subordinate to other debt of the portfolio company. If a portfolio company defaults on our loan or on debt senior to our loan, or in the event of a portfolio company bankruptcy, our loan will be satisfied only after the senior debt receives payment. Where debt senior to our loan exists, the presence of intercreditor arrangements may limit our ability to amend our loan documents, assign our loans, accept prepayments, exercise our remedies (through standstill periods) and control decisions made in bankruptcy proceedings relating to the portfolio company. Bankruptcy and portfolio company litigation can significantly increase collection losses and the time needed for us to acquire the underlying collateral in the event of a default, during which time the collateral may decline in value, causing us to suffer losses.

If the value of collateral underlying our loan declines or interest rates increase during the term of our loan, a portfolio company may not be able to obtain the necessary funds to repay our loan at maturity through refinancing. Decreasing collateral value and/or increasing interest rates may hinder a portfolio company s ability to refinance our loan because the underlying collateral cannot satisfy the debt service coverage requirements necessary to obtain new financing. If a borrower is unable to repay our loan at maturity, we could suffer a loss which may adversely impact our financial performance.

The inability of our portfolio companies to commercialize their technologies or create or develop commercially viable products or businesses would have a negative impact on our investment returns.

The possibility that our portfolio companies will not be able to commercialize their technology, products or business concepts presents significant risks to the value of our investment. Additionally, although some of our portfolio companies may already have a commercially successful product or product line when we invest, technology-related products and services often have a more limited market- or life-span than have products in other industries. Thus, the ultimate success of these companies often depends on their ability to continually innovate, or raise additional capital, in increasingly competitive markets. Their inability to do so could affect our investment return. In addition, the intellectual property held by our portfolio companies often represents a substantial portion of the collateral, if any, securing our investments. We cannot assure you that any of our portfolio companies will successfully acquire or develop any new technologies, or that the intellectual property the companies currently hold will remain viable. Even if our portfolio companies are able to develop commercially viable products, the market for new products and services is highly competitive and rapidly changing. Neither our portfolio companies nor we have any control over the pace of technology development. Commercial success is difficult to predict, and the marketing efforts of our portfolio companies may not be successful.

An investment strategy focused on privately-held companies presents certain challenges, including the lack of available information about these companies, a dependence on the talents and efforts of only a few key portfolio company personnel and a greater vulnerability to economic downturns.

We invest primarily in privately-held companies. Generally, very little public information exists about these companies, and we are required to rely on the ability of our management and investment teams to obtain adequate information to evaluate the potential returns from investing in these companies. Such small, privately held companies as we routinely invest in may also lack quality infrastructures, thus leading to poor disclosure standards or control environments. If we are unable to uncover all material information about these companies, then we may not make a fully informed investment decision, and we may not receive the expected return on our investment or lose some or all of the money invested in these companies.

Also, privately-held companies frequently have less diverse product lines and a smaller market presence than do larger competitors. Privately-held companies are, thus, generally more vulnerable to economic downturns and may experience more substantial variations in operating results than do larger competitors. These factors could affect our investment returns and our results of operations and financial condition.

In addition, our success depends, in large part, upon the abilities of the key management personnel of our portfolio companies, who are responsible for the day-to-day operations of our portfolio companies. Competition for qualified personnel is intense at any stage of a company s development, and high turnover of personnel is common in technology-related companies. The loss of one or more key managers can hinder or delay a company s implementation of its business plan and harm its financial condition. Our portfolio companies may not be able to attract and retain qualified managers and personnel. Any inability to do so may negatively impact our investment returns and our results of operations and financial condition.

If our portfolio companies are unable to protect their intellectual property rights, or are required to devote significant resources to protecting their intellectual property rights, then our investments could be harmed.

Our future success and competitive position depend in part upon the ability of our portfolio companies to obtain and maintain proprietary technology used in their products and services, which will often represent a significant portion of the collateral, if any, securing our investment. The portfolio companies will rely, in part, on patent, trade secret and trademark law to protect that technology, but competitors may misappropriate their intellectual property, and disputes as to ownership of intellectual property may arise. Portfolio companies may, from time to time, be required to institute litigation in order to enforce their patents, copyrights or other intellectual property rights, to protect their trade secrets, to determine the validity and scope of the proprietary rights of others or to defend against claims of infringement. Such litigation could result in substantial costs and diversion of resources. Similarly, if a portfolio company is found to infringe upon or misappropriate a third party s patent or other proprietary rights, that portfolio company could be required to pay damages to such third party, alter its own products or processes, obtain a license from the third party and/or cease activities utilizing such proprietary rights, including making or selling products utilizing such proprietary rights. Any of the foregoing events could negatively affect both the portfolio company s ability to service our debt investment and the value of any related debt and equity securities that we own, as well as any collateral securing our investment.

Our financial condition, results of operations and cash flows could be negatively affected if we are unable to recover our principal investment as a result of a negative pledge or lack of a security interest on the intellectual property of our venture growth stage companies.

In some cases, we collateralize our loans with a secured collateral position in a portfolio company s assets, which may include a negative pledge or, to a lesser extent, no security on their intellectual property. In the event of a default on a loan, the intellectual property of the portfolio company will most likely be liquidated to provide proceeds to pay the creditors of the company. There can be no assurance that our security interest, if any, in the proceeds of the intellectual property will be enforceable in a court of law or bankruptcy court or that there will not be others with senior or *pari passu* credit interests.

Our relationship with certain portfolio companies may expose us to our portfolio companies trade secrets and confidential information which may require us to be parties to non-disclosure agreements and restrict us from engaging in certain transactions.

Our relationship with some of our portfolio companies may expose us to our portfolio companies trade secrets and confidential information (including transactional data and personal data about their employees and

Table of Contents

Index to Financial Statements

clients) which may require us to be parties to non-disclosure agreements and restrict us from engaging in certain transactions. Unauthorized access or disclosure of such information may occur, resulting in theft, loss or other misappropriation. Any theft, loss, improper use, such as insider trading or other misappropriation of confidential information could have a material adverse impact on our competitive positions, our relationship with our portfolio companies and our reputation and could subject us to regulatory inquiries, enforcement and fines, civil litigation (which may cause us to incur significant expense or expose us to losses) and possible financial liability or costs.

Portfolio company litigation could result in additional costs, the diversion of management time and resources and have an adverse impact on the fair value of our investment.

To the extent that litigation arises with respect to any of our portfolio companies, we may be named as a defendant, which could result in additional costs and the diversion of management time and resources. Furthermore, if we are providing managerial assistance to the portfolio company or have representatives on the portfolio company s board of directors, our costs and diversion of our management s time and resources in assessing the portfolio company could be substantial in light of any such litigation regardless of whether we are named as a defendant. In addition, litigation involving a portfolio company may be costly and affect the operations of the portfolio company s business, which could in turn have an adverse impact on the fair value of our investment in such company.

We may not be able to realize our entire investment on equipment-based loans, if any, in the case of default.

We may from time-to-time provide loans that will be collateralized only by equipment of the portfolio company. If the portfolio company defaults on the loan we would take possession of the underlying equipment to satisfy the outstanding debt. The residual value of the equipment at the time we would take possession may not be sufficient to satisfy the outstanding debt and we could experience a loss on the disposition of the equipment. At June 30, 2016 we had no equipment-based loans.

Our investments in foreign securities may involve significant risks in addition to the risks inherent in U.S. investments.

Our investment strategy contemplates that a portion of our investments may be in securities of foreign companies. Our total investments at value in foreign companies were approximately $48.3 million or 3.7% of total investments at June 30, 2016. Investing in foreign companies may expose us to additional risks not typically associated with investing in U.S. companies. These risks include changes in exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than is generally the case in the U.S., higher transaction costs, less government supervision of exchanges, brokers and issuers, less developed bankruptcy laws, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility, among other things.

If our investments do not meet our performance expectations, you may not receive distributions.

We intend to make distributions on a quarterly basis to our stockholders. We may not be able to achieve operating results that will allow us to make distributions at a specific level or to increase the amount of these distributions from time to time. In addition, due to the asset coverage test applicable to us as a business development company, we may be limited in our ability to make distributions. Also, restrictions and provisions in any future credit facilities may limit our ability to make distributions. As a RIC, if we do not distribute a certain percentage of our income each taxable year, we will suffer adverse tax consequences, including failure to obtain, or possible loss of, the federal income tax benefits allowable to RICs. We cannot assure you that you will receive distributions at a particular level or at all.

Table of Contents

Index to Financial Statements

We may not have sufficient funds to make follow-on investments. Our decision not to make a follow-on investment may have a negative impact on a portfolio company in need of such an investment or may result in a missed opportunity for us.

After our initial investment in a portfolio company, we may be called upon from time to time to provide additional funds to such company or have the opportunity or need to increase our investment in a successful situation, for example, the exercise of a warrant to purchase common stock, or a negative situation, to protect an existing investment. Any decision we make not to make a follow-on investment or any inability on our part to make such an investment may have a negative impact on a portfolio company in need of such an investment or may result in a missed opportunity for us to increase our participation in a successful operation and may dilute our equity interest or otherwise reduce the expected yield on our investment. Moreover, a follow-on investment may limit the number of companies in which we can make initial investments. In determining whether to make a follow-on investment, our management will exercise its business judgment and apply criteria similar to those used when making the initial investment. There is no assurance that we will make, or will have sufficient funds to make, follow-on investments and this could adversely affect our success and result in the loss of a substantial portion or all of our investment in a portfolio company.

The lack of liquidity in our investments may adversely affect our business and, if we need to sell any of our investments, we may not be able to do so at a favorable price. As a result, we may suffer losses.

We generally invest in debt securities with terms of up to seven years and hold such investments until maturity, and we do not expect that our related holdings of equity securities will provide us with liquidity opportunities in the near-term. We invest and expect to continue investing in companies whose securities have no established trading market and whose securities are and will be subject to legal and other restrictions on resale or whose securities are and will be less liquid than are publicly-traded securities. The illiquidity of these investments may make it difficult for us to sell these investments when desired. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we had previously recorded these investments. As a result, we do not expect to achieve liquidity in our investments in the near-term. However, to maintain our qualification as a business development company and as a RIC, we may have to dispose of investments if we do not satisfy one or more of the applicable criteria under the respective regulatory frameworks.

Our portfolio companies may incur debt or issue equity securities that rank equally with, or senior to, our investments in such companies.

We invest primarily in debt securities issued by our portfolio companies. In some cases, portfolio companies will be permitted to incur other debt, or issue other equity securities, that rank equally with, or senior to, our investment. Such instruments may provide that the holders thereof are entitled to receive payment of distributions, interest or principal on or before the dates on which we are entitled to receive payments in respect of our investments. These debt instruments would usually prohibit the portfolio companies from paying interest on or repaying our investments in the event and during the continuance of a default under such debt. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio company, holders of securities ranking senior to our investment in that portfolio company would typically be entitled to receive payment in full before we receive any distribution in respect of our investment. After repaying such holders, the portfolio company might not have any remaining assets to use for repaying its obligation to us. In the case of securities ranking equally with our investments, we would have to share on a pari passu basis any distributions with other security holders in the event of an insolvency, liquidation, dissolution, reorganization or bankruptcy of the relevant portfolio company.

The rights we may have with respect to the collateral securing any junior priority loans we make to our portfolio companies may also be limited pursuant to the terms of one or more intercreditor agreements that we enter into with the holders of senior debt. Under such an intercreditor agreement, at any time that senior obligations are outstanding, we may forfeit certain rights with respect to the collateral to the holders of the senior obligations. These rights may include the right to commence enforcement proceedings against the collateral, the right to control the conduct of such enforcement proceedings, the right to approve amendments to collateral documents, the right to release liens on the collateral and the right to waive past defaults under collateral documents. We may not have the ability to control or direct such actions, even if as a result our rights as junior lenders are adversely affected.

Our warrant and equity-related investments are highly speculative, and we may not realize gains from these investments. If our warrant and equity-related investments do not generate gains, then the return on our invested capital will be lower than it would otherwise be, which could result in a decline in the value of shares of our common stock.

When we invest in debt securities, we generally expect to acquire warrants or other equity-related securities as well. Our goal is ultimately to dispose of these equity interests and realize gains upon disposition of such interests. Over time, the gains that we realize on these equity interests may offset, to some extent, losses that we experience on defaults under debt securities that we hold. However, the equity interests that we receive may not appreciate in value and, in fact, may decline in value. Accordingly, we may not be able to realize gains from our equity interests, and any gains that we do realize on the disposition of any equity interests may not be sufficient to offset any other losses that we experience.

Prepayments of our debt investments by our portfolio companies could adversely impact our results of operations and reduce our return on equity.

During the six-months ended June 30, 2016, we received debt investment early repayments and pay down of working capital debt investments of approximately $218.1 million. We are subject to the risk that the investments we make in our portfolio companies may be repaid prior to maturity. When this occurs, we will generally reinvest these proceeds in temporary investments, pending their future investment in new portfolio companies. These temporary investments will typically have substantially lower yields than the debt being prepaid and we could experience significant delays in reinvesting these amounts. Any future investment in a new portfolio company may also be at lower yields than the debt that was repaid. As a result, our results of operations could be materially adversely affected if one or more of our portfolio companies elect to prepay amounts owed to us. Additionally, prepayments could negatively impact our return on equity, which could result in a decline in the market price of our common stock.

We may choose to waive or defer enforcement of covenants in the debt securities held in our portfolio, which may cause us to lose all or part of our investment in these companies.

We structure the debt investments in our portfolio companies to include business and financial covenants placing affirmative and negative obligations on the operation of the company s business and its financial condition. However, from time to time we may elect to waive breaches of these covenants, including our right to payment, or waive or defer enforcement of remedies, such as acceleration of obligations or foreclosure on collateral, depending upon the financial condition and prospects of the particular portfolio company. These actions may reduce the likelihood of receiving the full amount of future payments of interest or principal and be accompanied by a deterioration in the value of the underlying collateral as many of these companies may have limited financial resources, may be unable to meet future obligations and may go bankrupt. This could negatively impact our ability to pay distributions, could adversely affect our results of operation and financial condition and cause the loss of all or part of your investment.

We may also be subject to lender liability claims for actions taken by us with respect to a borrower s business or instances where we exercise control over the borrower. It is possible that we could become subject to a lender s liability claim, including as a result of actions taken in rendering significant managerial assistance or actions to compel and collect payments from the borrower outside the ordinary course of business.

Table of Contents

Index to Financial Statements

Our loans could be subject to equitable subordination by a court which would increase our risk of loss with respect to such loans or we could be subject to lender liability claims.

Courts may apply the doctrine of equitable subordination to subordinate the claim or lien of a lender against a borrower to claims or liens of other creditors of the borrower, when the lender or its affiliates is found to have engaged in unfair, inequitable or fraudulent conduct. The courts have also applied the doctrine of equitable subordination when a lender or its affiliates is found to have exerted inappropriate control over a client, including control resulting from the ownership of equity interests in a client or providing of significant managerial assistance. We have made direct equity investments or received warrants in connection with loans. These investments represent approximately 7.0% of the outstanding value of our investment portfolio as of June 30, 2016. Payments on one or more of our loans, particularly a loan to a client in which we also hold an equity interest, may be subject to claims of equitable subordination. If we were deemed to have the ability to control or otherwise exercise influence over the business and affairs of one or more of our portfolio companies resulting in economic hardship to other creditors of that company, this control or influence may constitute grounds for equitable subordination and a court may treat one or more of our loans as if it were unsecured or common equity in the portfolio company. In that case, if the portfolio company were to liquidate, we would be entitled to repayment of our loan on a pro-rata basis with other unsecured debt or, if the effect of subordination was to place us at the level of common equity, then on an equal basis with other holders of the portfolio company s common equity only after all of its obligations relating to its debt and preferred securities had been satisfied.

In addition to these risks, in the event we elect to convert our debt position to equity, or otherwise take control of a portfolio company (such as through placing a member of our management team on its board of directors), as part of a restructuring, we face additional risks acting in that capacity. It is not uncommon for unsecured, or otherwise unsatisfied creditors, to sue parties that elect to use their debt positions to later control a company following a restructuring or bankruptcy. Apart from lawsuits, key customers and suppliers might act in a fashion contrary to the interests of a portfolio company if they were left unsatisfied in a restructuring or bankruptcy. Any combination of these factors might lead to the loss in value of a company subject to such activity and may divert the time and attention of our management team and investment team to help to address such issues in a portfolio company.

Risks Related to Our Securities

Investing in shares of our common stock involves an above average degree of risk.

The investments we make in accordance with our investment objective may result in a higher amount of risk, volatility or loss of principal than alternative investment options. Our investments in portfolio companies may be highly speculative and aggressive, and therefore, an investment in our common stock may not be suitable for investors with lower risk tolerance.

Our common stock may trade below its NAV per share, which limits our ability to raise additional equity capital.

If our common stock is trading below its NAV per share, we will generally not be able to issue additional shares of our common stock at its market price without first obtaining the approval for such issuance from our stockholders and our independent directors. If our common stock trades below NAV, the higher cost of equity capital may result in it being unattractive to raise new equity, which may limit our ability to grow. The risk of trading below NAV is separate and distinct from the risk that our NAV per share may decline. We cannot predict whether shares of our common stock will trade above, at or below our NAV.

Provisions of our charter and bylaws could deter takeover attempts and have an adverse impact on the price of our common stock.

Our charter and bylaws contain provisions that may have the effect of discouraging, delaying, or making difficult a change in control of our company or the removal of our incumbent directors. Under our charter, our

Table of Contents

Index to Financial Statements

Board of Directors is divided into three classes serving staggered terms, which will make it more difficult for a hostile bidder to acquire control of us. In addition, our Board of Directors may, without stockholder action, authorize the issuance of shares of stock in one or more classes or series, including preferred stock. Subject to compliance with the 1940 Act, our Board of Directors may, without stockholder action, amend our charter to increase the number of shares of stock of any class or series that we have authority to issue. The existence of these provisions, among others, may have a negative impact on the price of our common stock and may discourage third party bids for ownership of our company. These provisions may prevent any premiums being offered to you for shares of our common stock in connection with a takeover.

Sales of substantial amounts of our common stock in the public market may have an adverse effect on the market price of our common stock.

Sales of substantial amounts of our common stock, or the availability of such common stock for sale, could adversely affect the prevailing market prices for our common stock. If this occurs and continues, it could impair our ability to raise additional capital through the sale of securities should we desire to do so.

We may periodically obtain the approval of our stockholders to issue shares of our common stock at prices below the then current NAV per share of our common stock. If we receive such approval from the stockholders, we may issue shares of our common stock at a price below the then current NAV per share of common stock. Any such issuance could materially dilute your interest in our common stock and reduce our NAV per share.

We may periodically obtain the approval of our stockholders to issue shares of our common stock at prices below the then current NAV per share of our common stock. Such approval has allowed and may again allow us to access the capital markets in a way that we typically are unable to do as a result of restrictions that, absent stockholder approval, apply to business development companies under the 1940 Act. Any decision to sell shares of our common stock below the then current NAV per share of our common stock is subject to the determination by our board of directors that such issuance and sale is in our and our stockholders best interests.

Any sale or other issuance of shares of our common stock at a price below NAV per share has resulted and will continue to result in an immediate dilution to your interest in our common stock and a reduction of our NAV per share. This dilution would occur as a result of a proportionately greater decrease in a stockholder s interest in our earnings and assets and voting interest in us than the increase in our assets resulting from such issuance. Because the number of future shares of common stock that may be issued below our NAV per share and the price and timing of such issuances are not currently known, we cannot predict the actual dilutive effect of any such issuance. We also cannot determine the resulting reduction in our NAV per share of any such issuance at this time. We caution you that such effects may be material, and we undertake to describe all the material risks and dilutive effects of any offering that we make at a price below our then current NAV in the future in a prospectus supplement issued in connection with any such offering. We cannot predict whether shares of our common stock will trade above, at or below our NAV.

If we conduct an offering of our common stock at a price below NAV, investors are likely to incur immediate dilution upon the closing of the offering.

We are not generally able to issue and sell our common stock at a price below NAV per share. We may, however, sell our common stock, at a price below the current NAV of the common stock, or sell warrants, options or other rights to acquire such common stock, at a price below the current NAV of the common stock if our board of directors determines that such sale is in our best interests and the best interests of our stockholders and our stockholders have approved the practice of making such sales.

In connection with the receipt of such stockholder approval, we will limit the number of shares that it issues at a price below NAV pursuant to this authorization so that the aggregate dilutive effect on our then outstanding shares will not exceed 20%. Our Board of Directors, subject to its fiduciary duties and regulatory requirements, has the discretion to determine the amount of the discount, and as a result, the discount could be up to 100% of NAV per share. If we were to issue shares at a price below NAV, such sales would result in an immediate dilution to existing common stockholders, which would include a reduction in the NAV per share as a result of the issuance. This dilution would also include a proportionately greater decrease in a stockholder s interest in our earnings and assets and voting interest in us than the increase in our assets resulting from such issuance.

In addition, if we determined to conduct additional offerings in the future there may be even greater dilution if we determine to conduct such offerings at prices below NAV. As a result, investors will experience further dilution and additional discounts to the price of our common stock. Because the number of shares of common stock that could be so issued and the timing of any issuance is not currently known, the actual dilutive effect of an offering cannot be predicted. We did not sell any of our securities at a price below NAV during the six-months ended June 30, 2016.

We may allocate the net proceeds from an offering in ways with which you may not agree.

We have significant flexibility in investing the net proceeds of an offering and may use the net proceeds from an offering in ways with which you may not agree or for purposes other than those contemplated at the time of the offering.

If we issue preferred stock, debt securities or convertible debt securities, the NAV and market value of our common stock may become more volatile.

We cannot assure you that the issuance of preferred stock and/or debt securities would result in a higher yield or return to the holders of our common stock. The issuance of preferred stock, debt securities or convertible debt would likely cause the NAV and market value of our common stock to become more volatile. If the distribution rate on the preferred stock, or the interest rate on the debt securities, were to approach the net rate of return on our investment portfolio, the benefit of leverage to the holders of our common stock would be reduced. If the distribution rate on the preferred stock, or the interest rate on the debt securities, were to exceed the net rate of return on our portfolio, the use of leverage would result in a lower rate of return to the holders of common stock than if we had not issued the preferred stock or debt securities. Any decline in the NAV of our investment would be borne entirely by the holders of our common stock. Therefore, if the market value of our portfolio were to decline, the leverage would result in a greater decrease in NAV to the holders of our common stock than if we were not leveraged through the issuance of preferred stock. This decline in NAV would also tend to cause a greater decline in the market price for our common stock.

There is also a risk that, in the event of a sharp decline in the value of our net assets, we would be in danger of failing to maintain required asset coverage ratios which may be required by the preferred stock, debt securities, convertible debt or units or of a downgrade in the ratings of the preferred stock, debt securities, convertible debt or our current investment income might not be sufficient to meet the distribution requirements on the preferred stock or the interest payments on the debt securities. If we do not maintain our required asset coverage ratios, we may not be permitted to declare dividend distributions. In order to counteract such an event, we might need to liquidate investments in order to fund redemption of some or all of the preferred stock, debt securities or convertible debt. In addition, we would pay (and the holders of our common stock would bear) all costs and expenses relating to the issuance and ongoing maintenance of the preferred stock, debt securities, convertible debt or any combination of these securities. Holders of preferred stock, debt securities or convertible debt may have different interests than holders of common stock and may at times have disproportionate influence over our affairs.

Table of Contents

Index to Financial Statements

Holders of any preferred stock that we may issue will have the right to elect members of the board of directors and have class voting rights on certain matters.

The 1940 Act requires that holders of shares of preferred stock must be entitled as a class to elect two directors at all times and to elect a majority of the directors if distributions on such preferred stock are in arrears by two years or more, until such arrearage is eliminated. In addition, certain matters under the 1940 Act require the separate vote of the holders of any issued and outstanding preferred stock, including changes in fundamental investment restrictions and conversion to open-end status and, accordingly, preferred stockholders could veto any such changes. Restrictions imposed on the declarations and payment of dividends or other distributions to the holders of our common stock and preferred stock, both by the 1940 Act and by requirements imposed by rating agencies, might impair our ability to maintain our ability to be subject to tax as a RIC for U.S. federal income tax purposes.

Terms relating to redemption may materially adversely affect your return on any debt securities that we may issue.

If your debt securities are redeemable at our option, we may choose to redeem your debt securities at times when prevailing interest rates are lower than the interest rate paid on your debt securities. In addition, if your debt securities are subject to mandatory redemption, we may be required to redeem your debt securities also at times when prevailing interest rates are lower than the interest rate paid on your debt securities. In this circumstance, you may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as your debt securities being redeemed.

Our shares may trade at discounts from NAV or at premiums that are unsustainable over the long term.

Shares of business development companies may trade at a market price that is less than the NAV that is attributable to those shares. Our shares have historically traded above and below our NAV. The possibility that our shares of common stock will trade at a discount from NAV or at a premium that is unsustainable over the long term is separate and distinct from the risk that our NAV may decrease. It is not possible to predict whether our shares will trade at, above or below NAV in the future.

Our credit ratings may not reflect all risks of an investment in our debt securities.

Our credit ratings are an assessment by third parties of our ability to pay our obligations. Consequently, real or anticipated changes in our credit ratings will generally affect the market value of our debt securities. Our credit ratings, however, may not reflect the potential impact of risks related to market conditions generally or other factors discussed herein on the market value of or trading market for the publicly issued debt securities.

A downgrade, suspension or withdrawal of the credit rating assigned by a rating agency to us or our debt securities, if any, or change in the debt markets could cause the liquidity or market value of our debt securities 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 our outstanding debt securities. These credit ratings may not reflect the potential impact of risks relating to the structure or marketing of such debt securities. 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 any underwriter undertakes any obligation to maintain our credit ratings or to advise holders of our debt securities of any changes in our credit ratings. There can be no assurance that a credit rating will remain for any given period of time or that such credit ratings will not be lowered or withdrawn entirely if future circumstances relating to the basis of the credit rating, such as adverse changes in our company, so warrant. The conditions of the financial markets and prevailing interest rates have fluctuated in the past and are likely to fluctuate in the future.

Table of Contents

Index to Financial Statements

Investors in offerings of our common stock will likely incur immediate dilution upon the closing of an offering pursuant to this prospectus.

We generally expect the public offering price of any offering of shares of our common stock to be higher than the book value per share of our outstanding common stock (unless we offer shares pursuant to a rights offering or after obtaining prior approval for such issuance from our stockholders and our independent directors). Accordingly, investors purchasing shares of common stock in offerings pursuant to this prospectus may pay a price per share that exceeds the tangible book value per share after such offering.

Our stockholders will experience dilution in their ownership percentage if they opt out of our dividend reinvestment plan.

All dividend distributions declared in cash payable to stockholders that are participants in our dividend reinvestment plan are automatically reinvested in shares of our common stock. As a result, our stockholders that opt out of our dividend reinvestment plan will experience dilution in their ownership percentage of our common stock over time.

Our stockholders may experience dilution upon the repurchase of common shares.

On February 24, 2015, our Board of Directors authorized a stock repurchase plan permitting us to repurchase up to $50.0 million of our common stock. This plan expired on August 24, 2015. On August 27, 2015, our Board of Directors authorized a replacement stock repurchase plan permitting us to repurchase up to $50.0 million of our common stock. We may repurchase shares of our common stock in the open market, including block purchases, at prices that may be above or below the NAV as reported in the most recently published financial statements. We expect that the share repurchase program will be in effect until August 23, 2016, or until the approved dollar amount has been used to repurchase shares. If we were to repurchase shares at a price above NAV, such repurchases would result in an immediate dilution to existing common stockholders due to a reduction in the our earnings and assets due to the repurchase that is greater than the reduction in total shares outstanding.

Our distribution proceeds may exceed our earnings. Therefore, portions of the distributions that we make may represent a return of capital to stockholders, which will lower their tax basis in their shares.

The tax treatment and characterization of our distributions may vary significantly from time to time due to the nature of our investments. The ultimate tax characterization of our distributions made during a taxable year may not finally be determined until after the end of that taxable year. We may make distributions during a taxable year that exceed our investment company taxable income and net capital gains for that taxable year. In such a situation, the amount by which our total distributions exceed investment company taxable income and net capital gains generally would be treated as a return of capital up to the amount of a stockholder s tax basis in the shares, with any amounts exceeding such tax basis treated as a gain from the sale or exchange of such shares. A return of capital generally is a return of a stockholder s investment rather than a return of earnings or gains derived from our investment activities. Moreover, we may pay all or a substantial portion of our distributions from the proceeds of the sale of shares of our common stock or from borrowings in anticipation of future cash flow, which could constitute a return of stockholders capital and will lower such stockholders tax basis in our shares, which may result in increased tax liability to stockholders when they sell such shares. The tax liability to stockholders upon the sale of shares may increase even if such shares are sold at a loss.

Our common stock price has been and continues to be volatile and may decrease substantially.

As with any company, the price of our common stock will fluctuate with market conditions and other factors, which include, but are not limited to, the following:

- price and volume fluctuations in the overall stock market from time to time;

- significant volatility in the market price and trading volume of securities of RICs, business development companies or other financial services companies;
- any inability to deploy or invest our capital;
- fluctuations in interest rates;
- any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;
- the financial performance of specific industries in which we invest in on a recurring basis;
- announcement of strategic developments, acquisitions, and other material events by us or our competitors, or operating performance of companies comparable to us;
- changes in regulatory policies or tax guidelines with respect to RICs, SBICs or business development companies;
- losing RIC status;
- actual or anticipated changes in our earnings or fluctuations in our operating results, or changes in the expectations of securities analysts;
- changes in the value of our portfolio of investments;
- realized losses in investments in our portfolio companies;
- general economic conditions and trends;
- inability to access the capital markets;
- loss of a major funded source; or
- departure of key personnel.

In the past, following periods of volatility in the market price of a company s securities, securities class action litigation has often been brought against that company. Due to the potential volatility of our stock price, we may be the target of securities litigation in the future. Securities litigation could result in substantial costs and could divert management s attention and resources from our business.

Your interest in us may be diluted if you do not fully exercise your subscription rights in any rights offering. In addition, if the subscription price is less than our NAV per share, then you will experience an immediate dilution of the aggregate NAV of your shares.

In the event we issue subscription rights, stockholders who do not fully exercise their subscription rights should expect that they will, at the completion of a rights offering pursuant to this prospectus, own a smaller proportional interest in us than would otherwise be the case if they fully exercised their rights. We cannot state precisely the amount of any such dilution in share ownership because we do not know at this time what proportion of the shares will be purchased as a result of such rights offering.

In addition, if the subscription price is less than the NAV per share of our common stock, then our stockholders would experience an immediate dilution of the aggregate NAV of their shares as a result of the offering. The amount of any decrease in NAV is not predictable because it is not known at this time what the subscription price and NAV per share will be on the expiration date of a rights offering or what proportion of the shares will be purchased as a result of such rights offering. Such dilution could be substantial.

Table of Contents

Index to Financial Statements

The trading market or market value of our publicly issued debt securities may fluctuate.

Our publicly issued debt securities may or may not have an established trading market. We cannot assure you that a trading market for our publicly issued debt securities will ever develop or be maintained if developed. In addition to our creditworthiness, many factors may materially adversely affect the trading market for, and market value of, our publicly issued debt securities. These factors include, but are not limited to, the following:

- the time remaining to the maturity of these debt securities;
- the outstanding principal amount of debt securities with terms identical to these debt securities;
- the ratings assigned by national statistical ratings agencies;
- the general economic environment;
- the supply of debt securities trading in the secondary market, if any;
- the redemption or repayment features, if any, of these debt securities;
- the level, direction and volatility of market interest rates generally; and
- market rates of interest higher or lower than rates borne by the debt securities. You should also be aware that there may be a limited number of buyers when you decide to sell your debt securities. This too may materially adversely affect the market value of the debt securities or the trading market for the debt securities.

The 2019 Notes and 2024 Notes are unsecured and therefore are effectively subordinated to any secured indebtedness we have currently incurred or may incur in the future.

The 2019 Notes and 2024 Notes are not secured by any of our assets or any of the assets of our subsidiaries. As a result, the 2019 Notes and 2024 Notes are effectively subordinated to any secured indebtedness we or our subsidiaries have currently incurred and may incur in the future (or any indebtedness that is initially unsecured to which we subsequently grant security) to the extent of the value of the assets securing such indebtedness. 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, including the holders of the 2019 Notes and 2024 Notes.

The 2019 Notes and 2024 Notes are structurally subordinated to the indebtedness and other liabilities of our subsidiaries.

The 2019 Notes and 2024 Notes are obligations exclusively of Hercules Capital, Inc. (formerly known as Hercules Technology Growth Capital, Inc.) and not of any of our subsidiaries. None of our subsidiaries are or act as guarantors of the 2019 Notes and 2024 Notes and neither the 2019 Notes nor the 2024 Notes is required to be guaranteed by any subsidiaries we may acquire or create in the future. Our secured indebtedness with respect to the SBA debentures is held through our SBIC subsidiaries. The assets of any such subsidiaries are not directly available to satisfy the claims of our creditors, including holders of the 2019 Notes and 2024 Notes.

Except to the extent we are a creditor with recognized claims against our subsidiaries, all claims of creditors (including holders of preferred stock, if any, of our subsidiaries) will have priority over our equity interests in such subsidiaries (and therefore the claims of our creditors, including holders of the 2019 Notes and 2024 Notes) with respect to the assets of such subsidiaries. Even if we are recognized as a creditor of one or more of our subsidiaries, our claims would still be structurally subordinated to any security interests in the assets of any such subsidiary and to any indebtedness or other liabilities of any such subsidiary senior to our claims. Consequently, the 2019 Notes and 2014 Notes are structurally subordinated to all indebtedness and other liabilities (including trade payables) of our subsidiaries and any subsidiaries that we may in the future acquire or establish as financing vehicles or otherwise. In addition, our subsidiaries may incur substantial additional indebtedness in the future, all of which would be structurally senior to the 2019 Notes and 2024 Notes.

Table of Contents

Index to Financial Statements

The indenture under which the 2019 Notes and 2024 Notes were issued contains limited protection for their respective holders.

The indenture under which the 2019 Notes and 2024 Notes were issued offers limited protection to their respective holders. The terms of the indenture and the 2019 Notes and 2024 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 an investment in the 2019 Notes and 2024 Notes. In particular, the terms of the indentures and the 2019 Notes and 2024 Notes do 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 2019 Notes and 2024 Notes, (2) any indebtedness or other obligations that would be secured and therefore rank effectively senior in right of payment to the 2019 Notes and 2024 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 would rank structurally senior to the 2019 Notes and 2024 Notes and (4) securities, indebtedness or other obligations issued or incurred by our subsidiaries that would be senior in right of payment to our equity interests in our subsidiaries and therefore would rank structurally senior in right of payment to the 2019 Notes and 2024 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) of the 1940 Act as modified by Section 61(a)(1) of the 1940 Act or any successor provisions;

- pay dividend distributions 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 2019 Notes and 2024 Notes, in each case other than distributions, purchases, redemptions or payments that would cause a violation of Section 18(a)(1)(B) of the 1940 Act as modified by Section 61(a)(1) of the 1940 Act or any successor provisions giving effect to any exemptive relief granted to us by the SEC (these provisions generally prohibit us from declaring any cash dividend distributions upon any class of our capital stock, or purchasing any such capital stock if our asset coverage, as defined in the 1940 Act, is below 200% at the time of the declaration of the distribution or the purchase and after deducting the amount of such distribution or purchase);

- 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 distributions or other amounts to us from our subsidiaries.

In the indenture and the 2019 Notes and 2024 Notes do not require us to offer to purchase the 2019 Notes and 2024 Notes in connection with a change of control or any other event.

Furthermore, the terms of the indenture and the 2019 Notes and 2024 Notes do not protect their respective holders 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, except as required under the 1940 Act.

50

[Table of Contents](#)

[Index to Financial Statements](#)

Our ability to recapitalize, incur additional debt and take a number of other actions that are not limited by the terms of the 2019 Notes and 2024 Notes may have important consequences for their holders, including making it more difficult for us to satisfy our obligations with respect to the 2019 Notes and 2024 Notes or negatively affecting their trading value.

Certain of our current debt instruments include more protections for their respective holders than the indenture and the 2019 Notes and 2024 Notes. In addition, other debt we issue or incur in the future could contain more protections for its holders than the indenture and the 2019 Notes and 2024 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 2019 Notes and 2024 Notes.

An active trading market for the Notes may not develop or be sustained, which could limit the market price of the Notes or your ability to sell them.

Although the 2019 Notes are listed on the NYSE under the symbol HTGZ, in the case of the April 2019 Notes, HTGY in the case of the September 2019 Notes and HTGX, in the case of the 2024 Notes, we cannot provide any assurances that an active trading market will develop or be sustained for the April 2019 Notes, the September 2019 Notes, or the 2024 Notes or that any of the notes will be able to be sold. At various times, the 2019 Notes and 2024 Notes may trade at a discount from their initial offering price depending on prevailing interest rates, the market for similar securities, our credit ratings, general economic conditions, our financial condition, performance and prospects and other factors. To the extent an active trading market is not sustained, the liquidity and trading price for the 2019 Notes and 2024 Notes may be harmed.

If we default on our obligations to pay our other indebtedness, we may not be able to make payments on the 2019 Notes and 2024 Notes.

Any default under the agreements governing our indebtedness, including a default under the Wells Facility, the Union Bank Facility or other indebtedness to which we may be a party that is not waived by the required lenders or holders, and the remedies sought by the holders of such indebtedness could make us unable to pay principal, premium, if any, and interest on the 2019 Notes and 2024 Notes and substantially decrease the market value of the 2014 Notes and 2024 Notes. If we are unable to generate sufficient cash flow and are otherwise unable to obtain funds necessary to meet required payments of principal, premium, if any, and interest on our indebtedness, or if we otherwise fail to comply with the various covenants, including financial and operating covenants, in the instruments governing our indebtedness, we could be in default under the terms of the agreements governing such indebtedness. In the event of such default, the holders of such indebtedness could elect to declare all the funds borrowed thereunder to be due and payable, together with accrued and unpaid interest, the lenders under the Wells Facility and the Union Bank Facility or other debt we may incur in the future could elect to terminate their commitments, cease making further loans and institute foreclosure proceedings against our assets, and we could be forced into bankruptcy or liquidation. If our operating performance declines, we may in the future need to seek to obtain waivers from the required lenders under the Wells Facility or Union Bank Facility or other debt that we may incur in the future to avoid being in default. If we breach our covenants under the Wells Facility or Union Bank Facility or other debt and seek a waiver, we may not be able to obtain a waiver from the required lenders or holders. If this occurs, we would be in default under the Wells Facility or Union Bank Facility or other debt, the lenders or holders could exercise their rights as described above, and we could be forced into bankruptcy or liquidation. If we are unable to repay debt, lenders having secured obligations, including the lenders under the Wells Facility and the Union Bank Facility, could proceed against the collateral securing the debt. Because the Wells Facility and the Union Bank Facility have, and any future credit facilities will likely have, customary cross-default provisions, if the indebtedness under the 2019 Notes, 2024 Notes, the Wells Facility, Union Bank Facility or under any future credit facility is accelerated, we may be unable to repay or finance the amounts due.

Table of Contents

Index to Financial Statements

FORWARD-LOOKING STATEMENTS

The matters discussed in this prospectus, as well as in future oral and written statements by management of Hercules Capital, Inc. (formerly known as Hercules Technology Growth Capital, Inc.) that are forward-looking statements are based on current management expectations that involve substantial risks and uncertainties which could cause actual results to differ materially from the results expressed in, or implied by, these forward-looking statements. Forward-looking statements relate to future events or our future financial performance. We generally identify forward-looking statements by terminology such as may, will, should, expects, plans, anticipates, could, intends, target, project believes, estimates, predicts, potential or continue or the negative of these terms or other similar expressions. Important assumptions include ability to originate new investments, achieve certain margins and levels of profitability, the availability of additional capital, and the ability to maintain certain debt to asset ratios. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this prospectus should not be regarded as a representation by us that our plans or objectives will be achieved. The forward-looking statements contained in this prospectus include statements as to:

- our future operating results;
- our business prospects and the prospects of our prospective portfolio companies;
- the impact of investments that we expect to make;
- our informal relationships with third parties including in the venture capital industry;
- the expected market for venture capital investments and our addressable market;
- the dependence of our future success on the general economy and its impact on the industries in which we invest;
- our ability to access debt markets and equity markets;
- the ability of our portfolio companies to achieve their objectives;
- our expected financings and investments;
- our regulatory structure and tax status;
- our ability to operate as a business development company, a SBIC and a RIC;
- the adequacy of our cash resources and working capital;

- the timing of cash flows, if any, from the operations of our portfolio companies;
- the timing, form and amount of any dividend distributions;
- the impact of fluctuations in interest rates on our business;
- the valuation of any investments in portfolio companies, particularly those having no liquid trading market; and
- our ability to recover unrealized losses.

For a discussion of factors that could cause our actual results to differ from forward-looking statements contained in this prospectus, please see the discussion under Risk Factors. You should not place undue reliance on these forward-looking statements. The forward-looking statements made in this prospectus relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statement to reflect events or circumstances occurring after the date of this prospectus.

The following discussion should be read in conjunction with our consolidated financial statements and related notes and other financial information appearing elsewhere in this prospectus. In addition to historical information, the following discussion and other parts of this prospectus contain forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated by such forward-looking information due to the factors discussed under Risk Factors and Forward-Looking Statements.

Table of Contents

Index to Financial Statements

USE OF PROCEEDS

We intend to use the net proceeds from selling our securities for funding investments in debt and equity securities in accordance with our investment objective and other general corporate purposes. The supplement to this prospectus relating to an offering will more fully identify the use of proceeds from such offering.

We anticipate that substantially all of the net proceeds from any offering of our securities will be used as described above within twelve months, but in no event longer than two years. Pending such uses and investments, we will invest the net proceeds primarily in cash, cash equivalents, U.S. government securities or high-quality debt securities maturing in one year or less from the time of investment. Our ability to achieve our investment objective may be limited to the extent that the net proceeds of any offering, pending full investment, are held in lower yielding short-term instruments.

Table of Contents

Index to Financial Statements

PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS

Our common stock is traded on the NYSE under the symbol HTGC.

The following table sets forth the range of high and low sales prices of our common stock, the sales price as a percentage of NAV and the dividend distributions declared by us for each fiscal quarter. The stock quotations are interdealer quotations and do not include markups, markdowns or commissions.

	NAV(1)	Price Range High	Price Range Low	Premium/ Discount of High Sales Price to NAV	Premium/ Discount of Low Sales Price to NAV	Cash Dividend Distribution per Share
2014						
First quarter	$ 10.58	$ 15.27	$ 13.24	44.3%	25.1%	$ 0.310
Second quarter	$ 10.42	$ 15.54	$ 12.75	49.1%	22.4%	$ 0.310
Third quarter	$ 10.22	$ 16.24	$ 14.16	58.9%	38.6%	$ 0.310
Fourth quarter	$ 10.18	$ 15.82	$ 13.16	55.4%	29.3%	$ 0.310
2015						
First quarter	$ 10.47	$ 15.27	$ 13.47	45.8%	28.7%	$ 0.310
Second quarter	$ 10.26	$ 13.37	$ 11.25	30.3%	9.6%	$ 0.310
Third quarter	$ 10.02	$ 12.23	$ 9.99	22.1%	-0.3%	$ 0.310
Fourth quarter	$ 9.94	$ 12.44	$ 10.23	25.2%	2.9%	$ 0.310
2016						
First quarter	$ 9.81	$ 12.39	$ 10.03	26.3%	2.2%	$ 0.310
Second quarter	$ 9.66	$ 12.43	$ 11.74	28.7%	21.6%	$ 0.310
Third quarter (through August 16, 2016)	*	$ 14.00	$ 12.42	*	*	**

(1) Net asset value per share is generally determined as of the last day in the relevant quarter and therefore may not reflect the NAV per share on the date of the high and low sales prices. The NAVs shown are based on outstanding shares at the end of each period.

* Net asset value has not yet been calculated for this period.

** Cash dividend distribution per share has not yet been determined for this period.

The last reported price for our common stock on August 16, 2016 was $13.58 per share.

Shares of business development companies may trade at a market price that is less than the value of the net assets attributable to those shares. The possibility that our shares of common stock will trade at a discount from NAV or at premiums that are unsustainable over the long term are separate and distinct from the risk that our NAV will decrease. At times, our shares of common stock have traded at a premium to NAV and at times our shares of common stock have traded at a discount to the net assets attributable to those shares. It is not possible to predict whether the shares offered hereby will trade at, above, or below NAV.

Table of Contents

Index to Financial Statements

Dividend Distributions

The following table summarizes dividend distributions declared and paid or to be paid or reinvested on all shares, including restricted stock, to date:

Date Declared	Record Date	Payment Date	Amount Per Share
October 27, 2005	November 1, 2005	November 17, 2005	$ 0.03
December 9, 2005	January 6, 2006	January 27, 2006	0.30
April 3, 2006	April 10, 2006	May 5, 2006	0.30
July 19, 2006	July 31, 2006	August 28, 2006	0.30
October 16, 2006	November 6, 2006	December 1, 2006	0.30
February 7, 2007	February 19, 2007	March 19, 2007	0.30
May 3, 2007	May 16, 2007	June 18, 2007	0.30
August 2, 2007	August 16, 2007	September 17, 2007	0.30
November 1, 2007	November 16, 2007	December 17, 2007	0.30
February 7, 2008	February 15, 2008	March 17, 2008	0.30
May 8, 2008	May 16, 2008	June 16, 2008	0.34
August 7, 2008	August 15, 2008	September 19, 2008	0.34
November 6, 2008	November 14, 2008	December 15, 2008	0.34
February 12, 2009	February 23, 2009	March 30, 2009	0.32*
May 7, 2009	May 15, 2009	June 15, 2009	0.30
August 6, 2009	August 14, 2009	September 14, 2009	0.30
October 15, 2009	October 20, 2009	November 23, 2009	0.30
December 16, 2009	December 24, 2009	December 30, 2009	0.04
February 11, 2010	February 19, 2010	March 19, 2010	0.20
May 3, 2010	May 12, 2010	June 18, 2010	0.20
August 2, 2010	August 12, 2010	September 17,2010	0.20
November 4, 2010	November 10, 2010	December 17, 2010	0.20
March 1, 2011	March 10, 2011	March 24, 2011	0.22
May 5, 2011	May 11, 2011	June 23, 2011	0.22
August 4, 2011	August 15, 2011	September 15, 2011	0.22
November 3, 2011	November 14, 2011	November 29, 2011	0.22
February 27, 2012	March 12, 2012	March 15, 2012	0.23
April 30, 2012	May 18, 2012	May 25, 2012	0.24
July 30, 2012	August 17, 2012	August 24, 2012	0.24
October 26, 2012	November 14, 2012	November 21, 2012	0.24
February 26, 2013	March 11, 2013	March 19, 2013	0.25
April 29, 2013	May 14, 2013	May 21, 2013	0.27
July 29, 2013	August 13, 2013	August 20, 2013	0.28
November 4, 2013	November 18, 2013	November 25, 2013	0.31
February 24, 2014	March 10, 2014	March 17, 2014	0.31
April 28, 2014	May 12, 2014	May 19, 2014	0.31
July 28, 2014	August 18, 2014	August 25, 2014	0.31
October 29, 2014	November 17, 2014	November 24, 2014	0.31
February 24, 2015	March 12, 2015	March 19, 2015	0.31
May 4, 2015	May 18, 2015	May 25, 2015	0.31
July 29, 2015	August 17, 2015	August 24, 2015	0.31
October 28, 2015	November 16, 2015	November 23, 2015	0.31
February 17, 2016	March 7, 2016	March 14, 2016	0.31
April 27, 2016	May 16, 2016	May 23, 2016	0.31
July 27, 2016	August 15, 2016	August 22, 2016	0.31
			$ 12.16

* Dividend paid in cash and stock.

On July 27, 2016 the Board of Directors declared a cash dividend distribution of $0.31 per share to be paid on August 22, 2016 to stockholders of record as of August 15, 2016. This distribution represents our forty-fourth consecutive dividend declaration since our initial public offering, bringing the total cumulative dividend declared to date $12.16 per share.

Table of Contents

Index to Financial Statements

Our Board of Directors maintains a variable dividend distribution policy with the objective of distributing four quarterly distributions in an amount that approximates 90 100% of our taxable quarterly income or potential annual income for a particular year. In addition, at the end of the year, our Board of Directors may choose to pay an additional special dividend distribution or fifth dividend, so that we may distribute approximately all of our annual taxable income in the year it was earned, or may elect to maintain the option to spill over our excess taxable income into the coming year for future dividend distribution payments.

Distributions in excess of our current and accumulated earnings and profits would generally 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. The determination of the tax attributes of our distributions is made annually as of the end of our taxable year based upon our taxable income for the full taxable year and distributions paid for the full taxable year. 100% of the distributions declared and paid during the fiscal years ended December 31, 2015, 2014, and 2013 were derived from our current and accumulated earnings and profits. There can be no certainty to stockholders that this determination is representative of the tax attributes of our 2016 distributions to stockholders.

We maintain an opt out dividend reinvestment plan that provides for reinvestment of our distribution on behalf of our stockholders, unless a stockholder elects to receive cash. As a result, if our Board of Directors authorizes, and we declare a cash dividend, then our stockholders who have not opted out of our dividend reinvestment plan will have their cash dividend automatically reinvested in additional shares of our common stock, rather than receiving the cash dividends. During 2015, 2014, and 2013, the Company issued approximately 199,894, 96,976 and 159,000 shares, respectively, of common stock to stockholders in connection with the dividend reinvestment plan.

Shortly after the close of each calendar year information identifying the source of the distribution (i.e., paid from ordinary income, paid from net capital gains on the sale of securities, and/or a return of paid-in-capital surplus which is a nontaxable distribution, if any) will be provided to our stockholders subject to information reporting. To the extent our taxable earnings fall below the total amount of our distributions for any taxable year, a portion of those distributions may be deemed a tax return of capital to our stockholders.

We expect to qualify to be taxed as a RIC under Subchapter M of the Code. In order to be subject to tax as a RIC, we are required to satisfy certain gross income and asset composition tests, as well as distribute dividends to our stockholders each taxable year of an amount at least equal to 90% of the sum of our investment company taxable income, determined without regard to any deduction for dividends paid, and our net tax-exempt income, if any. Upon being eligible to be subject to tax as a RIC, we would be entitled to deduct dividend distributions we pay to our stockholders in determining the overall components of our taxable income. Components of our taxable income include our taxable interest, dividend and fee income, reduced by certain deductions, as well as taxable net realized securities gains. Taxable income generally differs from net income for financial reporting purposes due to temporary and permanent differences in the recognition of income and expenses and generally excludes net unrealized appreciation or depreciation as such gains or losses are not included in taxable income until they are realized. In connection with maintaining our ability to be subject to tax as a RIC, among other things, we have made and intend to continue to make the requisite distributions to our stockholders each taxable year, which generally should relieve us from corporate-level U.S. federal income taxes.

As a RIC, we will be subject to a 4% nondeductible U.S. federal excise tax on certain undistributed income and gains unless we distribute dividends in respect of each calendar year in a timely manner to our stockholders of an amount generally at least equal to the sum of (1) 98% of our ordinary income for each calendar year, (2) 98.2% of our capital gain net income for the 1-year period ending October 31 in that calendar year and (3) any income realized, but not distributed, in the preceding year. We will not be subject to excise taxes on amounts on which we are required to pay corporate income tax (such as retained net capital gains).

Depending on the level of taxable income earned in a taxable year, we may choose to carry over taxable income in excess of current taxable year dividend distributions from such taxable income into the next taxable

Table of Contents

Index to Financial Statements

year and pay a 4% excise tax on such taxable income, as required. The maximum amount of excess taxable income that may be carried over for distribution as dividend distributions in the next taxable year under the Code is the total amount of dividend distributions paid in the following taxable year, subject to certain declaration and payment guidelines. To the extent we choose to carry over taxable income into the next taxable year, dividends declared and paid by us in a taxable year may differ from our taxable income for that taxable year as such dividend distributions may include the distribution of current taxable year taxable income, the distribution of prior taxable year taxable income carried over into and distributed in the current taxable year, or returns of capital.

We can offer no assurance that we will achieve results that will permit the payment of any cash distributions and, if we issue senior securities, we will be prohibited from making distributions if doing so causes us to fail to maintain the asset coverage ratios stipulated by the 1940 Act or if distributions are limited by the terms of any of our borrowings. See Regulation .

Our ability to make distributions will be limited by the asset coverage requirements under the 1940 Act.

Table of Contents

Index to Financial Statements

RATIO OF EARNINGS TO FIXED CHARGES

The following contains our ratio of earnings to fixed charges for the periods indicated, computed as set forth below. You should read these ratios of earnings to fixed charges in connection with our consolidated financial statements, including the notes to those statements, included in this prospectus.

	For the six months ended June 30, 2016	For the year ended December 31, 2015	For the year ended December 31, 2014	For the year ended December 31, 2013	For the year ended December 31, 2012	For the year ended December 31, 2011
Earnings to Fixed Charges(1)	2.41	2.16	3.10	3.83	2.97	3.95

For purposes of computing the ratios of earnings to fixed charges, earnings represent net increase in stockholders equity resulting from operations plus fixed charges. Fixed charges include interest and credit facility fees expense and amortization of debt issuance costs.

(1) Earnings include net realized and unrealized gains or losses. Net realized and unrealized gains or losses can vary substantially from period to period.

Table of Contents

Index to Financial Statements

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

The following discussion should be read in conjunction with our consolidated financial statements and related notes and other financial information appearing elsewhere in this prospectus. In addition to historical information, the following discussion and other parts of this prospectus contain forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated by such forward-looking information due to the factors discussed under Risk Factors and Forward-Looking Statements appearing elsewhere herein.

Overview

We are a specialty finance company focused on providing senior secured loans to high-growth, innovative venture capital-backed companies in a variety of technology, life sciences, and sustainable and renewable technology industries. We source our investments through our principal office located in Palo Alto, CA, as well as through our additional offices in Boston, MA, New York, NY, Washington, DC, Santa Monica, CA, Hartford, CT, and San Diego, CA.

Our goal is to be the leading structured debt financing provider for venture capital-backed companies in technology-related industries requiring sophisticated and customized financing solutions. Our strategy is to evaluate and invest in a broad range of technology-related industries including technology, drug discovery and development, biotechnology, life sciences, healthcare, and sustainable and renewable technology and to offer a full suite of growth capital products. We invest primarily in structured debt with warrants and, to a lesser extent, in senior debt and equity investments. We invest primarily in private companies but also have investments in public companies.

We use the term structured debt with warrants to refer to any debt investment, such as a senior or subordinated secured loan, that is coupled with an equity component, including warrants, options or other rights to purchase common or preferred stock. Our structured debt with warrants investments typically are secured by some or all of the assets of the portfolio company.

Our investment objective is to maximize our portfolio total return by generating current income from our debt investments and capital appreciation from our warrant and equity-related investments. Our primary business objectives are to increase our net income, net operating income and NAV by investing in structured debt with warrants and equity of venture capital-backed companies in technology-related industries with attractive current yields and the potential for equity appreciation and realized gains. Our equity ownership in our portfolio companies may exceed 25% of the voting securities of such companies, which represents a controlling interest under the 1940 Act. In some cases, we receive the right to make additional equity investments in our portfolio companies in connection with future equity financing rounds. Capital that we provide directly to venture capital-backed companies in technology-related industries is generally used for growth and general working capital purposes as well as in select cases for acquisitions or recapitalizations.

We also make investments in qualifying small businesses through our two wholly-owned SBICs. Our SBIC subsidiaries, HT II and HT III, hold approximately $112.9 million and $286.3 million in assets, respectively, and accounted for approximately 6.6% and 16.7% of our total assets, respectively, prior to consolidation at June 30, 2016. As of June 30, 2016, the maximum statutory limit on the dollar amount of combined outstanding SBA guaranteed debentures is $350.0 million, subject to periodic adjustments by the SBA. In aggregate, at June 30, 2016, with our net investment of $118.5 million, HT II and HT III have the capacity to issue a total of $190.2 million of SBA-guaranteed debentures, subject to SBA approval. At June 30, 2016, we have issued $190.2 million in SBA-guaranteed debentures in our SBIC subsidiaries.

We have qualified as and have elected to be treated for tax purposes as a RIC under Subchapter M of the Code. Pursuant to this election, we generally will not be subject to corporate-level taxes on any income and gains

Table of Contents

Index to Financial Statements

that we distribute as dividends to our stockholders. However, our qualification and election to be treated as a RIC requires that we comply with provisions contained in Subchapter M of the Code. For example, as a RIC we must earn 90% or more of our gross income for each taxable year from qualified earnings, typically referred to as good income, as well as satisfy certain quarterly asset diversification and annual income distribution requirements.

We are an internally managed, non-diversified, closed-end investment company that has elected to be regulated as a business development company under the 1940 Act. As a business development company, we are required to comply with certain regulatory requirements. For instance, we generally have to invest at least 70% of our total assets in qualifying assets, which includes securities of private U.S. companies, cash, cash equivalents and high-quality debt investments that mature in one year or less.

Our portfolio is comprised of, and we anticipate that our portfolio will continue to be comprised of, investments primarily in technology related companies at various stages of their development. Consistent with requirements under the 1940 Act, we invest primarily in United-States based companies and to a lesser extent in foreign companies.

We regularly engage in discussions with third parties with respect to various potential transactions. We may acquire an investment or a portfolio of investments or an entire company or sell a portion of our portfolio on an opportunistic basis. We, our subsidiaries or our affiliates may also agree to manage certain other funds that invest in debt, equity or provide other financing or services to companies in a variety of industries for which we may earn management or other fees for our services. We may also invest in the equity of these funds, along with other third parties, from which we would seek to earn a return and/or future incentive allocations. Some of these transactions could be material to our business. Consummation of any such transaction will be subject to completion of due diligence, finalization of key business and financial terms (including price) and negotiation of final definitive documentation as well as a number of other factors and conditions including, without limitation, the approval of our board of directors and required regulatory or third party consents and, in certain cases, the approval of our stockholders. Accordingly, there can be no assurance that any such transaction would be consummated. Any of these transactions or funds may require significant management resources either during the transaction phase or on an ongoing basis depending on the terms of the transaction.

Portfolio and Investment Activity

The total fair value of our investment portfolio was $1.3 billion at June 30, 2016, as compared to $1.2 billion at December 31, 2015. The fair value of our debt investment portfolio at June 30, 2016 was approximately $1.2 billion, compared to a fair value of approximately $1.1 billion at December 31, 2015. The fair value of the equity portfolio at June 30, 2016 was approximately $65.9 million, compared to a fair value of approximately $67.4 million at December 31, 2015. The fair value of the warrant portfolio at June 30, 2016 was approximately $25.1 million, compared to a fair value of approximately $23.0 million at December 31, 2015.

Portfolio Activity

Our investments in portfolio companies take a variety of forms, including unfunded contractual commitments and funded investments. From time to time, unfunded contractual commitments depend upon a portfolio company reaching certain milestones before the debt commitment is available to the portfolio company, which is expected to affect our funding levels. These commitments are subject to the same underwriting and ongoing portfolio maintenance as the on-balance sheet financial instruments that we hold. Debt commitments generally fund over the two succeeding quarters from close. Not all debt commitments represent future cash requirements. Similarly, unfunded contractual commitments may expire without being drawn and thus do not represent future cash requirements.

Prior to entering into a contractual commitment, we generally issue a non-binding term sheet to a prospective portfolio company. Non-binding term sheets are subject to completion of our due diligence and final

Table of Contents

Index to Financial Statements

investment committee approval process, as well as the negotiation of definitive documentation with the prospective portfolio companies. These non-binding term sheets generally convert to contractual commitments in approximately 90 days from signing. Not all non-binding term sheets are expected to close and do not necessarily represent future cash requirements.

Our portfolio activity for the six months ended June 30, 2016 and the year ended December 31, 2015 was comprised of the following:

(in millions)	June 30, 2016	December 31, 2015
Debt Commitments (1)		
New portfolio company	$ 360.0	$ 544.0
Existing portfolio company	57.8	181.7
Total	$ 417.8	$ 725.7
Funded and Restructured Debt Investments (3)		
New portfolio company	$ 267.5	$ 352.5
Existing portfolio company	56.2	341.6
Total	$ 323.7	$ 694.1
Funded Equity Investments		
New portfolio company	$ 5.4	$ 1.0
Existing portfolio company	1.6	17.6
Total	$ 7.0	$ 18.6
Unfunded Contractual Commitments (2)		
Total	$ 71.2	$ 75.4
Non-Binding Term Sheets		
New portfolio company	$ 105.0	$ 81.0
Existing portfolio company	10.0	5.0
Total	$ 115.0	$ 86.0

(1) Includes restructured loans and renewals in addition to new commitments.
(2) Amount represents unfunded commitments, including undrawn revolving facilities, which are available at the request of the portfolio company. Amount excludes unfunded commitments which are unavailable due to the borrower having not met certain milestones.
(3) Funded amounts include borrowings on revolving facilities.

We receive payments in our debt investment portfolio based on scheduled amortization of the outstanding balances. In addition, we receive principal repayments for some of our loans prior to their scheduled maturity date. The frequency or volume of these early principal repayments may fluctuate significantly from period to period. During the six months ended June 30, 2016, we received approximately $218.1 million in aggregate principal repayments. Of the approximately $218.1 million of aggregate principal repayments, approximately $45.5 million were scheduled principal payments and approximately $172.6 million were early principal repayments related to 26 portfolio companies. Of the approximately $172.6 million early principal repayments, none were early repayments due to merger and acquisition transactions or IPOs.

Table of Contents

Index to Financial Statements

Total portfolio investment activity (inclusive of unearned income and excluding activity related to taxes payable, escrow receivables and Citigroup warrant participation) as of and for the six months ended June 30, 2016 and the year ended December 31, 2015 was as follows:

(in millions)	June 30, 2016	December 31, 2015
Beginning portfolio	$ 1,200.6	$ 1,020.7
New fundings and restructures	330.7	712.3
Warrants not related to current period fundings	0.1	0.1
Principal payments received on investments	(45.5)	(115.1)
Early payoffs	(172.6)	(388.5)
Accretion of loan discounts and paid-in-kind principal	21.2	31.7
Net acceleration of loan discounts and loan fees due to early payoff or restructure	(2.2)	(1.7)
New loan fees	(4.2)	(9.5)
Warrants converted to equity		0.4
Sale of investments	(2.4)	(5.2)
Loss on investments due to write offs	(8.0)	(7.5)
Net change in unrealized depreciation	(14.9)	(37.1)
Ending portfolio	$ 1,302.8	$ 1,200.6

The following table shows the fair value of our portfolio of investments by asset class as of June 30, 2016 and December 31, 2015:

	June 30, 2016		December 31, 2015	
(in thousands)	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
Senior Secured Debt with Warrants	$ 1,014,658	77.9%	$ 961,464	80.1%
Senior Secured Debt	222,215	17.1%	171,732	14.3%
Preferred Stock	39,610	3.0%	35,245	2.9%
Common Stock	26,295	2.0%	32,197	2.7%
Total	$ 1,302,778	100.0%	$ 1,200,638	100.0%

A summary of our investment portfolio as of June 30, 2016 and December 31, 2015 at value by geographic location is as follows:

	June 30, 2016		December 31, 2015	
(in thousands)	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
United States	$ 1,254,455	96.3%	$ 1,167,281	97.2%
Netherlands	19,764	1.5%	20,112	1.7%
England	18,904	1.5%	8,884	0.8%
Canada	5,548	0.4%	595	0.0%
Israel	4,107	0.3%	3,764	0.3%
India		0.0%	2	0.0%
Total	$ 1,302,778	100.0%	$ 1,200,638	100.0%

As of June 30, 2016, we held warrants or equity positions in five companies that have filed registration statements on Form S-1 with the SEC in contemplation of potential initial public offerings. All five companies filed confidentially under the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. There can be no assurance that companies that have yet to complete their initial public offerings will do so in a timely manner or at all.

Table of Contents

Index to Financial Statements

Changes in Portfolio

We generate revenue in the form of interest income, primarily from our investments in debt securities, and commitment and facility fees. Interest income is recognized in accordance with the contractual terms of the loan agreement to the extent that such amounts are expected to be collected. Fees generated in connection with our debt investments are recognized over the life of the loan or, in some cases, recognized as earned. In addition, we generate revenue in the form of capital gains, if any, on warrants or other equity-related securities that we acquire from our portfolio companies. Our investments generally range from $12.0 million to $25.0 million, although we may make investments in amounts above or below that range. As of June 30, 2016, our debt investments have a term of between two and seven years and typically bear interest at a rate ranging from approximately 4.0% to approximately 12.5%. In addition to the cash yields received on our debt investments, in some instances, our debt investments may also include any of the following: end-of-term payments, exit fees, balloon payment fees, commitment fees, success fees, PIK provisions or prepayment fees which may be required to be included in income prior to receipt.

Interest on debt securities is generally payable monthly, with amortization of principal typically occurring over the term of the investment. In addition, certain of our loans may include an interest-only period ranging from three to eighteen months or longer. In limited instances in which we choose to defer amortization of the loan for a period of time from the date of the initial investment, the principal amount of the debt securities and any accrued but unpaid interest become due at the maturity date.

Loan origination and commitment fees received in full at the inception of a loan are deferred and amortized into fee income as an enhancement to the related loan s yield over the contractual life of the loan. We recognize nonrecurring fees amortized over the remaining term of the loan commencing in the quarter relating to specific loan modifications. We had approximately $38.3 million of unamortized fees at June 30, 2016, of which approximately $35.7 million was included as an offset to the cost basis of our current debt investments and approximately $2.6 million was deferred contingent upon the occurrence of a funding or milestone. At December 31, 2015 we had approximately $26.1 million of unamortized fees, of which approximately $23.6 million was included as an offset to the cost basis of our current debt investments and approximately $2.5 million was deferred contingent upon the occurrence of a funding or milestone.

Loan exit fees to be paid at the termination of the loan are accreted into interest income over the contractual life of the loan. At June 30, 2016 we had approximately $27.5 million in exit fees receivable, of which approximately $25.0 million was included as a component of the cost basis of our current debt investments and approximately $2.5 million was a deferred receivable related to expired commitments. At December 31, 2015 we had approximately $22.7 million in exit fees receivable, of which approximately $17.4 million was included as a component of the cost basis of our current debt investments and approximately $5.3 million was a deferred receivable related to expired commitments.

We have debt investments in our portfolio that contain a PIK provision. The PIK interest, computed at the contractual rate specified in each loan agreement, is recorded as interest income and added to the principal balance of the loan on specified capitalization dates. To maintain our ability to be subject to tax as a RIC, this non-cash source of income must be paid out to stockholders with other sources of income in the form of dividend distributions even though we have not yet collected the cash. Amounts necessary to pay these distributions may come from available cash or the liquidation of certain investments. We recorded approximately $1.8 million and $973,000 in PIK income in the three months ended June 30, 2016 and 2015, respectively. We recorded approximately $3.5 million and $1.9 million in PIK income in the six months ended June 30, 2016 and 2015, respectively.

The core yield on our debt investments, which excludes any benefits from the fees and income related to early loan repayment acceleration of unamortized fees and income as well as prepayment of fees and includes income from expired commitments, was 13.4% and 13.2% during the three months ended June 30, 2016 and 2015, respectively. The effective yield on our debt investments, which includes the effects of fee and income

Table of Contents

Index to Financial Statements

accelerations attributed to early payoffs, restructuring, loan modifications and other one-time event fees, was 14.4% and 13.8% for the three months ended June 30, 2016 and 2015, respectively. The effective yield is derived by dividing total investment income by the weighted average earning investment portfolio assets outstanding during the quarter, excluding non-interest earning assets such as warrants and equity investments. Both the core yield and effective yield may be higher than what our common stockholders may realize as the core yield and effective yield do not reflect our expenses and any sales load paid by our common stockholders.

The total return for our investors was approximately 7.2% and -18.8% during the six months ended June 30, 2016 and 2015, respectively. The total return equals the change in the ending market value over the beginning of the period price per share plus dividend distributions paid per share during the period, divided by the beginning price assuming the distribution is reinvested on the date of the distribution. The total return does not reflect any sales load that must be paid by investors. See Note 9 Financial Highlights included in the notes to our consolidated financial statements appearing elsewhere in this prospectus.

Portfolio Composition

Our portfolio companies are primarily privately held companies and public companies which are active in the drug discovery and development, sustainable and renewable technology, software, drug delivery, internet consumer and business services, medical devices and equipment, media/content/info, specialty pharmaceuticals, consumer and business products, communications and networking, surgical devices, semiconductors, healthcare services, electronics and computer hardware, biotechnology tools, diagnostic, and information services industry sectors. These sectors are characterized by high margins, high growth rates, consolidation and product and market extension opportunities. Value for companies in these sectors is often vested in intangible assets and intellectual property.

As of June 30, 2016, approximately 63.4% of the fair value of our portfolio was composed of investments in four industries: 23.8% was composed of investments in the drug discovery and development industry, 14.5% was comprised of investments in the sustainable and renewable technology industry, 13.9% was composed of investments in the software industry, and 11.1% was composed of investments in the drug delivery industry.

The following table shows the fair value of our portfolio by industry sector at June 30, 2016 and December 31, 2015:

	June 30, 2016		December 31, 2015	
(in thousands)	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
Drug Discovery & Development	$ 309,936	23.8%	$ 284,266	23.7%
Sustainable and Renewable Technology	189,358	14.5%	159,487	13.3%
Software	181,021	13.9%	147,237	12.3%
Drug Delivery	145,028	11.1%	164,665	13.7%
Internet Consumer & Business Services	122,402	9.4%	88,377	7.4%
Medical Devices & Equipment	118,408	9.1%	90,560	7.5%
Media/Content/Info	107,773	8.3%	95,488	7.9%
Specialty Pharmaceuticals	38,664	3.0%	52,088	4.3%
Consumer & Business Products	22,859	1.8%	26,611	2.2%
Communications & Networking	18,200	1.4%	33,213	2.8%
Surgical Devices	12,165	0.9%	11,185	0.9%
Semiconductors	12,149	0.9%	22,705	1.9%
Healthcare Services, Other	10,411	0.8%	15,131	1.3%
Electronics & Computer Hardware	6,974	0.5%	6,928	0.6%
Biotechnology Tools	6,787	0.5%	719	0.1%
Diagnostic	641	0.1%	321	0.0%
Information Services	2	0.0%	1,657	0.1%
Total	$ 1,302,778	100.0%	$ 1,200,638	100.0%

Table of Contents

Index to Financial Statements

Industry and sector concentrations vary as new loans are recorded and loans pay off. Loan revenue, consisting of interest, fees, and recognition of gains on equity and warrants or other equity-related interests, can fluctuate materially when a loan is paid off or a related warrant or equity interest is sold. Revenue recognition in any given year can be highly concentrated among several portfolio companies.

For the six months ended June 30, 2016 and the year ended December 31, 2015, our ten largest portfolio companies represented approximately 31.9% and 32.1% of the total fair value of our investments in portfolio companies, respectively. At June 30, 2016 and December 31, 2015, we had three and two investments, respectively, that represented 5% or more of our net assets. At June 30, 2016, we had six equity investments representing approximately 58.3% of the total fair value of our equity investments, and each represented 5% or more of the total fair value of our equity investments. At December 31, 2015, we had four equity investments which represented approximately 53.2% of the total fair value of our equity investments, and each represented 5% or more of the total fair value of our equity investments.

As of June 30, 2016 approximately 92.8% of the debt investment portfolio was priced at floating interest rates or floating interest rates with a Prime or LIBOR-based interest rate floor. As a result, we believe we are well positioned to benefit should market interest rates rise in the near future.

As of June 30, 2016, 91.8% of our debt investments were in a senior secured first lien position with the remaining 8.2% secured by a senior second priority security interest in all of the portfolio company s assets, other than intellectual property. In the majority of cases, we collateralize our investments by obtaining a first priority security interest in a portfolio company s assets, which may include its intellectual property. In other cases, we may obtain a negative pledge covering a company s intellectual property. At June 30, 2016, of the approximately 91.8% of our debt investments in a senior secured first lien position, 42.8% were secured by a first priority security in all of the assets of the portfolio company, including its intellectual property; 45.7% were secured by a first priority security in all of the assets of the portfolio company and the portfolio company was prohibited from pledging or encumbering its intellectual property, or subject to a negative pledge; and 3.3% were secured by a first priority security in all of the assets of the portfolio company, including its intellectual property, with a second lien on the portfolio company s cash and accounts receivable. At June 30, 2016 we had no equipment only liens on material investments in our portfolio companies.

Our investments in senior secured debt with warrants have detachable equity enhancement features, typically in the form of warrants or other equity-related securities designed to provide us with an opportunity for capital appreciation. These features are treated as OID and are accreted into interest income over the term of the loan as a yield enhancement. Our warrant coverage generally ranges from 3% to 20% of the principal amount invested in a portfolio company, with a strike price generally equal to the most recent equity financing round. As of June 30, 2016, we held warrants in 139 portfolio companies, with a fair value of approximately $25.1 million. The fair value of our warrant portfolio increased by approximately $2.1 million, as compared to a fair value of $23.0 million at December 31, 2015 primarily related to the addition of warrants in 15 new and 10 existing portfolio companies during the period.

Our existing warrant holdings would require us to invest approximately $101.1 million to exercise such warrants as of June 30, 2016. Warrants may appreciate or depreciate in value depending largely upon the underlying portfolio company s performance and overall market conditions. Of the warrants that we have monetized since inception, we have realized multiples in the range of approximately 1.02x to 29.22x based on the historical rate of return on our investments. However, our warrants may not appreciate in value and, in fact, may decline in value. Accordingly, we may experience losses from our warrant portfolio.

As required by the 1940 Act, we classify our investments by level of control. Control investments are defined in the 1940 Act as investments in those companies that we are deemed to control , which, in general, includes a company in which we own 25% or more of the voting securities of such company or have greater than 50% representation on its board. Affiliate investments are investments in those companies that are affiliated

Table of Contents

Index to Financial Statements

companies of ours, as defined in the 1940 Act, which are not control investments. We are deemed to be an affiliate of a company in which we have invested if we own 5% or more, but generally less than 25%, of the voting securities of such company. Non-control/non-affiliate investments are investments that are neither control investments nor affiliate investments.

The following table summarizes our realized and unrealized gain and loss and changes in our unrealized appreciation and depreciation on control and affiliate investments for the three and six months ended June 30, 2016 and 2015. We did not hold any Control investments at June 30, 2015.

(in thousands)			For the Three Months Ended June 30, 2016				For the Six Months Ended June 30, 2016			
Portfolio Company	**Type**	**Fair Value at June 30, 2016**	**Investment Income**	**Net Change in Unrealized Appreciation/ (Depreciation)**	**Reversal of Unrealized Appreciation / (Depreciation)**	**Realized Gain/(Loss)**	**Investment Income**	**Net Change in Unrealized Appreciation/ (Depreciation)**	**Reversal of Unrealized Appreciation / (Depreciation)**	**Realized Gain/(Loss)**
Control Investments										
SkyCross, Inc.	Control	$	$	$ (3,421)	$	$	$	$ (3,421)	$	$
Achilles Technology Management Co II, Inc.	Control	4,000								
Total Control Investments		$ 4,000	$	$ (3,421)	$	$	$	$ (3,421)	$	$
Affiliate Investments										
Optiscan BioMedical, Corp.	Affiliate	$ 4,549	$ 6	$ (2,972)	$	$	$ 12	$ (3,386)	$	$
Stion Corporation	Affiliate	1,295	44		648		103	539	648	
Total Affiliate Investments		$ 5,844	$ 50	$ (2,972)	$ 648	$	$ 115	$ (2,847)	$ 648	$
Total Control & Affiliate Investments		$ 9,844	$ 50	$ (6,393)	$ 648	$	$ 115	$ (6,268)	$ 648	$

(in thousands)			For the Three Months Ended June 30, 2015				For the Six Months Ended June 30, 2015			
Portfolio Company	**Type**	**Fair Value at June 30, 2015**	**Investment Income**	**Net Change in Unrealized Appreciation/ (Depreciation)**	**Reversal of Unrealized Appreciation / (Depreciation)**	**Realized Gain/(Loss)**	**Investment Income**	**Net Change in Unrealized Appreciation/ (Depreciation)**	**Reversal of Unrealized Appreciation / (Depreciation)**	**Realized Gain/(Loss)**
Gelesis, Inc.	Affiliate	$ 2,235	$	$ (179)	$	$	$	$ 1,908	$	$
Optiscan BioMedical, Corp.	Affiliate	6,618		(150)				545		
Stion Corporation	Affiliate	1,600	96	408			196	(61)		
Total Affiliate Investments		$ 10,453	$ 96	$ 79	$	$	$ 196	$ 2,392	$	$

As of June 30, 2016 our investments in SkyCross, Inc. became classified as a control investment as a result of obtaining more than 50% representation on the portfolio company s board. In addition, as of June 30, 2016 we owned 100% of the equity of Achilles Technology Management Co II, Inc. and classified it as a control investment in accordance with the requirements of the 1940 Act. During the three months ended June 30, 2016, Achilles Technology Management Co II, Inc. acquired the assets of a global antenna company that produces radio frequency system solutions as part of an article 9 consensual foreclosure and public auction for total consideration in the amount of $4 million. Our investment in Achilles Technology Management Co II, Inc. is carried on the consolidated statement of assets and liabilities at fair value.

As of December 31, 2015, changes to the capitalization structure of the portfolio company Gelesis, Inc. reduced our investment below the threshold for classification as an affiliate investment.

Table of Contents

Index to Financial Statements

Portfolio Grading

We use an investment grading system, which grades each debt investment on a scale of 1 to 5 to characterize and monitor our expected level of risk on the debt investments in our portfolio with 1 being the highest quality. The following table shows the distribution of our outstanding debt investments on the 1 to 5 investment grading scale at fair value as of June 30, 2016 and December 31, 2015, respectively:

(in thousands)	June 30, 2016			December 31, 2015		
Investment Grading	Number of Companies	Debt Investments at Fair Value	Percentage of Total Portfolio	Number of Companies	Debt Investments at Fair Value	Percentage of Total Portfolio
1	16	$ 328,082	27.1%	18	$ 215,202	19.4%
2	41	602,868	49.8%	47	759,274	68.4%
3	20	226,943	18.7%	6	44,837	4.0%
4	6	42,953	3.5%	4	34,153	3.1%
5	7	10,936	0.9%	10	56,743	5.1%
	90	$ 1,211,782	100.0%	85	$ 1,110,209	100.0%

As of June 30, 2016, our debt investments had a weighted average investment grading of 2.11, as compared to 2.16 at December 31, 2015. Our policy is to lower the grading on our portfolio companies as they approach the point in time when they will require additional equity capital. Additionally, we may downgrade our portfolio companies if they are not meeting our financing criteria or are underperforming relative to their respective business plans. Various companies in our portfolio will require additional funding in the near term or have not met their business plans and therefore have been downgraded until their funding is complete or their operations improve.

The improvement in weighted average investment grading at June 30, 2016 from December 31, 2015 is due to the improvement in investment grading of three portfolio investments and settlement of one portfolio investment that were rated 5 at December 31, 2015, offset by the downgrade of fourteen existing portfolio companies to a 3 rating primarily due to underperformance or near term funding requirements.

At June 30, 2016, we had six debt investments on non-accrual with a cumulative investment cost and fair value of approximately $34.5 million and $2.8 million, respectively. At December 31, 2015, we had five debt investments on non-accrual with cumulative investment cost and fair value of approximately $47.4 million and $23.2 million, respectively. In addition, at December 31, 2015, we had one debt investment with an investment cost and fair value of approximately $20.1 million and $14.9 million, respectively, for which only the PIK interest was on non-accrual. During the six months ended June 30, 2016, we recognized a realized loss of approximately $6.2 million on the settlement of one debt investment that was on non-accrual at December 31, 2015. In addition, we recognized a realized loss of $430,000 on the partial write off of one debt investment that was on non-accrual as of December 31, 2015.

Results of Operations

Comparison of the three and six months ended June 30, 2016 and 2015

Investment Income

Total investment income for the three months ended June 30, 2016 was approximately $43.5 million as compared to approximately $38.1 million for the three months ended June 30, 2015. Total investment income for the six months ended June 30, 2016 was approximately $82.5 million as compared to approximately $70.6 million for the six months ended June 30, 2015.

Interest income for the three months ended June 30, 2016 totaled approximately $39.6 million as compared to approximately $35.2 million for the three months ended June 30, 2015. Interest income for the six months

Table of Contents

Index to Financial Statements

ended June 30, 2016 totaled approximately $76.1 million as compared to approximately $65.8 million for six months ended June 30, 2015. The increase in interest income for the three and six months ended June 30, 2016 as compared to the same period ended June 30, 2015 is primarily attributable to debt investment portfolio growth, specifically an increase in the weighted average principal outstanding between the periods, as well as an increase in the acceleration of interest income due to early loan repayments.

Of the $39.6 million in interest income for the three months ended June 30, 2016, approximately $37.8 million represents recurring income from the contractual servicing of our loan portfolio and approximately $1.8 million represents income related to the acceleration of income due to early loan repayments and other one-time events during the period. Income from recurring interest and the acceleration of interest income due to early loan repayments represented $34.7 million and $498,000, respectively, of the $35.2 million interest income for the three months ended June 30, 2015.

Of the $76.1 million in interest income for the six months ended June 30, 2016, approximately $73.6 million represents recurring income from the contractual servicing of our loan portfolio and approximately $2.5 million represents income related to the acceleration of income due to early loan repayments and other one-time events during the period. Income from recurring interest and the acceleration of interest income due to early loan repayments represented $65.0 million and $792,000, respectively, of the $65.8 million interest income for the six months ended June 30, 2015.

Income from commitment, facility and loan related fees for the three months ended June 30, 2016 totaled approximately $3.9 million as compared to approximately $2.9 million for the three months ended June 30, 2015. Income from commitment, facility and loan related fees for the six months ended June 30, 2016 totaled approximately $6.4 million as compared to approximately $4.8 million for the six months ended June 30, 2015. The increase in fee income for the three months ended June 30, 2016 is primarily attributable to an increase in normal fee amortization due to a higher debt investment portfolio between the periods, as well as an increase in the acceleration of unamortized fees due to early repayments and one-time fees for the period. The increase in fee income for the six months ended June 30, 2016 is primarily attributable to an increase in normal fee amortization due to a higher debt investment portfolio between the periods.

Of the $3.9 million in income from commitment, facility and loan related fees for the three months ended June 30, 2016, approximately $2.5 million represents income from recurring fee amortization and approximately $1.4 million represents income related to the acceleration of unamortized fees due to early repayments and one-time fees for the period. Income from recurring fee amortization and the acceleration of unamortized fees due to early loan repayments represented $1.8 million and $1.1 million, respectively, of the $2.9 million income for the three months ended June 30, 2015.

Of the $6.4 million in income from commitment, facility and loan related fees for the six months ended June 30, 2016, approximately $4.7 million represents income from recurring fee amortization and approximately $1.7 million represents income related to the acceleration of unamortized fees due to early repayments and one-time fees for the period. Income from recurring fee amortization and the acceleration of unamortized fees due to early loan repayments represented $3.2 million and $1.6 million, respectively, of the $4.8 million income for the six months ended June 30, 2015.

Table of Contents

Index to Financial Statements

The following table shows the PIK-related activity for the six months ended June 30, 2016 and 2015, at cost:

(in thousands)	Six Months Ended June 30, 2016	2015
Beginning PIK loan balance	$ 5,149	$ 6,250
PIK interest income during the period	3,544	1,880
PIK accrued (capitalized) to principal but not recorded as income during the period	(2,146)	
Payments received from PIK loans	(438)	(2,012)
Realized loss	(266)	(223)
Ending PIK loan balance	$ 5,843	$ 5,895

The increase in payments received from PIK loans and increase in PIK interest income during the six months ended June 30, 2016 as compared to the six months ended June 30, 2015 is due to an increase in the weighted average principal outstanding of loans which bear PIK interest and an increase in the number of PIK loans which paid off during the period.

In certain investment transactions, we may earn income from advisory services; however, we had no income from advisory services in the three and six months ended June 30, 2016 or 2015.

Operating Expenses

Our operating expenses are comprised of interest and fees on our borrowings, general and administrative expenses and employee compensation and benefits. Our operating expenses totaled approximately $20.2 million and $21.3 million during the three months ended June 30, 2016 and 2015, respectively. Our operating expenses totaled approximately $39.0 million and $40.8 million during the six months ended June 30, 2016 and 2015, respectively.

Interest and Fees on our Borrowings

Interest and fees on our borrowings totaled approximately $8.9 million and $9.2 million for the three months ended June 30, 2016 and 2015, respectively and approximately $16.9 million and $18.5 million for the six months ended June 30, 2016 and 2015, respectively. Interest and fee expense for the three and six months ended June 30, 2016 as compared to June 30, 2015 decreased due to lower weighted average principal balances outstanding on our Asset Backed Notes and 2019 Notes (together with the 2024 Notes, the Baby Bonds) along with lower debt issuance cost amortization on our Asset Backed Notes, slightly offset by an increase in the weighted average principal balance outstanding on our Credit Facilities and the issuance of an additional $141.9 million of aggregate principal on our 2024 Notes during the period.

We had a weighted average cost of debt, comprised of interest and fees and loss on debt extinguishment (long-term liabilities convertible senior notes), of approximately 5.8% and 6.1% for the three months ended June 30, 2016 and 2015, respectively, and a weighted average cost of debt of approximately 5.7% and 6.1% for the six months ended June 30, 2016 and 2015, respectively. The decrease between comparative periods was primarily driven by a reduction in the weighted average principal outstanding on our higher yielding debt instruments compared to the prior period, specifically due to redemptions of our 2019 Notes which occurred in 2015.

General and Administrative Expenses

General and administrative expenses include legal fees, consulting fees, accounting fees, printer fees, insurance premiums, rent, expenses associated with the workout of underperforming investments and various

Table of Contents

Index to Financial Statements

other expenses. Our general and administrative expenses increased to $4.4 million from $4.1 million for the three months ended June 30, 2016 and 2015. Our general and administrative expenses increased to $8.0 million from $7.7 million for the six months ended June 30, 2016 and 2015. The increase for the three and six months ended June 30, 2016 was primarily due to an increase in corporate legal expenses and outside consulting services.

Employee Compensation

Employee compensation and benefits totaled $5.3 million for the three months ended June 30, 2016 as compared to $5.9 million for the three months ended June 30, 2015, and $10.0 million for the six months ended June 30, 2016 as compared to $9.7 million for the six months ended June 30, 2015. The decrease for the three-month comparative period was primarily due to changes in variable compensation expense related to originator performance factors. The increase between the six month comparative periods was primarily due to changes in variable compensation expense, specifically an increase in originator performance compensation in the first quarter of 2016 relative to 2015.

Employee stock-based compensation totaled $1.6 million for the three months ended June 30, 2016 as compared to $2.3 million for the three months ended June 30, 2015 and $4.2 million for the six months ended June 30, 2016 as compared to $5.0 million for the six months ended June 30, 2015. The decrease between both comparative periods was primarily related to restricted stock award vesting, specifically the final vesting of retention grants issued in 2014.

Loss on Extinguishment of Convertible Senior Notes

Our 6.00% convertible senior notes due 2016 (the Convertible Senior Notes) were fully settled on or before their contractual maturity date of April 15, 2016. Throughout the life of the Convertible Senior Notes, holders of approximately $74.8 million of our Convertible Senior Notes exercised their conversion rights. These Convertible Senior Notes were settled with a combination of cash equal to the outstanding principal amount of the Convertible Senior Notes and approximately 1.6 million shares of our common stock, or $24.3 million.

We recorded a loss on extinguishment of debt for the proportionate amount of unamortized debt issuance costs and original issue discount. The loss was partially offset by a gain in the amount of the difference between the outstanding principal balance of the converted notes and the fair value of the debt instrument. The net loss on extinguishment of debt we recorded for the year ended December 31, 2015 was $1,000. We did not record a loss on extinguishment of debt in the three and six months ended June 30, 2016. The loss on extinguishment of debt was classified as a component of net investment income in our Consolidated Statement of Operations.

Net Investment Realized Gains and Losses and Net Unrealized Appreciation and Depreciation

Realized gains or losses are measured by the difference between the net proceeds from the repayment or sale and the cost basis of an investment without regard to unrealized appreciation or depreciation previously recognized, and includes investments written off during the period, net of recoveries. Net change in unrealized appreciation or depreciation primarily reflects the change in portfolio investment values during the reporting period, including the reversal of previously recorded unrealized appreciation or depreciation when gains or losses are realized.

A summary of realized gains and losses for the three and six months ended June 30, 2016 and 2015 is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	**2016**	**2015**	**2016**	**2015**
Realized gains	$ 1,423	$ 495	$ 4,212	$ 4,824
Realized losses	(1,398)	(1,749)	(8,655)	(2,766)
Net realized gains	$ 25	$ (1,254)	$ (4,443)	$ 2,058

During the three months ended June 30, 2016 and 2015, we recognized net realized gains of $25,000 and net realized losses of $1.3 million, respectively. During the three months ended June 30, 2016, we recorded gross realized gains of $1.4 million primarily from the acquisition of our holdings in one portfolio company, Ping Identity Corporation. These gains were offset by gross realized losses of $1.4 million primarily from the liquidation or write off of our warrant and equity investments in two portfolio companies.

During the three months ended June 30, 2015, we recorded gross realized gains of $495,000 primarily from subsequent recoveries received on two previously written-off debt investments. These gains were offset by gross realized losses of $1.8 million from the liquidation of our warrant and equity investments in five portfolio companies.

During the six months ended June 30, 2016 and 2015, we recognized net realized losses of $4.4 million and net realized gains of $2.1 million, respectively. During the six months ended June 30, 2016, we recorded gross realized gains of $4.2 million primarily from the sale or acquisition of our investments in three portfolio companies, including Celator Pharmaceuticals, Inc. ($1.5 million), Ping Identity Corporation ($1.3 million) and the sale of options on Box, Inc. ($1.1 million). These gains were offset by gross realized losses of $8.6 million primarily from the liquidation or write off of our warrant and equity investments in five portfolio companies and of our debt investments in three portfolio companies, including the settlement of our outstanding debt investment in The Neat Company ($6.2 million).

During the six months ended June 30, 2015 we recorded gross realized gains of $4.8 million primarily from the sale of investments in four portfolio companies, including Cempra, Inc. ($2.0 million), Celladon Corporation ($1.4 million), Everyday Health, Inc. ($387,000) and Identiv, Inc. ($304,000). These gains were partially offset by gross realized losses of $2.7 million from the liquidation of our warrant and equity investments in eight portfolio companies.

The net unrealized appreciation and depreciation of our investments is based on the fair value of each investment determined in good faith by our Board of Directors. The following table summarizes the change in net unrealized appreciation (depreciation) of investments for the three and six months ended June 30, 2016 and 2015:

(in thousands)	**Three Months Ended June 30, 2016**	**Three Months Ended June 30, 2015**	**Six Months Ended June 30, 2016**	**Six Months Ended June 30, 2015**
Gross unrealized appreciation on portfolio investments	$ 16,208	$ 14,700	$ 29,525	$ 35,854
Gross unrealized depreciation on portfolio investments	(30,607)	(28,875)	(55,492)	(42,114)
Reversal of prior period net unrealized appreciation upon a realization event	(340)		(340)	(3,708)
Reversal of prior period net unrealized depreciation upon a realization event	1,137	1,210	11,333	2,215
Net unrealized appreciation (depreciation) attributable to taxes payable	(332)	156	(296)	598
Citigroup warrant participation	30	34	32	(7)
Net unrealized appreciation (depreciation) on portfolio investments	$ (13,904)	$ (12,775)	$ (15,238)	$ (7,162)

During the three months ended June 30, 2016, we recorded approximately $13.9 million of net unrealized depreciation, of which $13.6 million was net unrealized depreciation from our debt, equity and warrant investments. Approximately $8.0 million was net unrealized depreciation on our debt investments which primarily relates to $14.0 million of unrealized depreciation for collateral based impairments on ten portfolio

Table of Contents

Index to Financial Statements

companies offset by the reversal of $5.7 million unrealized depreciation for prior period collateral based impairments on four portfolio companies. Approximately $6.3 million was attributed to net unrealized depreciation on our equity investments which primarily relates to $5.3 million unrealized depreciation on our public equity portfolio with the largest concentration in our investment in Box, Inc. and $1.0 million of unrealized depreciation on our private portfolio companies related to portfolio company performance. This unrealized depreciation was offset by $694,000 of net unrealized appreciation on our warrant investments primarily attributed to the reversal of unrealized depreciation upon being realized as a loss due to the liquidation of our warrant investments in two portfolio companies.

Net unrealized depreciation was increased by $332,000 as a result of increased estimated taxes payable for the three months ended June 30, 2016.

Net unrealized depreciation was offset by $30,000 as a result of net depreciation of fair value on the pool of warrants collateralized under the warrant participation agreement and a decrease in the liability for the acquisition proceeds received on our Ping Identity Corporation equity investment, which had been exercised from warrants that were included in the collateral pool, during the three months ended June 30, 2016.

During the three months ended June 30, 2015, we recorded approximately $12.8 million of net unrealized appreciation, of which $12.9 million was net unrealized depreciation from our debt, equity and warrant investments. Approximately $6.0 million was attributed to net unrealized depreciation on our debt investments which primarily related to $7.4 million unrealized depreciation for collateral based impairments on eleven portfolio companies. Approximately $5.7 million was attributed to net unrealized depreciation on our equity investments which primarily related to $3.6 million unrealized depreciation on our public equity portfolio related to portfolio company performance and $2.1 million unrealized depreciation on our private portfolio companies. Finally, approximately $1.2 million was attributed to net unrealized depreciation on our warrant investments which primarily related to approximately $1.8 million of unrealized depreciation on five portfolio companies related to portfolio company performance partially offset by the reversal of $900,000 of unrealized depreciation upon being realized as a loss due to the liquidation of our warrant investments in six portfolio companies.

Net unrealized depreciation was offset by $156,000 as a result of decreased estimated taxes payable for the three months ended June 30, 2015.

Net unrealized depreciation was further offset by $34,000 as a result of net depreciation of fair value on the pool of warrants collateralized under the warrant participation agreement during the three months ended June 30, 2015.

Table of Contents

Index to Financial Statements

The following table summarizes the change in net unrealized appreciation (depreciation) in the investment portfolio by category, excluding net unrealized appreciation (depreciation) on taxes payable, escrow receivables and Citigroup warrant participation, for the three months ended June 30, 2016 and 2015:

	Three Months Ended June 30, 2016			
(in millions)	**Debt**	**Equity**	**Warrants**	**Total**
Collateral Based Impairments	$ (14.0)	$	$ (0.1)	$ (14.1)
Reversals of Prior Period Collateral Based Impairments	5.7			5.7
Reversals due to Debt Payoffs & Warrant/Equity Sales			0.8	0.8
Fair Value Market/Yield Adjustments*				
Level 1 & 2 Assets	0.1	(5.3)	0.5	(4.7)
Level 3 Assets	0.2	(1.0)	(0.5)	(1.3)
Total Fair Value Market/Yield Adjustments	0.3	(6.3)		(6.0)
Total Unrealized Appreciation/(Depreciation)	$ (8.0)	$ (6.3)	$ 0.7	$ (13.6)

	Three Months Ended June 30, 2015			
(in millions)	**Debt**	**Equity**	**Warrants**	**Total**
Collateral Based Impairments	$ (7.4)	$	$	$ (7.4)
Reversals of Prior Period Collateral Based Impairments			0.2	0.2
Reversals due to Debt Payoffs & Warrant/Equity Sales	(0.1)		0.9	0.8
Fair Value Market/Yield Adjustments*				
Level 1 & 2 Assets		(3.6)	(0.3)	(3.9)
Level 3 Assets	1.5	(2.1)	(2.0)	(2.6)
Total Fair Value Market/Yield Adjustments	1.5	(5.7)	(2.3)	(6.5)
Total Unrealized Appreciation/(Depreciation)	$ (6.0)	$ (5.7)	$ (1.2)	$ (12.9)

* Level 1 assets are generally equities listed in active markets and level 2 assets are generally warrants held in a public company. Observable market prices are typically the primary input in valuing level 1 and 2 assets. Level 3 asset valuations require inputs that are both significant and unobservable. Generally, level 3 assets are debt investments and warrants and equities held in a private company. See Note 2 to the financial statements discussing ASC Topic 820 (Fair Value Measurements).

During the six months ended June 30, 2016, we recorded approximately $15.2 million of net unrealized depreciation, of which $14.9 million was net unrealized depreciation from our debt, equity and warrant investments. Approximately $2.0 million was attributed to net unrealized depreciation on our debt investments which was primarily related to $20.6 million unrealized depreciation for collateral based impairments on ten portfolio companies offset by the reversal of $12.2 million unrealized depreciation upon payoff or settling of our debt investments and the reversal of $5.7 million unrealized depreciation for prior period collateral based impairments on four portfolio companies. Approximately $12.5 million was attributed to net unrealized depreciation on our equity investments which primarily relates to $10.5 million unrealized depreciation on our public equity portfolio with the largest concentration in our investment in Box, Inc. and $2.1 million of unrealized depreciation on our private portfolio companies related to portfolio company performance. Approximately $455,000 was attributed to net unrealized depreciation on our warrant investments primarily related to our public warrant portfolio.

Net unrealized depreciation was increased by $296,000 as a result of increased estimated taxes payable for the six months ended June 30, 2016.

Net unrealized depreciation was offset by $32,000 as a result of net depreciation of fair value on the pool of warrants collateralized under the warrant participation agreement and a decrease in the liability for the acquisition proceeds received on our Ping Identity Corporation equity investment, which had been exercised from warrants that were included in the collateral pool, during the six months ended June 30, 2016.

Table of Contents

Index to Financial Statements

During the six months ended June 30, 2015, we recorded approximately $7.2 million of net unrealized depreciation, of which $7.7 million was net unrealized depreciation from our debt, equity and warrant investments. Approximately $4.9 million was attributed to net unrealized depreciation on our debt investments which was primarily related to $9.2 million unrealized depreciation for collateral based impairments on eleven portfolio companies offset by the reversal of $2.4 million unrealized depreciation for prior period collateral based impairments on two portfolio companies. Approximately $4.7 million was attributed to net unrealized depreciation on our equity investments which primarily related to the reversal of $3.7 million of prior period net unrealized appreciation upon being realized as a gain for our sale of shares of Cempra, Inc. Celladon Corporation, Everyday Health, and Identiv, Inc. as discussed above.

This unrealized depreciation was offset by approximately $1.9 million of net unrealized appreciation on our warrant investments which primarily related to the reversal of approximately $1.9 million of unrealized depreciation upon being realized as a loss due to the liquidation of our warrant investments in nine portfolio companies.

Net unrealized depreciation was offset by $598,000 as a result of decreased estimated taxes payable for the six months ended June 30, 2015.

Net unrealized depreciation increased by $7,000 as a result of net appreciation of fair value on the pool of warrants collateralized under the warrant participation agreement during the six months ended June 30, 2015.

The following table summarizes the change in net unrealized appreciation (depreciation) in the investment portfolio by category, excluding net unrealized appreciation (depreciation) on taxes payable, escrow receivables and Citigroup warrant participation, for the six months ended June 30, 2016 and 2015:

	Six Months Ended June 30, 2016			
(in millions)	**Debt**	**Equity**	**Warrants**	**Total**
Collateral Based Impairments	$ (20.6)	$	$ (0.1)	$ (20.7)
Reversals of Prior Period Collateral Based Impairments	5.7			5.7
Reversals due to Debt Payoffs & Warrant/Equity Sales	12.2	0.1	0.8	13.1
Fair Value Market/Yield Adjustments*				
Level 1 & 2 Assets		(10.5)	(0.7)	(11.2)
Level 3 Assets	0.7	(2.1)	(0.4)	(1.8)
Total Fair Value Market/Yield Adjustments	0.7	(12.6)	(1.1)	(13.0)
Total Unrealized Appreciation/(Depreciation)	$ (2.0)	$ (12.5)	$ (0.4)	$ (14.9)

	Six Months Ended June 30, 2015			
(in millions)	**Debt**	**Equity**	**Warrants**	**Total**
Collateral Based Impairments	$ (9.2)	$	$	$ (9.2)
Reversals of Prior Period Collateral Based Impairments	2.4		0.4	2.8
Reversals due to Debt Payoffs & Warrant/Equity Sales	0.3	(3.7)	1.9	(1.5)
Fair Value Market/Yield Adjustments*				
Level 1 & 2 Assets		(2.1)	0.9	(1.2)
Level 3 Assets	1.6	1.1	(1.3)	1.4
Total Fair Value Market/Yield Adjustments	1.6	(1.0)	(0.4)	0.2
Total Unrealized Appreciation/(Depreciation)	$ (4.9)	$ (4.7)	$ 1.9	$ (7.7)

*

Level 1 assets are generally equities listed in active markets and level 2 assets are generally warrants held in a public company. Observable market prices are typically the primary input in valuing level 1 and 2 assets. Level 3 asset valuations require inputs that are both significant and unobservable. Generally, level 3 assets are debt investments and warrants and equities held in a private company. See Note 2 to the financial statements discussing ASC Topic 820 (Fair Value Measurements).

Table of Contents

Index to Financial Statements

Income and Excise Taxes

We account for income taxes in accordance with the provisions of Topic 740 of the Financial Accounting Standards Board s (FASB s) Accounting Standards Codification, as amended (ASC), Income Taxes , under which income taxes are provided for amounts currently payable and for amounts deferred based upon the estimated future tax effects of differences between the financial statement and tax basis of assets and liabilities given the provisions of the enacted tax law. Valuation allowances may be used to reduce deferred tax assets to the amount likely to be realized. Based upon our previous election and anticipated continued qualification to be subject to taxation as a RIC, we are typically not subject to a material level of federal income taxes. We intend to distribute approximately $8.2 million of spillover earnings from ordinary income from the year ended December 31, 2015 to our stockholders in 2016.

Net Increase in Net Assets Resulting from Operations and Earnings Per Share

For the three months ended June 30, 2016 and 2015, the net increase in net assets resulting from operations totaled approximately $9.5 million and approximately $2.8 million, respectively. For the six months ended June 30, 2016 and 2015, the net increase in net assets resulting from operations totaled approximately $23.8 million and approximately $24.7 million, respectively.

Both the basic and fully diluted net change in net assets per common share were $0.13 per share and $0.32 per share, respectively, for the three and six months ended June 30, 2016 and both the basic and fully diluted net change in net assets per common share for the three and six months ended June 30, 2015 were $0.03 per share and $0.35 per share, respectively.

For the purpose of calculating diluted earnings per share for three and six months ended June 30, 2015, the dilutive effect of the Convertible Senior Notes under the treasury stock method was included in this calculation as our share price was greater than the conversion price in effect ($11.21 as of June 30, 2015) for the Convertible Senior Notes for such periods. The Convertible Senior Notes were fully settled on or before their contractual maturity date of April 15, 2016, as such there is no potential additional dilutive effect for the three and six months ended June 30, 2016.

Comparison of periods ended December 31, 2015 and 2014

Investment Income

Interest Income

Total investment income for the year ended December 31, 2015 was approximately $157.1 million as compared to approximately $143.7 million for the year ended December 31, 2014.

Interest income for the year ended December 31, 2015 totaled approximately $140.3 million as compared to approximately $126.6 million for the year ended December 31, 2014. The increase in interest income for the year ended December 31, 2015 as compared to the year ended December 31, 2014 is primarily attributable to debt investment portfolio growth, specifically an increase in the weighted average principal outstanding between the periods.

Of the $140.3 million in interest income for the year ended December 31, 2015, approximately $130.4 million represents recurring income from the contractual servicing of our loan portfolio and approximately $9.9 million represents income related to the acceleration of income due to early loan repayments and other one-time events during the period. Income from recurring interest and the acceleration of interest income due to early loan repayments represented $106.8 million and $19.8 million, respectively, of the $126.6 million interest income for the year ended December 31, 2014.

Table of Contents

Index to Financial Statements

The following table shows the PIK-related activity, for the years ended December 31, 2015 and 2014, at cost:

(in thousands)	Year Ended December 31, 2015	2014
Beginning PIK loan balance	$ 6,250	$ 5,603
PIK interest income during the period	4,658	3,346
Payments received from PIK loans	(5,483)	(2,699)
Realized loss	(276)	
Ending PIK loan balance	$ 5,149	$ 6,250

The increase in payments received from PIK loans and the increase in PIK interest capitalized during the year ended December 31, 2015 as compared to the year ended December 31, 2014 is due to an increase in the weighted average principal outstanding for loans which bear PIK interest and the number of PIK loans which paid-off during the period.

Fee Income

Income from commitment, facility and loan related fees for the year ended December 31, 2015 totaled approximately $16.9 million as compared to approximately $17.0 million for the year ended December 31, 2014. The decrease in fee income is primarily attributable to the acceleration of early loan repayments and restructures, slightly offset by an increase in normal fee amortization due to a higher weighted average debt investment portfolio outstanding during the period.

Of the $16.9 million in income from commitment, facility and loan related fees for the year ended December 31, 2015, approximately $5.8 million represents income from recurring fee amortization and approximately $11.1 million represents income related to the acceleration of unamortized fees for the period. Income from recurring fee amortization and the acceleration of unamortized fees due to early loan repayments represented $5.2 million and $11.8 million, respectively, of the $17.0 million income for the year ended December 31, 2014.

In certain investment transactions, we may earn income from advisory services; however, we had no income from advisory services in the years ended December 31, 2015 and 2014, respectively.

Operating Expenses

Our operating expenses are comprised of interest and fees on our borrowings, general and administrative expenses and employee compensation and benefits. Operating expenses totaled approximately $83.6 million and $70.3 million during the years ended December 31, 2015 and 2014, respectively.

Interest and Fees on our Borrowings

Interest and fees on our borrowings totaled approximately $36.9 million and $34.0 million for the years ended December 31, 2015 and 2014, respectively. Interest and fee expense for the year ended December 31, 2015 as compared to December 31, 2014 increased primarily due to higher weighted average principal balances outstanding on our Asset Backed Notes, Credit Facilities, 2019 Notes and 2024 Notes (together with the 2019 Notes, the Baby Bonds), slightly offset by a reduction in weighted average principal balances outstanding on our SBA debentures, Convertible Senior Notes and lower debt issuance cost amortization related to our Convertible Senior Notes and Asset Backed Notes.

We had a weighted average cost of debt, comprised of interest and fees and loss on debt extinguishment (long-term liabilities convertible senior notes), of approximately 6.0% and 6.6% for the years ended

December 31, 2015 and 2014, respectively. The decrease between comparative periods was primarily driven by a reduction in the weighted average principal outstanding on our higher yielding debt instruments and a reduction in non-cash acceleration of debt issuance costs related to our SBA Debentures, Convertible Senior Notes and Asset Backed Notes as compared to the prior period, slightly offset by non-cash accelerations of debt issuance costs due to early pay downs on our Baby Bonds.

General and Administrative Expenses

General and administrative expenses include legal fees, consulting fees, accounting fees, printer fees, insurance premiums, rent, expenses associated with the workout of underperforming investments and various other expenses. Our general and administrative expenses increased to $16.7 million from $10.2 million for the years ended December 31, 2015 and 2014, respectively. This increase was primarily due to increased recruiting costs related to strategic hiring objectives, corporate legal expenses and outside consulting services.

Employee Compensation

Employee compensation and benefits totaled approximately $20.7 million for the year ended December 31, 2015 as compared to approximately $16.6 million for the year ended December 31, 2014. The increase between comparative periods was primarily due to changes in variable incentive compensation.

Employee stock-based compensation totaled approximately $9.4 million for the year ended December 31, 2015 as compared to approximately $9.6 million for the year ended December 31, 2014. The decrease between comparative periods was primarily due to new grants issued related to incentive compensation and strategic hiring objectives, slightly offset by vesting and forfeitures.

Loss on Extinguishment of Convertible Senior Notes

Upon meeting the stock trading price conversion requirement during the three months ended June 30, 2014, September 30, 2014 and December 31, 2014, the Convertible Senior Notes became convertible on July 1, 2014 and continued to be convertible during each of the three months ended September 30, 2014, December 31, 2014 and March 31, 2015, respectively. During this period and as of December 31, 2015, holders of approximately $57.4 million of our Convertible Senior Notes have exercised their conversion rights and these Convertible Senior Notes were settled with a combination of cash equal to the outstanding principal amount of the Convertible Senior Notes and approximately 1.5 million shares of the Company s common stock, or $24.3 million.

We recorded a loss on extinguishment of debt for the proportionate amount of unamortized debt issuance costs and OID. The loss was partially offset by a gain in the amount of the difference between the outstanding principal balance of the converted notes and the fair value of the debt instrument. The net loss on extinguishment of debt we recorded for the years ended December 31, 2015 and 2014 was approximately $1,000 and $1.6 million, respectively. The loss on extinguishment of debt was classified as a component of net investment income in our Consolidated Statements of Operations.

Net Investment Realized Gains and Losses and Net Unrealized Appreciation and Depreciation

Realized gains or losses are measured by the difference between the net proceeds from the repayment or sale and the cost basis of an investment without regard to unrealized appreciation or depreciation previously recognized, and includes investments written off during the period, net of recoveries. Net change in unrealized appreciation or depreciation primarily reflects the change in portfolio investment values during the reporting period, including the reversal of previously recorded unrealized appreciation or depreciation when gains or losses are realized.

Table of Contents

Index to Financial Statements

A summary of realized gains and losses for the years ended December 31, 2015 and 2014 is as follows:

(in thousands)	Year Ended December 31, 2015	2014
Realized gains	$ 12,677	$ 24,027
Realized losses	(7,530)	(3,915)
Net realized gains	$ 5,147	$ 20,112

During the year ended December 31, 2015, we recognized net realized gains of approximately $5.1 million on the portfolio. These net realized gains included gross realized gains of approximately $12.6 million from the sale of investments in seven portfolio companies, including Box, Inc. ($3.2 million), Atrenta, Inc. ($2.6 million), Cempra, Inc. ($2.0 million), Celladon Corporation ($1.4 million), Egalet Corporation ($652,000), Everyday Health, Inc. ($387,000) and Identiv, Inc. ($304,000), and $1.5 million from subsequent recoveries received on two previously written-off debt investments. These gains were partially offset by gross realized losses of approximately $7.5 million primarily from the liquidation or write off of our investments in sixteen portfolio companies.

During the year ended December 31, 2014, we recognized net realized gains of approximately $20.1 million on the portfolio. These net realized gains included gross realized gains of approximately $24.0 million primarily from the sale of investments in seven portfolio companies including Acceleron Pharma, Inc., ($7.9 million), Merrimack Pharmaceuticals, Inc., ($4.3 million), Neuralstem, Inc., ($2.7 million), IPA Holdings, LLC., ($1.5 million), Cell Therapeutics, Inc., ($1.3 million), Trulia, Inc. ($1.0 million), and Portola Pharmaceuticals, Inc. ($700,000). These gains were partially offset by gross realized losses of approximately $3.9 million primarily from the liquidation of our investments in fifteen portfolio companies.

The net unrealized appreciation and depreciation of our investments is based on the fair value of each investment determined in good faith by our Board of Directors. The following table summarizes the change in net unrealized appreciation/depreciation of investments for the years ended December 31, 2015 and 2014:

(in thousands)	Year Ended December 31, 2015	2014
Gross unrealized appreciation on portfolio investments	$ 78,991	$ 72,968
Gross unrealized depreciation on portfolio investments	(111,926)	(79,412)
Reversal of prior period net unrealized appreciation upon a realization event	(8,707)	(15,335)
Reversal of prior period net unrealized depreciation upon a realization event	4,599	3,182
Net unrealized appreciation (depreciation) attributable to taxes payable	1,322	(1,882)
Net unrealized depreciation on escrow receivables		(465)
Citigroup warrant participation	(11)	270
Net unrealized appreciation (depreciation) on portfolio investments	$ (35,732)	$ (20,674)

During the year ended December 31, 2015, we recorded approximately $35.7 million of net unrealized depreciation, of which $37.1 million is net unrealized depreciation from our debt, equity and warrant investments. Of the $37.1 million, approximately $14.0 million is attributed to net unrealized depreciation on our debt investments which primarily related to $20.4 million unrealized depreciation for collateral based impairments on ten portfolio companies offset by the reversal of collateral based impairments of $5.6 on three portfolio companies. Approximately $19.1 million is attributed to net unrealized depreciation on our equity investments which primarily relates to approximately $11.4 million unrealized depreciation on our public equity portfolio with the largest concentration in our investment in Box, Inc. and the reversal of $7.8 million of prior period net unrealized appreciation upon being realized as a gain for our sale of shares of Box, Inc., Atrenta, Inc.,

Cempra, Inc. Celladon Corporation, Egalet Corporation, Everyday Health, and Identiv, Inc. as discussed above. Finally, approximately $4.0 million is attributed to net unrealized depreciation on our warrant investments which primarily related to $6.0 million of unrealized depreciation on our private portfolio companies related to declining industry performance offset by the reversal of $3.2 million of prior period net unrealized depreciation upon being realized as a loss on the liquidation of our investments in thirteen portfolio companies.

Net unrealized depreciation was offset by approximately $1.3 million as a result of decreased estimated taxes payable for the year ended December 31, 2015.

Net unrealized depreciation increased by approximately $11,000 due to appreciation of fair value on the pool of warrants collateralized under the warrant participation agreement offset by a decrease in the liability for the acquisition proceeds we received on our Atrenta, Inc. equity investment, which had been exercised from warrants that were included in the collateral pool.

During the year ended December 31, 2014, we recorded approximately $20.7 million of net unrealized depreciation, of which $18.6 million is net unrealized depreciation from our debt, equity and warrant investments. Of the $18.6 million, approximately $14.2 million is attributed to net unrealized depreciation on our debt investments which primarily related to $23.2 million unrealized depreciation for collateral based impairments on 12 portfolio companies offset by the reversal of collateral based impairments of $4.1 million on two portfolio companies. Approximately $15.8 million is attributed to net unrealized depreciation on our warrant investments which primarily related to $8.3 million of net unrealized depreciation due to the exercise of our warrants in Box, Inc. to equity and $2.4 million of net unrealized depreciation due to the reversal of prior period net unrealized appreciation upon being realized as a gain. This unrealized depreciation was offset by approximately $11.4 million attributed to net unrealized appreciation on our equity investments, including approximately $13.0 million of net unrealized appreciation on Box, Inc., including the exercise of our remaining warrants in Box, Inc. to equity and approximately $7.7 million of net unrealized appreciation on our public equity portfolio. This was offset by approximately $12.7 million unrealized depreciation due to reversal of prior period net unrealized appreciation upon being realized as a gain.

Net unrealized appreciation decreased by approximately $1.9 million as a result of estimated taxes payable for the year ended December 31, 2014.

Net unrealized appreciation further decreased by approximately $465,000 as a result of reducing escrow receivables for the year ended December 31, 2014 related to merger and acquisition transactions closed on former portfolio companies.

During the year ended December 31, 2014, net unrealized depreciation was offset by approximately $270,000 due to net depreciation of fair value on the pool of warrants collateralized under the Citigroup warrant participation agreement as a result of the sale of shares in Acceleron Pharma, Inc., Merrimack Pharmaceuticals, Inc., Portola Pharmaceuticals, Inc. and Everyday Health, Inc. that were subject to the Citigroup warrant participation agreement.

Table of Contents

Index to Financial Statements

The following table summarizes the change in net unrealized appreciation/(depreciation) in the investment portfolio by investment type, excluding net unrealized appreciation (depreciation) on taxes payable, escrow receivables and Citigroup warrant participation, for the years ended December 31, 2015 and December 31, 2014.

	Year Ended December 31, 2015			
(in millions)	**Debt**	**Equity**	**Warrants**	**Total**
Collateral based impairments	$ (20.4)	$ (0.2)	$ (0.4)	$ (21.0)
Reversals of Prior Period Collateral based impairments	5.6		0.4	6.0
Reversals due to Debt Payoffs & Warrant/Equity sales	6.2	(7.8)	3.2	1.6
Fair Value Market/Yield Adjustments*				
Level 1 & 2 Assets	(1.1)	(11.4)	(1.2)	(13.7)
Level 3 Assets	(4.3)	0.3	(6.0)	(10.0)
Total Fair Value Market/Yield Adjustments	(5.4)	(11.1)	(7.2)	(23.7)
Total Unrealized Appreciation/(Depreciation)	$ (14.0)	$ (19.1)	$ (4.0)	$ (37.1)

	Year Ended December 31, 2014			
(in millions)	**Debt**	**Equity**	**Warrants**	**Total**
Collateral based impairments	$ (23.2)	$ (1.2)	$ (3.3)	(27.7)
Reversals of Prior Period Collateral based impairments	4.1	0.6		4.7
Reversals due to Debt Payoffs & Warrant/Equity sales		(11.1)	(9.7)	(20.8)
Fair Value Market/Yield Adjustments*				
Level 1 & 2 Assets		7.6	(2.9)	4.7
Level 3 Assets	4.9	15.5	0.1	20.5
Total Fair Value Market/Yield Adjustments	4.9	23.1	(2.8)	25.2
Total Unrealized Appreciation/(Depreciation)	$ (14.2)	$ 11.4	$ (15.8)	$ (18.6)

* Level 1 assets are generally equities listed in active markets and Level 2 assets are generally warrants held in a public company. Observable market prices are typically the primary input in valuing Level 1 and 2 assets. Level 3 asset valuations require inputs that are both significant and unobservable. Generally, level 3 assets are debt investments and warrants and equities held in a private company. See Note 2 to the financial statements discussing FASB ASC Topic 820.

Income and Excise Taxes

We account for income taxes in accordance with the provisions of ASC Topic 740, Income Taxes, under which income taxes are provided for amounts currently payable and for amounts deferred based upon the estimated future tax effects of differences between the financial statement and tax basis of assets and liabilities given the provisions of the enacted tax law. Valuation allowances may be used to reduce deferred tax assets to the amount likely to be realized. Based upon our qualification and election to be subject to taxation as a RIC, we are typically not subject to a material level of federal income taxes. We intend to distribute approximately $0.2 million of spillover earnings from ordinary income and approximately $8.0 million from net capital gains from our taxable year ended December 31, 2015 to our stockholders during 2016.

Net Increase in Net Assets Resulting from Operations and Earnings Per Share

For the years ended December 31, 2015 and 2014, the net increase in net assets resulting from operations totaled approximately $42.9 million and approximately $71.2 million, respectively. These changes are made up of the items previously described.

The basic and fully diluted net change in net assets per common share for the year ended December 31, 2015 were $0.60 and $0.59, respectively, whereas the basic and fully diluted net change in net assets per common share for the year ended December 31, 2014 was $1.12 and $1.10, respectively.

Table of Contents

Index to Financial Statements

For the purpose of calculating diluted earnings per share for years ended December 31, 2015 and 2014, the dilutive effect of the Convertible Senior Notes under the treasury stock method is included in this calculation as our share price was greater than the conversion price of $11.03 in effect as of December 31, 2015 and $11.36 as of December 31, 2014 for the Convertible Senior Notes for such periods.

Financial Condition, Liquidity, and Capital Resources

Our liquidity and capital resources are derived from our Credit Facilities, SBA debentures, 2019 Notes, 2024 Notes, 2021 Asset-Backed Notes and cash flows from operations, including investment sales and repayments, and income earned. Our primary use of funds from operations includes investments in portfolio companies and payments of fees and other operating expenses we incur. We have used, and expect to continue to use, our borrowings and the proceeds from the turnover of our portfolio and from public and private offerings of securities to finance our investment objectives. We may raise additional equity or debt capital through both registered offerings off a shelf registration, At-The-Market , or ATM, and private offerings of securities, by securitizing a portion of our investments or borrowing, including from the SBA through our SBIC subsidiaries.

On August 16, 2013, we entered into an ATM equity distribution agreement (the Equity Distribution Agreement) with JMP Securities LLC (JMP) and on March 7, 2016 we renewed the Equity Distribution Agreement. The Equity Distribution Agreement provides that we may offer and sell up to 8.0 million shares of our common stock from time to time through JMP, as our sales agent. Sales of our common stock, if any, may be made in negotiated transactions or transactions that are deemed to be at the market, as defined in Rule 415 under the Securities Act including sales made directly on the NYSE or similar securities exchange or sales made to or through a market maker other than on an exchange, at prices related to the prevailing market prices or at negotiated prices.

During the three and six months ended June 30, 2016 we sold 1.0 million and 2.1 million shares of common stock for total accumulated net proceeds of approximately $11.3 million and $23.7 million, respectively, including $420,000 and $822,000 of offering expenses, respectively. We did not sell any shares under the program during the year ended December 31, 2015. We generally use the net proceeds from these offerings to make investments, repurchase or pay down liabilities and for general corporate purposes. As of June 30, 2016, approximately 5.3 million shares remained available for issuance and sale under the Equity Distribution Agreement.

On February 24, 2015, our Board of Directors authorized a stock repurchase plan permitting us to repurchase up to $50.0 million of our common stock. This plan expired on August 24, 2015. On August 27, 2015, our Board of Directors authorized a replacement stock repurchase plan permitting us to repurchase up to $50.0 million of our common stock and on February 17, 2016, our Board of Directors extended the program until August 23, 2016. We may repurchase shares of our common stock in the open market, including block purchases, at prices that may be above or below NAV as reported in the most recently published financial statements. We expect that the share repurchase program will be in effect until August 23, 2016, or until the approved dollar amount has been used to repurchase shares. During the six months ended June 30, 2016 we repurchased 449,588 shares of our common stock at an average price per share of $10.64 per share and a total cost of approximately $4.8 million. We did not make any repurchases during the three months ended June 30, 2016. As of June 30, 2016, approximately $40.6 million of common stock remains eligible for repurchase under the stock repurchase plan.

At the 2015 Annual Meeting of Stockholders on July 7, 2015, our common stockholders approved a proposal to allow us to issue common stock at a discount from our then current NAV per share, which is effective for a period expiring on the earlier of July 7, 2016 or the 2016 annual meeting of stockholders. In connection with the receipt of such stockholder approval, we will limit the number of shares that we issue at a price below NAV pursuant to this authorization so that the aggregate dilutive effect on our then outstanding shares will not exceed 20%. Our Board of Directors, subject to its fiduciary duties and regulatory requirements, has the discretion to determine the amount of the discount, and as a result, the discount could be up to 100% of NAV per share. During the three and six months ended June 30, 2016, we have not issued common stock at a discount to NAV. We did not issue common stock at a discount to NAV during the year ended December 31, 2015.

Our Convertible Senior Notes were fully settled on or before their contractual maturity date of April 15, 2016. Throughout the life of the Convertible Senior Notes, holders of approximately $74.8 million of our Convertible Senior Notes exercised their conversion rights. These Convertible Senior Notes were settled with a combination of cash equal to the outstanding principal amount of the converted notes and approximately 1.6 million shares of our common stock, or $24.3 million.

On May 2, 2016, we closed an underwritten public offering of an additional $72.9 million in aggregate principal amount of our 2024 Notes. The $72.9 million in aggregate principal amount includes $65.4 million from the initial offering on April 21, 2016 and $7.5 million as a result of underwriters exercising a portion of their option to purchase up to an additional $9.8 million in aggregate principal to cover overallotments on April 29, 2016.

On May 5, 2016, we, through a special purpose wholly-owned subsidiary, Hercules Funding III, LLC (Hercules Funding III), as borrower, entered into the Union Bank Facility with MUFG Union Bank, N.A. (MUFG Union Bank), as the arranger and administrative agent, and the lenders party to the Union Bank Facility from time to time. The Union Bank Facility replaced our credit facility (the Prior Union Bank Facility) entered into on August 14, 2014 (as amended and restated from time to time) with MUFG Union Bank, as the arranger and administrative agent, and the lenders party to the Prior Union Bank Facility from time to time. Any references to amounts related to the Union Bank Facility prior to May 5, 2016 were incurred and relate to the Prior Union Bank Facility.

On June 27, 2016, we closed an underwritten public offering of an additional $60.0 million in aggregate principal amount of the 2024 Notes. On June 30, 2016, the underwriters exercised their option to purchase up to an additional $9.0 million in aggregate principal to cover overallotments, resulting in total aggregate principal of $69.0 million from the offering. The 2024 Notes rank equally in right of payment and form a single series of notes. The 2024 Notes will bear interest at a rate of 6.25% per year payable quarterly on January 30, April 30, July 30 and October 30, of each year, beginning July 30, 2016. We intend to invest the net proceeds of these public offerings to fund investments in debt and equity securities in accordance with its investment objective and for other general corporate purposes.

At June 30, 2016, we had $110.4 million of 2019 Notes, $244.9 million of 2024 Notes, $129.3 million of 2021 Asset-Backed Notes, and $190.2 million of SBA debentures payable. We had no borrowings outstanding under the Wells Facility or the Union Bank Facility.

At June 30, 2016, we had $254.7 million in available liquidity, including $59.7 million in cash and cash equivalents. We had available borrowing capacity of approximately $120.0 million under the Wells Facility after the March 2016 expansion of the available facility to $120.0 million and we had available borrowing capacity of $75.0 million under the Union Bank Facility, subject to existing terms and advance rates and regulatory requirements. We primarily invest cash on hand in interest bearing deposit accounts.

At June 30, 2016, we had $118.5 million of cash in restricted accounts related to our SBIC that we may use to fund new investments in the SBIC. With our net investments of $44.0 million and $74.5 million in HT II and HT III, respectively, we have the combined capacity to issue a total of $190.2 million of SBA guaranteed debentures, subject to SBA approval. At June 30, 2016, we have issued $190.2 million in SBA guaranteed debentures in our SBIC subsidiaries.

At June 30, 2016, we had approximately $3.6 million of restricted cash, which consists of collections of interest and principal payments on assets that are securitized. In accordance with the terms of the related

Table of Contents

Index to Financial Statements

securitized 2021 Asset-Backed Notes, based on current characteristics of the securitized debt investment portfolios, the restricted funds may be used to pay monthly interest and principal on the securitized debt and are not distributed to us or available for our general operations. During the six months ended June 30, 2016, we principally funded our operations from (i) cash receipts from interest, dividend and fee income from our investment portfolio and (ii) cash proceeds from the realization of portfolio investments through the repayments of debt investments and the sale of debt and equity investments.

During the six months ended June 30, 2016, our operating activities used \$81.9 million of cash and cash equivalents, compared to \$180.4 million used during the six months ended June 30, 2015. This \$98.5 million decrease in cash used by operating activities is primarily related to a decrease in investment purchases of approximately \$42.7 million and an increase in investment repayments of \$67.1 million.

During the six months ended June 30, 2016, our investing activities provided approximately \$5.4 million of cash, compared to approximately \$770,000 provided during the six months ended June 30, 2015. This \$4.7 million increase in cash provided by investing activities was primarily due to a reduction of approximately \$4.7 million in cash, classified as restricted cash, on assets that are securitized.

During the six months ended June 30, 2016, our financing activities provided \$41.0 million of cash, compared to \$68.5 million provided during the six months ended June 30, 2015. The \$27.5 million decrease in cash provided by financing activities was primarily due to a decrease in proceeds generated from the issuance of common stock of \$76.4 million and the repayment of borrowings under the Wells Facility and redemption of our Convertible Notes. The decrease was partially offset by proceeds received from the issuance of \$141.9 million of 2024 Notes during the three and six months ended June 30, 2016.

As of June 30, 2016, net assets totaled \$717.8 million, with a NAV per share of \$9.66. We intend to generate additional cash primarily from cash flows from operations, including income earned from investments in our portfolio companies. Our primary use of funds will be investments in portfolio companies and cash distributions to holders of our common stock.

As required by the 1940 Act, our asset coverage must be at least 200% after each issuance of senior securities. As of June 30, 2016 our asset coverage ratio under our regulatory requirements as a business development company was 248.1% excluding our SBA debentures as a result of our exemptive order from the SEC that allows us to exclude all SBA leverage from our asset coverage ratio. As a result of the SEC exemptive order, our ratio of total assets on a consolidated basis to outstanding indebtedness may be less than 200%, which while providing increased investment flexibility, also may increase our exposure to risks associated with leverage. Total leverage when including our SBA debentures was 206.4% at June 30, 2016.

Table of Contents

Index to Financial Statements

Outstanding Borrowings

At June 30, 2016 and December 31, 2015, we had the following available borrowings and outstanding amounts:

	June 30, 2016			December 31, 2015		
(in thousands)	**Total Available**	**Principal**	**Carrying Value (1)**	**Total Available**	**Principal**	**Carrying Value (1)**
SBA Debentures(2)	$ 190,200	$ 190,200	$ 187,165	$ 190,200	$ 190,200	$ 186,829
2019 Notes	110,364	110,364	108,499	110,364	110,364	108,179
2024 Notes	244,945	244,945	237,570	103,000	103,000	100,128
2021 Asset-Backed Notes	129,300	129,300	127,461	129,300	129,300	126,995
Convertible Senior Notes(3)				17,604	17,604	17,478
Wells Facility(4)	120,000			75,000	50,000	50,000
Union Bank Facility(4)	75,000			75,000		
Total	$ 869,809	$ 674,809	$ 660,695	$ 700,468	$ 600,468	$ 589,609

(1) Except for the Wells Facility and Union Bank Facility, all carrying values represent the principal amount outstanding less the remaining unamortized debt issuance costs and unaccreted discount, if any, associated with the loan as of the balance sheet date. See below for the amount of debt issuance cost associated with each borrowing.

(2) At both June 30, 2016 and December 31, 2015, the total available borrowings under the SBA debentures were $190.2 million, of which $41.2 million was available in HT II and $149.0 million was available in HT III.

(3) The Convertible Senior Notes were fully settled on or before their contractual maturity date of April 15, 2016.

(4) Availability subject to us meeting the borrowing base requirements. As the Union Bank Facility was replaced on May 5, 2016, amounts included above prior to May 5, 2016 relate to the Prior Union Bank Facility.

Our NAV may decline as a result of economic conditions in the United States. Our continued compliance with the covenants under our Credit Facilities, 2019 Notes, 2024 Notes, 2021 Asset-Backed Notes and SBA debentures depend on many factors, some of which are beyond our control. Material net asset devaluation could have a material adverse effect on our operations and could require us to reduce our borrowings in order to comply with certain covenants, including the ratio of total assets to total indebtedness. We believe that our current cash and cash equivalents, cash generated from operations, and funds available from our Credit Facilities will be sufficient to meet our working capital and capital expenditure commitments for at least the next 12 months.

Debt issuance costs are fees and other direct incremental costs we incur in obtaining debt financing and are recognized as prepaid expenses and amortized over the life of the related debt instrument using the straight line method, which closely approximates the effective yield method. In accordance with Accounting Standards Update (ASU) 2015-03 and ASU 2015-15 debt issuance costs are presented as a reduction to the associated liability balance on the Consolidated Statement of Assets and Liabilities, except for debt issuance costs associated with line-of-credit arrangements. Debt issuance costs, net of accumulated amortization, as of June 30, 2016 and December 31, 2015 were as follows:

(in thousands)	**June 30, 2016**	**December 31, 2015**
SBA Debentures	$ 3,035	$ 3,371
2019 Notes	1,865	2,185
2024 Notes	7,375	2,872
2021 Asset-Backed Notes	1,839	2,305
Convertible Senior Notes		44
Wells Facility(1)	723	669
Union Bank Facility(1)	984	229
Total	$ 15,821	$ 11,675

(1) As the Wells Facility and Union Bank Facility are line-of-credit arrangements, the debt issuance costs associated with these instruments are presented separately as an asset on the Consolidated Statement of Assets and Liabilities in accordance with ASU 2015-15. As the Union Bank Facility was replaced on May 5, 2016, amounts included above prior to May 5, 2016 relate to the Prior Union Bank Facility.

Table of Contents

Index to Financial Statements

As of January 1, 2016, we adopted ASU 2015-03 Simplifying the Presentation of Debt Issuance Costs and ASU 2015-15 Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements , which require debt issuance costs to be presented in the balance sheet as a direct deduction from the associated debt liability, except for debt issuance costs associated with line-of-credit arrangements. Adoption of these standards results in the reclassification of debt issuance costs from Other Assets and the presentation of our SBA Debentures, 2019 Notes, 2024 Notes, 2021 Asset-Backed Notes, and Convertible Senior Notes net of the associated debt issuance costs for each instrument in the liabilities section on the Consolidated Statement of Assets and Liabilities. There is no impact to the Consolidated Statement of Operations. In addition, there is no change to the presentation of the Wells Facility or Union Bank Facility as debt issuance costs are presented separately as an asset on the Consolidated Statement of Assets and Liabilities. Refer to Critical Accounting Policies .

Refer to Note 4 Borrowings included in the notes to our consolidated financial statements appearing elsewhere in this prospectus for a discussion of the contract terms, interest expense, and fees associated with each outstanding borrowing as of and for the three and six months ended June 30, 2016.

Commitments

In the normal course of business, we are party to financial instruments with off-balance sheet risk. These consist primarily of unfunded contractual commitments to extend credit, in the form of loans, to our portfolio companies. Unfunded contractual commitments to provide funds to portfolio companies are not reflected on our balance sheet. Our unfunded contractual commitments may be significant from time to time. A portion of these unfunded contractual commitments are dependent upon the portfolio company reaching certain milestones before the debt commitment becomes available. Furthermore, our credit agreements contain customary lending provisions which allow us relief from funding obligations for previously made commitments in instances where the underlying company experiences materially adverse events that affect the financial condition or business outlook for the company. These commitments will be subject to the same underwriting and ongoing portfolio maintenance as are the on-balance sheet financial instruments that we hold. Since these commitments may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. As such, our disclosure of unfunded contractual commits includes only those which are available at the request of the portfolio company and unencumbered by milestones.

At June 30, 2016, we had approximately $71.2 million of unfunded commitments, including undrawn revolving facilities, which were available at the request of the portfolio company and unencumbered by milestones. We intend to use cash flow from normal and early principal repayments, and proceeds from borrowings and notes to fund these commitments.

We also had approximately $115.0 million of non-binding term sheets outstanding to three new and existing companies, which generally convert to contractual commitments within approximately 90 days of signing. Non-binding outstanding term sheets are subject to completion of our due diligence and final investment committee approval process, as well as the negotiation of definitive documentation with the prospective portfolio companies. Not all non-binding term sheets are expected to close and do not necessarily represent future cash requirements.

The fair value of our unfunded commitments are considered to be immaterial as the yield determined at the time of underwriting is expected to be materially consistent with the yield upon funding, given that interest rates are generally pegged to a market indices and given the existence of milestones, conditions and/or obligations imbedded in the borrowing agreements.

Table of Contents

Index to Financial Statements

As of June 30, 2016, our unfunded contractual commitments available at the request of the portfolio company, including undrawn revolving facilities, and unencumbered by milestones are as follows:

(in thousands) Portfolio Company	Unfunded Commitments[1]
Paratek Pharmaceuticals, Inc.	$ 20,000
NewVoiceMedia Limited	15,000
Aquantia Corp.	11,500
Bellicum Pharmaceuticals, Inc.	5,000
Genocea Biosciences, Inc.	5,000
Druva, Inc.	5,000
Flowonix Medical	5,000
Quanterix Corporation	3,000
Achronix Semiconductor Corporation	1,657
Total	$ 71,157

(1) Amount represents unfunded commitments, including undrawn revolving facilities, which are available at the request of the portfolio company. Amount excludes unfunded commitments which are unavailable due to the borrower having not met certain milestones.

Contractual Obligations

The following table shows our contractual obligations as of June 30, 2016:

	Payments due by period (in thousands)				
Contractual Obligations [1][2]	**Total**	**Less than 1 year**	**1 - 3 years**	**3 - 5 years**	**After 5 years**
Borrowings[3][4]	$ 674,809	$	$ 212,189	$ 107,425	$ 355,195
Operating Lease Obligations[5]	4,071	1,628	2,266	177	
Total	$ 678,880	$ 1,628	$ 214,455	$ 107,602	$ 355,195

(1) Excludes commitments to extend credit to our portfolio companies.
(2) We also have a warrant participation agreement with Citigroup. See Note 4 to our consolidated financial statements.
(3) Includes $190.2 million in principal outstanding under the SBA debentures, $110.4 million of the 2019 Notes, $244.9 million of the 2024 Notes, and $129.3 million of the 2021 Asset-Backed Notes as of June 30, 2016.
(4) Amounts represent future principal repayments and not the carrying value of each liability. See Note 4 to our consolidated financial statements.
(5) Long-term facility leases.

Certain premises are leased under agreements which expire at various dates through March 2020. Total rent expense amounted to approximately $436,000 and $872,000 during the three and six months ended June 30, 2016, respectively. Total rent expense amounted to approximately $409,000 and $818,000 during the same periods ended June 30, 2015.

Indemnification Agreements

We have entered into indemnification agreements with our directors. The indemnification agreements are intended to provide our directors the maximum indemnification permitted under Maryland law and the 1940 Act. Each indemnification agreement provides that we shall indemnify the director who is a party to the agreement, or an Indemnitee, including the advancement of legal expenses, if, by reason of his or her corporate status, the Indemnitee is, or is threatened to be, made a party to or a witness in any threatened, pending, or completed proceeding, to the maximum extent permitted by Maryland law and the 1940 Act.

We and our executives and directors are covered by Directors and Officers Insurance, with the directors and officers being indemnified by us to the maximum extent permitted by Maryland law subject to the restrictions in the 1940 Act.

Table of Contents

Index to Financial Statements

Borrowings

Long-Term SBA Debentures

On September 27, 2006, HT II received a license to operate as a SBIC under the SBIC program and is able to borrow funds from the SBA against eligible investments and additional contributions to regulatory capital. Under the Small Business Investment Company Act and current SBA policy applicable to SBICs, a SBIC can have outstanding at any time SBA guaranteed debentures up to twice the amount of its regulatory capital. With the Company s net investment of $44.0 million in HT II as of June 30, 2016, HT II has the capacity to issue a total of $41.2 million of SBA guaranteed debentures, subject to SBA approval, of which $41.2 million was outstanding as of June 30, 2016. As of June 30, 2016, HT II has paid the SBA commitment fees and facility fees of approximately $1.5 million and $3.6 million, respectively. As of June 30, 2016 the Company held investments in HT II in 35 companies with a fair value of approximately $85.7 million, accounting for approximately 6.6% of the Company s total portfolio at June 30, 2016. HT II held approximately $112.9 million in assets and accounted for approximately 6.6% of the Company s total assets prior to consolidation at June 30, 2016.

On May 26, 2010, HT III received a license to operate as a SBIC under the SBIC program and is able to borrow funds from the SBA against eligible investments and additional contributions to regulatory capital. With the Company s net investment of $74.5 million in HT III as of June 30, 2016, HT III has the capacity to issue a total of $149.0 million of SBA guaranteed debentures, of which $149.0 million was outstanding as of June 30, 2016. As of June 30, 2016, HT III has paid the SBA commitment fees and facility fees of approximately $1.5 million and $3.6 million, respectively. As of June 30, 2016, the Company held investments in HT III in 51 companies with a fair value of approximately $257.3 million, accounting for approximately 19.7% of the Company s total portfolio at June 30, 2016. HT III held approximately $286.3 million in assets and accounted for approximately 16.7% of the Company s total assets prior to consolidation at June 30, 2016.

SBICs are designed to stimulate the flow of private equity capital to eligible small businesses. Under present SBA regulations, eligible small businesses include businesses that have a tangible net worth not exceeding $19.5 million and have average annual fully taxed net income not exceeding $6.5 million for the two most recent fiscal years. In addition, SBICs must devote 25.0% of its investment activity to smaller enterprises as defined by the SBA. A smaller enterprise is one that has a tangible net worth not exceeding $6.0 million and has average annual fully taxed net income not exceeding $2.0 million for the two most recent fiscal years. SBA regulations also provide alternative size standard criteria to determine eligibility, which depend on the industry in which the business is engaged and are based on such factors as the number of employees and gross sales. According to SBA regulations, SBICs may make long-term loans to small businesses, invest in the equity securities of such businesses and provide them with consulting and advisory services. Through the Company s wholly owned subsidiaries HT II and HT III, the Company plans to provide long-term loans to qualifying small businesses, and in connection therewith, make equity investments.

HT II and HT III are periodically examined and audited by the SBA s staff to determine their compliance with SBA regulations. If HT II or HT III fails to comply with applicable SBA regulations, the SBA could, depending on the severity of the violation, limit or prohibit HT II s or HT III s use of debentures, declare outstanding debentures immediately due and payable, and/or limit HT II or HT III from making new investments. In addition, HT II or HT III may also be limited in their ability to make distributions to the Company if they do not have sufficient capital in accordance with SBA regulations. Such actions by the SBA would, in turn, negatively affect the Company because HT II and HT III are the Company s wholly owned subsidiaries. HT II and HT III were in compliance with the terms of the SBIC s leverage as of June 30, 2016 as a result of having sufficient capital as defined under the SBA regulations.

The rates of borrowings under various draws from the SBA beginning in March 2009 are set semiannually in March and September and range from 2.25% to 4.62% excluding annual fees. Interest payments on SBA debentures are payable semiannually. There are no principal payments required on these issues prior to maturity and no prepayment penalties. Debentures under the SBA generally mature ten years after being borrowed. Based

Table of Contents

Index to Financial Statements

on the initial draw down date of March 2009, the initial maturity of SBA debentures will occur in March 2019. In addition, the SBA charges a fee that is set annually, depending on the Federal fiscal year the leverage commitment was delegated by the SBA, regardless of the date that the leverage was drawn by the SBIC. The annual fees related to HT II debentures that pooled on September 22, 2010 were 0.406% and 0.285%, depending upon the year in which the underlying commitment was closed. The annual fees on other debentures have been set at 0.906%. The annual fees related to HT III debentures that pooled on March 27, 2013 were 0.804%. The annual fees on other debentures have been set at 0.515%. The rates of borrowings on the Company s SBA debentures range from 3.05% to 5.53% when including these annual fees.

The average amount of debentures outstanding for the three months ended June 30, 2016 for HT II was approximately $41.2 million with an average interest rate of approximately 4.52%. The average amount of debentures outstanding for the three months ended June 30, 2016 for HT III was approximately $149.0 million with an average interest rate of approximately 3.43%. The average amount of debentures outstanding for the six months ended June 30, 2016 for HT II was approximately $41.2 million with an average interest rate of approximately 4.52%. The average amount of debentures outstanding for the six months ended June 30, 2016 for HT III was approximately $149.0 million with an average interest rate of approximately 3.43%.

For the three and six months ended June 30, 2016 and 2015, the components of interest expense and related fees and cash paid for interest expense for the SBA debentures are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	**2016**	**2015**	**2016**	**2015**
Interest expense	$ 1,737	$ 1,737	$ 3,475	$ 3,456
Amortization of debt issuance cost (loan fees)	168	166	336	331
Total interest expense and fees	$ 1,905	$ 1,903	$ 3,811	$ 3,787
Cash paid for interest expense and fees	$	$	$ 3,461	$ 3,442

As of June 30, 2016, the maximum statutory limit on the dollar amount of combined outstanding SBA guaranteed debentures is $350.0 million, subject to periodic adjustments by the SBA. In aggregate, at June 30, 2016, with the Company s net investment of $118.5 million, HT II and HT III have the capacity to issue a total of $190.2 million of SBA-guaranteed debentures, subject to SBA approval. At June 30, 2016, the Company has issued $190.2 million in SBA-guaranteed debentures in the Company s SBIC subsidiaries.

The Company reported the following SBA debentures outstanding principal balances as of June 30, 2016 and December 31, 2015:

(in thousands)

Issuance/Pooling Date	**Maturity Date**	**Interest Rate[(1)]**	**June 30, 2016**	**December 31, 2015**
SBA Debentures:				
March 25, 2009	March 1, 2019	5.53%	$ 18,400	$ 18,400
September 23, 2009	September 1, 2019	4.64%	3,400	3,400
September 22, 2010	September 1, 2020	3.62%	6,500	6,500
September 22, 2010	September 1, 2020	3.50%	22,900	22,900
March 29, 2011	March 1, 2021	4.37%	28,750	28,750
September 21, 2011	September 1, 2021	3.16%	25,000	25,000
March 21, 2012	March 1, 2022	3.28%	25,000	25,000
March 21, 2012	March 1, 2022	3.05%	11,250	11,250
September 19, 2012	September 1, 2022	3.05%	24,250	24,250
March 27, 2013	March 1, 2023	3.16%	24,750	24,750
Total SBA Debentures			$ 190,200	$ 190,200

(1) Interest rate includes annual charge

Table of Contents

Index to Financial Statements

2019 Notes

On March 6, 2012, the Company and U.S. Bank National Association (the 2019 Trustee) entered into an indenture (the Base Indenture). On April 17, 2012, the Company and the 2019 Trustee entered into the First Supplemental Indenture to the Base Indenture (the First Supplemental Indenture), dated April 17, 2012, relating to the Company s issuance, offer and sale of $43.0 million aggregate principal amount of 7.00% notes due 2019 (the April 2019 Notes).

In July 2012, the Company reopened the Company s April 2019 Notes and issued an additional $41.5 million in aggregate principal amount of April 2019 Notes, which included the exercise of an over-allotment option, bringing the total amount of the April 2019 Notes issued to approximately $84.5 million in aggregate principal amount.

On September 24, 2012, the Company and the 2019 Trustee, entered into the Second Supplemental Indenture to the Base Indenture (the Second Supplemental Indenture), dated as of September 24, 2012, relating to the Company s issuance, offer and sale of $75.0 million aggregate principal amount of 7.00% notes due 2019 (the September 2019 Notes).

In October 2012, the underwriters exercised their over-allotment option for an additional $10.9 million of the September 2019 Notes, bringing the total amount of the September 2019 Notes issued to approximately $85.9 million in aggregate principal outstanding.

In April 2015, the Company redeemed $20.0 million of the $84.5 million issued and outstanding aggregate principal amount of April 2019 Notes, as previously approved by the Board of Directors. In December 2015 the Company redeemed $40.0 million of the $85.9 million issued and outstanding aggregate principal amount of September 2019 Notes, as previously approved by the Board of Directors.

As of June 30, 2016 and December 31, 2015, the 2019 Notes payable outstanding principal balance consists of:

(in thousands)	June 30, 2016	December 31, 2015
April 2019 Notes	$ 64,490	$ 64,490
September 2019 Notes	45,874	45,874
Total 2019 Notes Principal Outstanding	$ 110,364	$ 110,364

April 2019 Notes

The April 2019 Notes will mature on April 30, 2019 and may be redeemed in whole or in part at the Company s option at any time or from time to time on or after April 30, 2015, upon not less than 30 days nor more than 60 days written notice by mail prior to the date fixed for redemption thereof, at a redemption price of 100% of the outstanding principal amount thereof plus accrued and unpaid interest payments otherwise payable for the then-current quarterly interest period accrued to but not including the date fixed for redemption. The April 2019 Notes bear interest at a rate of 7.00% per year payable quarterly on January 30, April 30, July 30 and October 30 of each year, commencing on July 30, 2012, and trade on the NYSE under the trading symbol HTGZ.

The April 2019 Notes are the Company s direct unsecured obligations and rank: (i) *pari passu* with the Company s other outstanding and future senior unsecured indebtedness; (ii) senior to any of the Company s future indebtedness that expressly provides it is subordinated to the April 2019 Notes; (iii) effectively subordinated to all the Company s existing and future secured indebtedness (including indebtedness that is initially unsecured to which the Company subsequently grant security), to the extent of the value of the assets securing such indebtedness; (iv) structurally subordinated to all existing and future indebtedness and other obligations of any of the Company s subsidiaries.

Table of Contents

Index to Financial Statements

The Base Indenture, as supplemented by the First Supplemental Indenture, contains certain covenants including covenants requiring the Company s compliance with (regardless of whether it is subject to) the asset coverage requirements set forth in Section 18(a)(1)(A) of the 1940 Act as modified by Section 61(a)(1) of the 1940 Act to comply with the restrictions on dividends, distributions and purchase of capital stock set forth in Section 18(a)(1)(B) of the 1940 Act as modified by Section 61(a)(1) of the 1940 Act and to provide financial information to the holders of the April 2019 Notes and the 2019 Trustee if the Company should no longer be subject to the reporting requirements under the Exchange Act. These covenants are subject to important limitations and exceptions that are described in the Base Indenture, as supplemented by the First Supplemental Indenture. The Base Indenture provides for customary events of default and further provides that the 2019 Trustee or the holders of 25% in aggregate principal amount of the outstanding April 2019 Notes in a series may declare such April 2019 Notes immediately due and payable upon the occurrence of any event of default after expiration of any applicable grace period.

September 2019 Notes

The September 2019 Notes will mature on September 30, 2019 and may be redeemed in whole or in part at the Company s option at any time or from time to time on or after September 30, 2015, upon not less than 30 days nor more than 60 days written notice by mail prior to the date fixed for redemption thereof, at a redemption price of 100% of the outstanding principal amount thereof plus accrued and unpaid interest payments otherwise payable for the then-current quarterly interest period accrued to but not including the date fixed for redemption. The September 2019 Notes bear interest at a rate of 7.00% per year payable quarterly on March 30, June 30, September 30 and December 30 of each year, commencing on December 30, 2012, and trade on the NYSE under the trading symbol HTGY.

The September 2019 Notes are the Company s direct unsecured obligations and rank: (i) *pari passu* with the Company s other outstanding and future senior unsecured indebtedness; (ii) senior to any of the Company s future indebtedness that expressly provides it is subordinated to the September 2019 Notes; (iii) effectively subordinated to all the Company s existing and future secured indebtedness (including indebtedness that is initially unsecured to which the Company subsequently grants security), to the extent of the value of the assets securing such indebtedness; (iv) structurally subordinated to all existing and future indebtedness and other obligations of any of the Company s subsidiaries.

The Base Indenture, as supplemented by the Second Supplemental Indenture, contains certain covenants including covenants requiring the Company to comply with (regardless of whether it is subject to) the asset coverage requirements set forth in Section 18 (a)(1)(A) of the 1940 Act as modified by Section 61(a)(1) of the 1940 Act to comply with the restrictions on dividends, distributions and purchase of capital stock set forth in Section 18(a)(1)(B) of the 1940 Act as modified by Section 61(a)(1) of the 1940 Act and to provide financial information to the holders of the September 2019 Notes and the 2019 Trustee if the Company should no longer be subject to the reporting requirements under the Exchange Act. These covenants are subject to important limitations and exceptions that are described in the Base Indenture, as supplemented by the Second Supplemental Indenture. The Base Indenture provides for customary events of default and further provides that the 2019 Trustee or the holders of 25% in aggregate principal amount of the outstanding September 2019 Notes in a series may declare such September 2019 Notes immediately due and payable upon the occurrence of any event of default after expiration of any applicable grace period.

Table of Contents

Index to Financial Statements

For the three and six months ended June 30, 2016 and 2015, the components of interest expense and related fees and cash paid for interest expense for the April 2019 Notes and September 2019 Notes are as follows:

(in thousands)	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Interest expense	$ 1,931	$ 2,748	$ 3,863	$ 5,729
Amortization of debt issuance cost (loan fees)	160	711	320	952
Total interest expense and fees	$ 2,091	$ 3,459	$ 4,183	$ 6,681
Cash paid for interest expense and fees	$ 1,931	$ 2,981	$ 3,863	$ 5,963

As of June 30, 2016, the Company was in compliance with the terms of the Base Indenture, and respective supplemental indentures thereto, governing the April 2019 Notes and September 2019 Notes.

2024 Notes

On July 14, 2014, the Company and U.S. Bank, N.A. (the 2024 Trustee), entered into the Third Supplemental Indenture (the Third Supplemental Indenture) to the Base Indenture between the Company and the 2024 Trustee, dated July 14, 2014, relating to the Company s issuance, offer and sale of $100.0 million aggregate principal amount of the 2024 Notes. On August 6, 2014, the underwriters issued notification to exercise their over-allotment option for an additional $3.0 million in aggregate principal amount of the 2024 Notes.

On May 2, 2016, the Company closed an underwritten public offering of an additional $72.9 million in aggregate principal amount of the 2024 Notes. The $72.9 million in aggregate principal amount includes $65.4 million from the initial offering on April 21, 2016 and $7.5 million as a result of underwriters exercising a portion of their option to purchase up to an additional $9.8 million in aggregate principal to cover overallotments on April 29, 2016.

On June 27, 2016, the Company closed an underwritten public offering of an additional $60.0 million in aggregate principal amount of the 2024 Notes. On June 30, 2016, the underwriters exercised their option to purchase up to an additional $9.0 million in aggregate principal to cover overallotments, resulting in total aggregate principal of $69.0 million from the offering.

All issuances of 2024 Notes rank equally in right of payment and form a single series of notes.

The 2024 Notes will mature on July 30, 2024 and may be redeemed in whole or in part at the Company s option at any time or from time to time on or after July 30, 2017, upon not less than 30 days nor more than 60 days written notice by mail prior to the date fixed for redemption thereof, at a redemption price of 100% of the outstanding principal amount thereof plus accrued and unpaid interest payments otherwise payable for the then-current quarterly interest period accrued to but not including the date fixed for redemption. The 2024 Notes bear interest at a rate of 6.25% per year payable quarterly on January 30, April 30, July 30 and October 30 of each year, commencing on July 30, 2014, and trade on the NYSE under the trading symbol HTGX.

The 2024 Notes are the Company s direct unsecured obligations and rank: (i) *pari passu* with the Company s other outstanding and future senior unsecured indebtedness; (ii) senior to any of the Company s future indebtedness that expressly provides it is subordinated to the 2024 Notes; (iii) effectively subordinated to all the Company s existing and future secured indebtedness (including indebtedness that is initially unsecured to which the Company subsequently grants security), to the extent of the value of the assets securing such indebtedness; (iv) structurally subordinated to all existing and future indebtedness and other obligations of any of the Company s subsidiaries.

Table of Contents

Index to Financial Statements

The Base Indenture, as supplemented by the Third Supplemental Indenture, contains certain covenants including covenants requiring the Company to comply with (regardless of whether it is subject to) the asset coverage requirements set forth in Section 18(a)(1)(A) of the 1940 Act as modified by Section 61(a)(1) of the 1940 Act and to comply with the restrictions on dividends, distributions and purchase of capital stock set forth in Section 18(a)(1)(B) of the 1940 Act as modified by Section 61(a)(1) of the 1940 Act. These covenants are subject to important limitations and exceptions that are described in the Base Indenture, as supplemented by the Third Supplemental Indenture. The Base Indenture, as supplemented by the Third Supplemental Indenture, also contains certain reporting requirements, including a requirement that the Company provide financial information to the holders of the 2024 Notes and the 2024 Trustee if the Company should no longer be subject to the reporting requirements under the Exchange Act. The Base Indenture provides for customary events of default and further provides that the 2024 Trustee or the holders of 25% in aggregate principal amount of the outstanding 2024 Notes in a series may declare such 2024 Notes immediately due and payable upon the occurrence of any event of default after expiration of any applicable grace period. As of June 30, 2016, the Company was in compliance with the terms of the Base Indenture as supplemented by the Third Supplemental Indenture.

At June 30, 2016 and December 31, 2015, the 2024 Notes had an outstanding principal balance of $244.9 million and $103.0 million, respectively.

For the three and six months ended June 30, 2016 and 2015, the components of interest expense and related fees and cash paid for interest expense for the 2024 Notes are as follows:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
(in thousands)	**2016**	**2015**	**2016**	**2015**
Interest expense	$ 2,375	$ 1,609	$ 3,984	$ 3,219
Amortization of debt issuance cost (loan fees)	135	83	218	166
Total interest expense and fees	$ 2,510	$ 1,692	$ 4,202	$ 3,385
Cash paid for interest expense and fees	$ 1,609	$ 1,609	$ 3,219	$ 3,219

2021 Asset-Backed Notes

On November 13, 2014, the Company completed a $237.4 million term debt securitization in connection with which an affiliate of the Company made an offer of $129.3 million in aggregate principal amount of fixed rate asset-backed notes (the 2021 Asset-Backed Notes), which were rated A(sf) by Kroll Bond Rating Agency, Inc. (KBRA). The 2021 Asset-Backed Notes were sold by Hercules Capital Funding Trust 2014-1 pursuant to a note purchase agreement, dated as of November 13, 2014, by and among the Company, the 2014 Trust Depositor, the 2014 Securitization Issuer, and Guggenheim Securities, LLC, as initial purchaser, and are backed by a pool of senior loans made to certain of the Company s portfolio companies and secured by certain assets of those portfolio companies and are to be serviced by the Company. The securitization has an 18-month reinvestment period during which time principal collections may be reinvested into additional eligible loans. Interest on the 2021 Asset-Backed Notes will be paid, to the extent of funds available, at a fixed rate of 3.524% per annum. The 2021 Asset-Backed Notes have a stated maturity of April 16, 2021.

As part of this transaction, the Company entered into a sale and contribution agreement with the 2014 Trust Depositor under which the Company has agreed to sell or have contributed to the 2014 Trust Depositor the 2014 Loans. The Company has made customary representations, warranties and covenants in the sale and contribution agreement with respect to the 2014 Loans as of the date of their transfer to the 2014 Trust Depositor.

In connection with the issuance and sale of the 2021 Asset-Backed Notes, the Company has made customary representations, warranties and covenants in the note purchase agreement. The 2021 Asset-Backed Notes are secured obligations of the 2014 Securitization Issuer and are non-recourse to the Company. The 2014 Securitization Issuer also entered into an indenture governing the 2021 Asset-Backed Notes, which includes

Table of Contents

Index to Financial Statements

customary representations, warranties and covenants. The 2021 Asset-Backed Notes were sold without being registered under the Securities Act (A) in the United States to qualified institutional buyers as defined in Rule 144A under the Securities Act and to institutional accredited investors (as defined in Rules 501(a)(1), (2), (3) or (7) under the Securities Act) who in each case, are qualified purchasers as defined in Sec. 2 (a)(51)(A) of the 1940 Act and pursuant to an exemption under the Securities Act and (B) to non-U.S. purchasers acquiring interest in the 2021 Asset-Backed Notes outside the United States in accordance with Regulation S under the Securities Act. The 2014 Securitization Issuer is not registered under the 1940 Act in reliance on an exemption provided by Section 3(c)(7) thereof and Rule 3a-7 thereunder. In addition, the 2014 Trust Depositor entered into an amended and restated trust agreement in respect of the 2014 Securitization Issuer, which includes customary representation, warranties and covenants.

The 2014 Loans are serviced by the Company pursuant to a sale and servicing agreement, which contains customary representations, warranties and covenants. The Company performs certain servicing and administrative functions with respect to the 2014 Loans. The Company is entitled to receive a monthly fee from the 2014 Securitization Issuer for servicing the 2014 Loans. This servicing fee is equal to the product of one-twelfth (or in the case of the first payment date, a fraction equal to the number of days from and including October 5, 2014 through and including December 5, 2014 over 360) of 2.00% and the aggregate outstanding principal balance of the 2014 Loans plus collections on deposit in the 2014 Securitization Issuer s collections account, as of the first day of the related collection period (the period from the 5th day of the immediately preceding calendar month through the 4th day of the calendar month in which a payment date occurs, and for the first payment date, the period from and including October 5, 2014, to the close of business on December 5, 2014). The Company also serves as administrator to the 2014 Securitization Issuer under an administration agreement, which includes customary representations, warranties and covenants.

At both June 30, 2016 and December 31, 2015, the 2021 Asset-Backed Notes had an outstanding principal balance of $129.3 million.

For the three and six months ended June 30, 2016 and 2015, the components of interest expense and related fees and cash paid for interest expense for the 2021 Asset-Backed Notes are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	**2016**	**2015**	**2016**	**2015**
Interest expense	$ 1,139	$ 1,139	$ 2,278	$ 2,278
Amortization of debt issuance cost (loan fees)	234	224	466	446
Total interest expense and fees	$ 1,373	$ 1,363	$ 2,744	$ 2,724
Cash paid for interest expense and fees	$ 1,139	$ 1,139	$ 2,278	$ 2,278

Under the terms of the 2021 Asset-Backed Notes, the Company is required to maintain a reserve cash balance, funded through interest and principal collections from the underlying securitized debt portfolio, which may be used to pay monthly interest and principal payments on the 2021 Asset-Backed Notes. The Company has segregated these funds and classified them as restricted cash. There was approximately $3.6 million and $9.2 million of restricted cash as of June 30, 2016 and December 31, 2015, respectively, funded through interest collections.

Convertible Senior Notes

In April 2011, the Company issued $75.0 million in aggregate principal amount of the Convertible Senior Notes. The Convertible Senior Notes were fully settled on or before their contractual maturity date of April 15, 2016.

Prior to the close of business on October 14, 2015, holders were able to convert their Convertible Senior Notes only under certain circumstances set forth in the indenture governing the Convertible Senior Notes. On or

93

Table of Contents

Index to Financial Statements

after October 15, 2015 until the close of business on the scheduled trading day immediately preceding the maturity date, holders were able to convert their Convertible Senior Notes at any time. Throughout the life of the Convertible Senior Notes, holders of approximately $74.8 million of the Convertible Senior Notes exercised their conversion rights. These Convertible Senior Notes were settled with a combination of cash equal to the outstanding principal amount of the Convertible Senior Notes and approximately 1.6 million shares of the Company s common stock, or $24.3 million.

The Company recorded a loss on extinguishment of debt for the proportionate amount of unamortized debt issuance costs and original issue discount. The loss was partially offset by a gain in the amount of the difference between the outstanding principal balance of the Convertible Senior Notes and the fair value of the debt instrument. The net loss on extinguishment of debt the Company recorded for the year ended December 31, 2015 was $1,000. The Company did not record a loss on extinguishment of debt in the three and six months ended June 30, 2016. The loss on extinguishment of debt was classified as a component of net investment income in the Company s Consolidated Statement of Operations.

The Convertible Senior Notes were accounted for in accordance with ASC Subtopic 470-20 (Debt Instruments with Conversion and Other Options). In accounting for the Convertible Senior Notes, the Company estimated at the time of issuance that the values of the debt and the embedded conversion feature of the Convertible Senior Notes were approximately 92.8% and 7.2%, respectively. The original issue discount of 7.2% attributable to the conversion feature of the Convertible Senior Notes was recorded in capital in excess of par value in the Consolidated Statement of Assets and Liabilities. As a result, the Company recorded interest expense comprised of both stated interest expense as well as accretion of the original issue discount resulting in an estimated effective interest rate of approximately 8.1%.

As December 31, 2015, the components of the carrying value of the Convertible Senior Notes were as follows:

(in thousands)	**December 31, 2015**
Principal amount of debt	$ 17,604
Unamortized debt issuance cost	(44)
Original issue discount, net of accretion	(82)
Carrying value of Convertible Senior Notes	$ 17,478

For the three and six months ended June 30, 2016 and 2015, the components of interest expense, fees and cash paid for interest expense for the Convertible Senior Notes were as follows:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
(in thousands)	**2016**	**2015**	**2016**	**2015**
Interest expense	$ 88	$ 264	$ 352	$ 479
Accretion of original issue discount	21	62	82	123
Amortization of debt issuance cost (loan fees)	11	33	43	66
Total interest expense and fees	$ 120	$ 359	$ 477	$ 668
Cash paid for interest expense and fees	$ 440	$ 529	$ 440	$ 529

The estimated effective interest rate of the debt component of the Convertible Senior Notes, equal to the stated interest of 6.0% plus the accretion of the original issue discount, was approximately 8.1% for the three and six months ended June 30, 2016 and 2015.

Table of Contents

Index to Financial Statements

Wells Facility

On June 29, 2015, the Company, through a special purpose wholly owned subsidiary, Hercules Funding II LLC (Hercules Funding II), entered into the Wells Facility with Wells Fargo Capital Finance, LLC, as a lender and as the arranger and the administrative agent, and the lenders party thereto from time to time.

The Wells Facility matures on August 2, 2019, unless terminated sooner in accordance with its terms.

Under the Wells Facility, Wells Fargo Capital Finance, LLC made commitments of $75.0 million, Alostar Bank of Commerce made commitments of $20.0 million, and Everbank Commercial Finance Inc. made commitments of $25.0 million. The Wells Facility contains an accordion feature, in which the Company can increase the credit line up to an aggregate of $300.0 million, funded by additional lenders and with the agreement of Wells Fargo and subject to other customary conditions. The Company expects to continue discussions with various other potential lenders to join the facility; however, there can be no assurances that additional lenders will join the Wells Facility. Borrowings under the Wells Facility generally bear interest at a rate per annum equal to LIBOR plus 3.25%, and the Wells Facility has an advance rate of 50% against eligible debt investments. The Wells Facility is secured by all of the assets of Hercules Funding II. The Wells Facility requires payment of a non-use fee on a scale of 0.0% to 0.50% depending on the average monthly outstanding balance under the facility relative to the maximum amount of commitments at such time. For the three and six months ended June 30, 2016, this non-use fee was approximately $115,000 and $181,000, respectively. For the three and six months ended June 30, 2015, this non-use fee was approximately $94,000 and $188,000, respectively.

The Wells Facility also includes various financial and other covenants applicable to the Company and the Company s subsidiaries, in addition to those applicable to Hercules Funding II, including covenants relating to certain changes of control of the Company and Hercules Funding II. Among other things, these covenants also require the Company to maintain certain financial ratios, including a maximum debt to worth ratio, minimum interest coverage ratio, minimum portfolio funding liquidity, and a minimum tangible net worth in an amount, when added to outstanding subordinated indebtedness, that is in excess of $500.0 million plus 90% of the cumulative amount of equity raised after June 30, 2014. As of June 30, 2016, the minimum tangible net worth covenant increased to $612.4 million as a result of the March 2015 follow-on public offering of 7.6 million shares of common stock for total gross proceeds of approximately $100.4 million and the 2.1 million shares of common stock issued under the ATM equity distribution agreement with JMP for gross proceeds of $24.5 million during the six months ended June 30, 2016. The Wells Facility provides for customary events of default, including, without limitation, with respect to payment defaults, breach of representations and covenants, certain key person provisions, cross acceleration provisions to certain other debt, lien and judgment limitations, and bankruptcy.

On June 20, 2011 the Company paid $1.1 million in structuring fees in connection with the original Wells Facility. In connection with an amendment to the original Wells Facility in August 2014, the Company paid an additional $750,000 in structuring fees and in connection with the amendment in December 2015, the Company paid an additional $188,000 in structuring fees. These fees are being amortized through the end of the term of the Wells Facility.

The Company had aggregate draws of $146.0 million on the available facility during the six months ended June 30, 2016 offset by repayments of $196.0 million. At December 31, 2015 there was $50.0 million, respectively, of borrowings outstanding on this facility. There were no borrowings outstanding on the facility as of June 30, 2016.

Table of Contents

Index to Financial Statements

For the three and six months ended June 30, 2016 and 2015, the components of interest expense and related fees and cash paid for interest expense for the Wells Facility are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	**2016**	**2015**	**2016**	**2015**
Interest expense	$ 226	$	$ 500	$
Amortization of debt issuance cost (loan fees)	122	86	227	172
Total interest expense and fees	$ 348	$ 86	$ 727	$ 172
Cash paid for interest expense and fees	$ 333	$	$ 577	$

Union Bank Facility

On May 5, 2016, the Company, through a special purpose wholly owned subsidiary, Hercules Funding III, as borrower, entered into the Union Bank Facility with MUFG Union Bank, as the arranger and administrative agent, and the lenders party to the Union Bank Facility from time to time. The Union Bank Facility replaced the Prior Union Bank Facility. Any references to amounts related to the Union Bank Facility prior to May 5, 2016 were incurred and relate to the Prior Union Bank Facility.

Under the Union Bank Facility, MUFG Union Bank made commitments of $75.0 million. The Union Bank Facility contains an accordion feature, in which the Company can increase the credit line up to an aggregate of $200.0 million, funded by additional lenders and with the agreement of MUFG Union Bank and subject to other customary conditions. There can be no assurances that additional lenders will join the Union Bank Facility to increase available borrowings. Borrowings under the Union Bank Facility generally bear interest at either (i) if such borrowing is a base rate loan, a base rate per annum equal to the federal funds rate plus 1.00%, LIBOR plus 1.00% or MUFG Union Bank s prime rate, in each case, plus a margin of 1.25% or (ii) if such borrowing is a LIBOR loan, a rate per annum equal to LIBOR plus 3.25%, and the Union Bank Facility generally has an advance rate of 50% against eligible debt investments. The Union Bank Facility is secured by all of the assets of HT III.

The Union Bank Facility requires payment of a non-use fee during the revolving credit availability period on a scale of 0.25% to 0.50% depending on the average monthly outstanding balance under the facility relative to the maximum amount of commitments at such time. The Company paid a one-time $562,500 structuring fee in connection with the Union Bank Facility. Although the Company did not incur any non-use fees under the Union Bank Facility prior to May 5, 2016, for the three and six months ended June 30, 2016, the company incurred non-use fees under the existing and previous Union Bank Facility of approximately $87,000 and $182,000, respectively. For the three and six months ended June 30, 2015, the non-use fee was approximately $95,000 and $189,000, respectively.

The Union Bank Facility also includes various financial and other covenants applicable to the Company and the Company s subsidiaries, in addition to those applicable to HT III, including covenants relating to certain changes of control of the Company and HT III. Among other things, these covenants also require the Company to maintain certain financial ratios, including a maximum debt to worth ratio, minimum interest coverage ratio, minimum portfolio funding liquidity, and a minimum tangible net worth in an amount that is in excess of $500.0 million plus 90% of the cumulative amount of equity raised after June 30, 2014. As of June 30, 2016, the minimum tangible net worth covenant increased to $661.4 million as a result of the March 2015 follow-on public offering of 7.6 million shares of common stock for total net proceeds of approximately $100.1 million and the 2.1 million shares of common stock issued under the ATM equity distribution agreement with JMP for net proceeds of $23.7 million during the six months ended June 30, 2016. The Union Bank Facility provides for customary events of default, including with respect to payment defaults, breach of representations and covenants, servicer defaults, certain key person provisions, cross default provisions to certain other debt, lien and judgment limitations, and bankruptcy.

Table of Contents

Index to Financial Statements

The Union Bank Facility matures on May 5, 2020, unless sooner terminated in accordance with its terms.

In connection with the Union Bank Facility, the Company and HT III also entered into the Sale and Servicing Agreement, dated as of May 5, 2016 (the Sale Agreement), by and among HT III, as borrower, the Company, as originator and servicer, and MUFG Union Bank, as agent. Under the Sale Agreement, the Company agrees to (i) sell or transfer certain loans to HT III under the Union Bank Facility and (ii) act as servicer for the loans sold or transferred.

The Company had aggregate draws of $25.0 million on the available facility during the six months ended June 30, 2016 offset by repayments of $25.0 million. At June 30, 2016 there were no borrowings outstanding on the Union Bank Facility.

For the three and six months ended June 30, 2016 and 2015, the components of interest expense and related fees and cash paid for interest expense for the previous and current Union Bank Facility are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2016	2015	2016	2015
Interest expense	$ 55	$	$ 55	$
Amortization of debt issuance cost (loan fees)	95	15	133	30
Total interest expense and fees	$ 150	$ 15	$ 188	$ 30
Cash paid for interest expense and fees	$ 333	$	$ 577	$

Citibank Credit Facility

The Company, through Hercules Funding Trust I, an affiliated statutory trust, entered into Citibank Credit Facility with Citigroup, which expired under normal terms. During the first quarter of 2009, the Company paid off all principal and interest owed under the Citibank Credit Facility. Citigroup has an equity participation right through a warrant participation agreement on the pool of debt investments and warrants collateralized under the Citibank Credit Facility. Pursuant to the warrant participation agreement, the Company granted to Citigroup a 10% participation in all warrants held as collateral. However, no additional warrants were included in collateral subsequent to the facility amendment on May 2, 2007. As a result, Citigroup is entitled to 10% of the realized gains on the warrants until the realized gains paid to Citigroup pursuant to the agreement equal to the Maximum Participation Limit. The obligations under the warrant participation agreement continue even after the Citibank Credit Facility is terminated until the Maximum Participation Limit has been reached.

During the six months ended June 30, 2016, the Company reduced its realized gain by approximately $146,000 for Citigroup s participation from the acquisition proceeds received on equity exercised from warrants that were included in the collateral pool. The Company recorded a decrease in participation liability and an increase in unrealized appreciation by a net amount of approximately $32,000 primarily due to depreciation of fair value on the pool of warrants collateralized under the warrant participation and the acquisition proceeds received on the Company s Ping Identity Corporation equity investment. The remaining value of Citigroup s participation right on unrealized gains in the related equity investments is approximately $79,000 as of June 30, 2016 and is included in accrued liabilities. There can be no assurances that the unrealized appreciation of the warrants will not be higher or lower in future periods due to fluctuations in the value of the warrants, thereby increasing or reducing the effect on the cost of borrowing. Since inception of the agreement, the Company has paid Citigroup approximately $2.4 million under the warrant participation agreement thereby reducing realized gains by this amount. The Company will continue to pay Citigroup under the warrant participation agreement until the Maximum Participation Limit is reached or the warrants expire. Warrants subject to the Citigroup participation agreement are set to expire between August 2016 and January 2017.

Table of Contents

Index to Financial Statements

Dividend Distributions

The following table summarizes our dividends declared and paid, to be paid or reinvested on all shares, including restricted stock, to date:

Date Declared	Record Date	Payment Date	Amount Per Share
October 27, 2005	November 1, 2005	November 17, 2005	$ 0.03
December 9, 2005	January 6, 2006	January 27, 2006	0.30
April 3, 2006	April 10, 2006	May 5, 2006	0.30
July 19, 2006	July 31, 2006	August 28, 2006	0.30
October 16, 2006	November 6, 2006	December 1, 2006	0.30
February 7, 2007	February 19, 2007	March 19, 2007	0.30
May 3, 2007	May 16, 2007	June 18, 2007	0.30
August 2, 2007	August 16, 2007	September 17, 2007	0.30
November 1, 2007	November 16, 2007	December 17, 2007	0.30
February 7, 2008	February 15, 2008	March 17, 2008	0.30
May 8, 2008	May 16, 2008	June 16, 2008	0.34
August 7, 2008	August 15, 2008	September 19, 2008	0.34
November 6, 2008	November 14, 2008	December 15, 2008	0.34
February 12, 2009	February 23, 2009	March 30, 2009	0.32*
May 7, 2009	May 15, 2009	June 15, 2009	0.30
August 6, 2009	August 14, 2009	September 14, 2009	0.30
October 15, 2009	October 20, 2009	November 23, 2009	0.30
December 16, 2009	December 24, 2009	December 30, 2009	0.04
February 11, 2010	February 19, 2010	March 19, 2010	0.20
May 3, 2010	May 12, 2010	June 18, 2010	0.20
August 2, 2010	August 12, 2010	September 17,2010	0.20
November 4, 2010	November 10, 2010	December 17, 2010	0.20
March 1, 2011	March 10, 2011	March 24, 2011	0.22
May 5, 2011	May 11, 2011	June 23, 2011	0.22
August 4, 2011	August 15, 2011	September 15, 2011	0.22
November 3, 2011	November 14, 2011	November 29, 2011	0.22
February 27, 2012	March 12, 2012	March 15, 2012	0.23
April 30, 2012	May 18, 2012	May 25, 2012	0.24
July 30, 2012	August 17, 2012	August 24, 2012	0.24
October 26, 2012	November 14, 2012	November 21, 2012	0.24
February 26, 2013	March 11, 2013	March 19, 2013	0.25
April 29, 2013	May 14, 2013	May 21, 2013	0.27
July 29, 2013	August 13, 2013	August 20, 2013	0.28
November 4, 2013	November 18, 2013	November 25, 2013	0.31
February 24, 2014	March 10, 2014	March 17, 2014	0.31
April 28, 2014	May 12, 2014	May 19, 2014	0.31
July 28, 2014	August 18, 2014	August 25, 2014	0.31
October 29, 2014	November 17, 2014	November 24, 2014	0.31
February 24, 2015	March 12, 2015	March 19, 2015	0.31
May 4, 2015	May 18, 2015	May 25, 2015	0.31
July 29, 2015	August 17, 2015	August 24, 2015	0.31
October 28, 2015	November 16, 2015	November 23, 2015	0.31
February 17, 2016	March 7, 2016	March 14, 2016	0.31
April 27, 2016	May 16, 2016	May 23, 2016	0.31
July 27, 2016	August 15, 2016	August 22, 2016	0.31
			$ 12.16

* Dividend paid in cash and stock.

On July 27, 2016 the Board of Directors declared a cash dividend distribution of $0.31 per share to be paid on August 22, 2016 to stockholders of record as of August 15, 2016. This distribution represents our forty-fourth consecutive dividend declaration since our initial public offering, bringing the total cumulative dividend declared to date $12.16 per share.

Our Board of Directors maintains a variable dividend distribution policy with the objective of distributing four quarterly distributions in an amount that approximates 90 100% of our taxable quarterly income or potential annual income for a particular taxable year. In addition, at the end of our taxable year, our Board of Directors may choose to pay an additional special dividend distribution, or fifth dividend, so that we may distribute approximately all of our annual taxable income in the taxable year in which it was earned, or may elect to maintain the option to spill over our excess taxable income into the following taxable year as part of any future dividend distribution payments.

Distributions in excess of our current and accumulated earnings and profits would generally be treated first as a return of capital to the extent of the stockholder s tax basis in our shares, and any remaining distributions would be treated as a capital gain. The determination of the tax attributes of our distributions is made annually as of the end of our taxable year based upon our taxable income for the full taxable year and distributions paid for the full taxable year. As a result, a determination made on a quarterly basis may not be representative of the actual tax attributes of the Company s distributions for a full taxable year. Of the dividend distribution declared during the year ended December 31, 2015, 100% were distributions derived from our current and accumulated earnings and profits.

During the three months ended June 30, 2016, we declared a distribution of $0.31 per share. If we had determined the tax attributes of our distributions year-to-date as of June 30, 2016, 100% would be from our current and accumulated earnings and profits. However, there can be no certainty to stockholders that this determination is representative of what the tax attributes of our 2016 distributions to stockholders will actually be.

Shortly after the close of each calendar year information identifying the source of the distribution (i.e., paid from ordinary income, paid from net capital gains on the sale of securities, and/or a return of paid-in-capital surplus which is a nontaxable distribution, if any) will be provided to our stockholders subject to information reporting. To the extent our taxable earnings fall below the total amount of our distributions for any taxable year, a portion of those distributions may be deemed a tax return of capital to our stockholders.

We expect to qualify to be taxed as a RIC under Subchapter M of the Code. In order to be subject to tax as a RIC, we are required to satisfy certain gross income and asset composition tests, as well as distribute dividends to our stockholders each taxable year of an amount at least equal to 90% of the sum of our investment company taxable income, determined without regard to any deduction for dividends paid, and our net tax-exempt income, if any. Upon being eligible to be subject to tax as a RIC, we would be entitled to deduct dividend distributions we pay to our stockholders in determining the overall components of our taxable income. Components of our taxable income include our taxable interest, dividend and fee income, reduced by certain deductions, as well as taxable net realized securities gains. Taxable income generally differs from net income for financial reporting purposes due to temporary and permanent differences in the recognition of income and expenses and generally excludes net unrealized appreciation or depreciation as such gains or losses are not included in taxable income until they are realized. In connection with maintaining our ability to be subject to tax as a RIC, among other things, we have made and intend to continue to make the requisite distributions to our stockholders each taxable year, which generally should relieve us from corporate-level U.S. federal income taxes.

As a RIC, we will be subject to a 4% nondeductible U.S. federal excise tax on certain undistributed income and gains unless we distribute dividends in respect of each calendar year in a timely manner to our stockholders of an amount generally at least equal to the sum of (1) 98% of our ordinary income for each calendar year, (2) 98.2% of our capital gain net income for the 1-year period ending October 31 in that calendar year and (3) any income realized, but not distributed, in the preceding year. We will not be subject to excise taxes on amounts on which we are required to pay corporate income tax (such as retained net capital gains).

Depending on the level of taxable income earned in a taxable year, we may choose to carry over taxable income in excess of current taxable year dividend distributions from such taxable income into the next taxable year and pay a 4% excise tax on such taxable income, as required. The maximum amount of excess taxable income that may be carried over for distribution as dividend distributions in the next taxable year under the Code is the total amount of dividend distributions paid in the following taxable year, subject to certain declaration and payment guidelines. To the extent we choose to carry over taxable income into the next taxable year, dividends declared and paid by us in a taxable year may differ from our taxable income for that taxable year as such dividend distributions may include the distribution of current taxable year taxable income, the distribution of prior taxable year taxable income carried over into and distributed in the current taxable year, or returns of capital.

We can offer no assurance that we will achieve results that will permit the payment of any cash distributions and, if we issue senior securities, we will be prohibited from making distributions if doing so causes us to fail to maintain the asset coverage ratios stipulated by the 1940 Act or if distributions are limited by the terms of any of our borrowings. Our ability to make distributions will be limited by the asset coverage requirements under the 1940 Act.

We intend to distribute approximately $8.2 million of spillover earnings from ordinary income from the year ended December 31, 2015 to our stockholders in 2016.

We maintain an opt-out dividend reinvestment plan for our common stockholders. As a result, if we declare a dividend distribution, cash dividends will be automatically reinvested in additional shares of our common stock unless the stockholder specifically opts out of the dividend reinvestment plan and chooses to receive cash dividend distributions.

Critical Accounting Policies

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and revenues and expenses during the period reported. On an ongoing basis, our management evaluates its estimates and assumptions, which are based on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ from those estimates. Changes in our estimates and assumptions could materially impact our results of operations and financial condition.

Reclassification

Certain balances from prior years have been reclassified in order to conform to the current year presentation.

Change in Accounting Principle

As of January 1, 2016, we adopted ASU 2015-03 Simplifying the Presentation of Debt Issuance Costs and ASU 2015-15 Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements, which collectively require debt issuance costs to be presented on the balance sheet as a direct deduction from the associated debt liability, except for debt issuance costs associated with line-of-credit agreements. Adoption of these standards results in the reclassification of debt issuance costs from Other Assets and the presentation of our SBA Debentures, 2019 Notes, 2024 Notes, 2021 Asset-Backed Notes, and Convertible Senior Notes net of the associated debt issuance costs for each instrument in the liabilities section on the Consolidated Statement of Assets and Liabilities. In addition, the comparative Consolidated Statement of Assets and Liabilities as of December 31, 2015 has been adjusted to apply the change in accounting principle retrospectively. Specifically, the presentation of our Other Assets, SBA Debentures, 2019 Notes, 2024 Notes, 2021 Asset-Backed Notes, and Convertible Senior Notes line items were adjusted by the amount of unamortized debt issuance costs for each instrument. There is no impact to the Consolidated Statement of Operations. In addition, there is no change to the presentation of the Wells Facility or Union Bank Facility as debt issuance costs are presented separately as an asset on the Consolidated Statement of Assets and Liabilities. Refer to Outstanding Borrowings for the amount of unamortized debt issuance costs for each instrument.

Valuation of Investments

The most significant estimate inherent in the preparation of our consolidated financial statements is the valuation of investments and the related amounts of unrealized appreciation and depreciation of investments recorded.

At June 30, 2016, approximately 93.4% of our total assets represented investments in portfolio companies whose fair value is determined in good faith by the Board of Directors. Value, as defined in Section 2(a)(41) of the 1940 Act, is (i) the market price for those securities for which a market quotation is readily available and (ii) for all other securities and assets, fair value is as determined in good faith by the Board of Directors. Our investments are carried at fair value in accordance with the 1940 Act and ASC Topic 946 and measured in accordance with ASC Topic 820. Our debt securities are primarily invested in venture capital-backed companies in technology-related industries including technology, drug discovery and development, biotechnology, life sciences, healthcare and sustainable and renewable technology at all stages of development. Given the nature of lending to these types of businesses, substantially all of our investments in these portfolio companies are considered Level 3 assets under ASC Topic 820 because there is no known or accessible market or market indexes for these investment securities to be traded or exchanged. As such, we value substantially all of our investments at fair value as determined in good faith pursuant to a consistent valuation policy by our Board of Directors in accordance with the provisions of ASC Topic 820 and the 1940 Act. Due to the inherent uncertainty in determining the fair value of investments that do not have a readily available market value, the fair value of our investments determined in good faith by our Board of Directors may differ significantly from the value that would have been used had a readily available market existed for such investments, and the differences could be material.

See Determination of Net Asset Value for a discussion of our investment valuation process.

Table of Contents

Index to Financial Statements

Investments measured at fair value on a recurring basis are categorized in the tables below based upon the lowest level of significant input to the valuations as of June 30, 2016 and as of December 31, 2015. We transfer investments in and out of Level 1, 2 and 3 securities as of the beginning balance sheet date, based on changes in the use of observable and unobservable inputs utilized to perform the valuation for the period. During the six months ended June 30, 2016, there were no transfers between Levels 1 or 2.

(in thousands) Description	Balance June 30, 2016	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Senior Secured Debt	$ 1,211,782	$	$ 5,650	$ 1,206,132
Preferred Stock	39,610			39,610
Common Stock	26,295	20,622		5,673
Warrants	25,091		4,384	20,707
Escrow Receivable	4,650			4,650
Total	$ 1,307,428	$ 20,622	$ 10,034	$ 1,276,772

(in thousands) Description	Balance December 31, 2015	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Senior Secured Debt	$ 1,110,209	$	$ 7,813	$ 1,102,396
Preferred Stock	35,245			35,245
Common Stock	32,197	30,670		1,527
Warrants	22,987		4,422	18,565
Escrow Receivable	2,967			2,967
Total	$ 1,203,605	$ 30,670	$ 12,235	$ 1,160,700

Table of Contents

Index to Financial Statements

The table below presents a reconciliation for all financial assets and liabilities measured at fair value on a recurring basis, excluding accrued interest components, using significant unobservable inputs (Level 3) for the six months ended June 30, 2016 and the year ended December 31, 2015.

(in thousands)	Balance January 1, 2016	Net Realized Gains (Losses)[1]	Net Change in Unrealized Appreciation (Depreciation)[2]	Purchases[5]	Sales	Repayments[6]	Gross Transfers into Level 3[3]	Gross Transfers out of Level 3[3]	Balance June 30, 2016
Senior Debt	$ 1,102,396	$ (6,451)	$ (2,017)	$ 337,015	$	$ (220,250)	$	$ (4,561)	$ 1,206,132
Preferred Stock	35,245	666	(1,619)	6,820	(1,367)		626	(761)	39,610
Common Stock	1,527		(615)				4,761		5,673
Warrants	18,565	(848)	100	2,942				(52)	20,707
Escrow Receivable	2,967			1,727	(44)				