

Hercules Capital, Inc.  
Form POS 8C  
August 18, 2016  
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As filed with the Securities and Exchange Commission on August 18, 2016

Securities Act File No. 333-203511

**U.S. SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM N-2**

**REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933**

(Check appropriate box or boxes)

**Pre-Effective Amendment No.**

**Post-Effective Amendment No. 8**

**Hercules Capital, Inc.**

(formerly known as Hercules Technology Growth Capital, Inc.)

(Exact name of Registrant as specified in charter)

**400 Hamilton Avenue, Suite 310**

**Palo Alto, CA 94301**

(Address of Principal Executive Offices)

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**Registrant's Telephone Number, including Area Code: (650) 289-3060**

**Manuel A. Henriquez**

**Chief Executive Officer**

**Hercules Capital, Inc.**

**400 Hamilton Avenue, Suite 310**

**Palo Alto, CA 94301**

(Name and address of agent for service)

***COPIES TO:***

**William Bielefeld**

**Ian Hartman**

**Jay Alicandri**

**Dechert LLP**

**1095 Avenue of the Americas**

**New York, NY 10036**

**APPROXIMATE DATE OF PROPOSED PUBLIC OFFERING:**

As soon as practicable after the effective date of this Registration Statement.

If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a dividend reinvestment plan, check the following box.

It is proposed that this filing will become effective (check appropriate box):  when declared effective pursuant to section 8(c).

**CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933**

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Title of Securities Being Registered	Amount Being Registered	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee(1)
Common Stock, \$0.001 par value per share(2)			
Preferred Stock, \$0.001 par value per share(2)			
Warrants(2)			
Subscription Rights(3)			
Debt Securities(4)			
<b>TOTAL(5)</b>		\$500,000,000	\$58,100(6)

- (1) Estimated pursuant to Rule 457(o) solely for the purposes of determining the registration fee. The proposed maximum offering price per security will be determined, from time to time, by the Registrant in connection with the sale by the Registrant of the securities registered under this registration statement.
- (2) Subject to Note 5 below, there is being registered hereunder an indeterminate number of shares of common stock, preferred stock, or warrants as may be sold, from time to time. Warrants represent rights to purchase common stock, preferred stock or debt securities.
- (3) Subject to Note 5 below, there is being registered hereunder an indeterminate number of subscription rights as may be sold, from time to time, representing rights to purchase common stock.
- (4) Subject to Note 5 below, there is being registered hereunder an indeterminate principal amount of debt securities as may be sold, from time to time. If any debt securities are issued at an original issue discount, then the offering price shall be in such greater principal amount as shall result in an aggregate price to investors not to exceed \$500,000,000.
- (5) In no event will the aggregate offering price of all securities issued from time to time pursuant to this registration statement exceed \$500,000,000.
- (6) Previously paid.

**THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933, AS AMENDED, OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.**

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**The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.**

PRELIMINARY PROSPECTUS (Subject to Completion)

August 18, 2016

**\$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.

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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](http://www.htgc.com). The SEC also maintains a website at [www.sec.gov](http://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 \_\_\_\_\_, 2016

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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.

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**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.

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**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.

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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.

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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.

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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

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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.

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**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](http://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](http://www.sec.gov), that contains reports, proxy and information statements, and other information regarding issuers, including us, who file documents electronically with the SEC.

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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.

<b>Stockholder Transaction Expenses (as a percentage of the public offering price):</b>	
Sales load (as a percentage of offering price) <sup>(1)</sup>	%
Offering expenses	%(2)
Dividend reinvestment plan fees	%(3)
<b>Total stockholder transaction expenses (as a percentage of the public offering price)</b>	<b>%(4)</b>
<b>Annual Expenses (as a percentage of net assets attributable to common stock):<sup>(5)</sup></b>	
Operating expenses	6.15%(6)(7)
Interest and fees paid in connection with borrowed funds	4.67%(8)
<b>Total annual expenses</b>	<b>10.82%(9)</b>

- (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.

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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.

	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
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.

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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			For the Year Ended December 31,			
	Ended June 30 (unaudited)		2015	2014	2013	2012	2011
	2016	2015	2015	2014	2013	2012	2011
<b>Investment income:</b>							
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
<b>Total investment income</b>	<b>82,477</b>	<b>70,620</b>	<b>157,132</b>	<b>143,665</b>	<b>139,713</b>	<b>97,520</b>	<b>79,855</b>
<b>Operating expenses:</b>							
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
<b>Total operating expenses</b>	<b>39,026</b>	<b>40,845</b>	<b>83,630</b>	<b>70,334</b>	<b>66,648</b>	<b>49,413</b>	<b>40,267</b>
Loss on debt extinguishment (Long-term Liabilities - Convertible Senior Notes)		(1)	(1)	(1,581)			
<b>Net investment income</b>	<b>43,451</b>	<b>29,774</b>	<b>73,501</b>	<b>71,750</b>	<b>73,065</b>	<b>48,107</b>	<b>39,588</b>
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
<b>Total net realized and unrealized gain (loss)</b>	<b>(19,681)</b>	<b>(5,104)</b>	<b>(30,585)</b>	<b>(562)</b>	<b>26,381</b>	<b>(1,348)</b>	<b>7,348</b>
<b>Net increase in net assets resulting from operations</b>	<b>\$ 23,770</b>	<b>\$ 24,670</b>	<b>\$ 42,916</b>	<b>\$ 71,188</b>	<b>\$ 99,446</b>	<b>\$ 46,759</b>	<b>\$ 46,936</b>
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

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(in thousands, except per share amounts)	For the Six Months Ended June 30 (unaudited)			For the Year Ended December 31,			
	2016	2015	2015	2014	2013	2012	2011
<b>Balance sheet data:</b>							
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
<b>Other Data:</b>							
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 <sup>(2)</sup>	71,157	159,128	75,402	147,689	69,091	19,265	76,128
Net asset value per share <sup>(1)</sup>	\$ 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

(in thousands, except per share data)	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

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**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,

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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

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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).

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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 <sup>(1)</sup>	(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.

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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.

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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

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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.

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*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

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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.

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*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.



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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.

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*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

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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

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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.

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***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

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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.

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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.

## Edgar Filing: Hercules Capital, Inc. - Form POS 8C

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

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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

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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

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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	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

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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.

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***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

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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.

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***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

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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 interest 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

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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

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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 interest 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

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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

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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

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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.

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***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

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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.

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*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

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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

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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.

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***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.

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***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;

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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.

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*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.

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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.

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*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.



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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.

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**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;

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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**.

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**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 <sup>(1)</sup>	Price Range		Premium/ Discount of High Sales Price to NAV	Premium/ Discount of Low Sales Price to NAV	Cash Dividend Distribution per Share
		High	Low			
<b>2014</b>						
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
<b>2015</b>						
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
<b>2016</b>						
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.

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

<b>Date Declared</b>	<b>Record Date</b>	<b>Payment Date</b>	<b>Amount Per Share</b>
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.

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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.

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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

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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 <sup>(1)</sup>	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.

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**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

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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

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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
<b>Debt Commitments <sup>(1)</sup></b>		
New portfolio company	\$ 360.0	\$ 544.0
Existing portfolio company	57.8	181.7
<b>Total</b>	<b>\$ 417.8</b>	<b>\$ 725.7</b>
<b>Funded and Restructured Debt Investments <sup>(3)</sup></b>		
New portfolio company	\$ 267.5	\$ 352.5
Existing portfolio company	56.2	341.6
<b>Total</b>	<b>\$ 323.7</b>	<b>\$ 694.1</b>
<b>Funded Equity Investments</b>		
New portfolio company	\$ 5.4	\$ 1.0
Existing portfolio company	1.6	17.6
<b>Total</b>	<b>\$ 7.0</b>	<b>\$ 18.6</b>
<b>Unfunded Contractual Commitments <sup>(2)</sup></b>		
<b>Total</b>	<b>\$ 71.2</b>	<b>\$ 75.4</b>
<b>Non-Binding Term Sheets</b>		
New portfolio company	\$ 105.0	\$ 81.0
Existing portfolio company	10.0	5.0
<b>Total</b>	<b>\$ 115.0</b>	<b>\$ 86.0</b>

(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.

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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
<b>Beginning portfolio</b>	\$ 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)
<b>Ending portfolio</b>	<b>\$ 1,302.8</b>	<b>\$ 1,200.6</b>

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

(in thousands)	June 30, 2016		December 31, 2015	
	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%
<b>Total</b>	<b>\$ 1,302,778</b>	<b>100.0%</b>	<b>\$ 1,200,638</b>	<b>100.0%</b>

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

(in thousands)	June 30, 2016		December 31, 2015	
	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%
<b>Total</b>	<b>\$ 1,302,778</b>	<b>100.0%</b>	<b>\$ 1,200,638</b>	<b>100.0%</b>

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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.

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**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

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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:

(in thousands)	June 30, 2016		December 31, 2015	
	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%
<b>Total</b>	<b>\$ 1,302,778</b>	<b>100.0%</b>	<b>\$ 1,200,638</b>	<b>100.0%</b>



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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, 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

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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)

Portfolio Company	Type	For the Three Months Ended June 30, 2016					For the Six Months Ended June 30, 2016				
		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)	
<b>Control Investments</b>											
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)	\$	\$	
<b>Affiliate Investments</b>											
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)

Portfolio Company	Type	For the Three Months Ended June 30, 2015					For the Six Months Ended June 30, 2015				
		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.

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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.

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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		
	Number of Companies	Debt Investments at Fair Value	Percentage of Total Portfolio	Number of Companies	Debt Investments at Fair Value	Percentage of Total Portfolio
Investment Grading						
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



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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 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.

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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
<b>Beginning PIK loan balance</b>	\$ 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)
<b>Ending PIK loan balance</b>	<b>\$ 5,843</b>	<b>\$ 5,895</b>

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

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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:

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Realized gains	\$ 1,423	\$ 495	\$ 4,212	\$ 4,824
Realized losses	(1,398)	(1,749)	(8,655)	(2,766)
<b>Net realized gains</b>	<b>\$ 25</b>	<b>\$ (1,254)</b>	<b>\$ (4,443)</b>	<b>\$ 2,058</b>

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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 Cempira, 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,		Six Months Ended June 30,	
	2016	2015	2016	2015
<b>Gross unrealized appreciation on portfolio investments</b>	\$ 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)
<b>Net unrealized appreciation (depreciation) on portfolio investments</b>	<b>\$ (13,904)</b>	<b>\$ (12,775)</b>	<b>\$ (15,238)</b>	<b>\$ (7,162)</b>

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

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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.

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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:

(in millions)	Three Months Ended June 30, 2016			
	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)
<b>Total Fair Value Market/Yield Adjustments</b>	<b>0.3</b>	<b>(6.3)</b>		<b>(6.0)</b>
<b>Total Unrealized Appreciation/(Depreciation)</b>	<b>\$ (8.0)</b>	<b>\$ (6.3)</b>	<b>\$ 0.7</b>	<b>\$ (13.6)</b>

(in millions)	Three Months Ended June 30, 2015			
	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)
<b>Total Fair Value Market/Yield Adjustments</b>	<b>1.5</b>	<b>(5.7)</b>	<b>(2.3)</b>	<b>(6.5)</b>
<b>Total Unrealized Appreciation/(Depreciation)</b>	<b>\$ (6.0)</b>	<b>\$ (5.7)</b>	<b>\$ (1.2)</b>	<b>\$ (12.9)</b>

\* 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.

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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 Cembra, 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:

(in millions)	Six Months Ended June 30, 2016			
	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)
<b>Total Unrealized Appreciation/(Depreciation)</b>	<b>\$ (2.0)</b>	<b>\$ (12.5)</b>	<b>\$ (0.4)</b>	<b>\$ (14.9)</b>

(in millions)	Six Months Ended June 30, 2015			
	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
<b>Total Unrealized Appreciation/(Depreciation)</b>	<b>\$ (4.9)</b>	<b>\$ (4.7)</b>	<b>\$ 1.9</b>	<b>\$ (7.7)</b>

\*

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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 ).

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***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.

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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
<b>Beginning PIK loan balance</b>	\$ 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)	
<b>Ending PIK loan balance</b>	\$ 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

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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.

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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)
<b>Net realized gains</b>	<b>\$ 5,147</b>	<b>\$ 20,112</b>

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
<b>Net unrealized appreciation (depreciation) on portfolio investments</b>	<b>\$ (35,732)</b>	<b>\$ (20,674)</b>

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.,



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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.

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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.

(in millions)	Year Ended December 31, 2015			
	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)
<b>Total Fair Value Market/Yield Adjustments</b>	<b>(5.4)</b>	<b>(11.1)</b>	<b>(7.2)</b>	<b>(23.7)</b>
<b>Total Unrealized Appreciation/(Depreciation)</b>	<b>\$ (14.0)</b>	<b>\$ (19.1)</b>	<b>\$ (4.0)</b>	<b>\$ (37.1)</b>

(in millions)	Year Ended December 31, 2014			
	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
<b>Total Fair Value Market/Yield Adjustments</b>	<b>4.9</b>	<b>23.1</b>	<b>(2.8)</b>	<b>25.2</b>
<b>Total Unrealized Appreciation/(Depreciation)</b>	<b>\$ (14.2)</b>	<b>\$ 11.4</b>	<b>\$ (15.8)</b>	<b>\$ (18.6)</b>

\* 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.

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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.

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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

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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 overallocments 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 overallocments, 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

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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.

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

(in thousands)	June 30, 2016			December 31, 2015		
	Total Available	Principal	Carrying Value <sup>(1)</sup>	Total Available	Principal	Carrying Value <sup>(1)</sup>
SBA Debentures <sup>(2)</sup>	\$ 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 <sup>(3)</sup>				17,604	17,604	17,478
Wells Facility <sup>(4)</sup>	120,000			75,000	50,000	50,000
Union Bank Facility <sup>(4)</sup>	75,000			75,000		
<b>Total</b>	<b>\$ 869,809</b>	<b>\$ 674,809</b>	<b>\$ 660,695</b>	<b>\$ 700,468</b>	<b>\$ 600,468</b>	<b>\$ 589,609</b>

- (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 <sup>(1)</sup>	723	669
Union Bank Facility <sup>(1)</sup>	984	229
<b>Total</b>	<b>\$ 15,821</b>	<b>\$ 11,675</b>

- (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.

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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 commitments 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.

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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)	Unfunded Commitments <sup>(1)</sup>
<b>Portfolio Company</b>	
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
<b>Total</b>	<b>\$ 71,157</b>

(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:

Contractual Obligations <sup>(1)(2)</sup>	Total	Payments due by period (in thousands)			After 5 years
		Less than 1 year	1 - 3 years	3 - 5 years	
Borrowings <sup>(3)(4)</sup>	\$ 674,809	\$ 1,628	\$ 212,189	\$ 107,425	\$ 355,195
Operating Lease Obligations <sup>(5)</sup>	4,071	1,628	2,266	177	
<b>Total</b>	<b>\$ 678,880</b>	<b>\$ 1,628</b>	<b>\$ 214,455</b>	<b>\$ 107,602</b>	<b>\$ 355,195</b>

(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

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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.

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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

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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:

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	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
<b>Total interest expense and fees</b>	<b>\$ 1,905</b>	<b>\$ 1,903</b>	<b>\$ 3,811</b>	<b>\$ 3,787</b>

Cash paid for interest expense and fees	\$	\$	\$ 3,461	\$ 3,442
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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 <sup>(1)</sup>	June 30, 2016	December 31, 2015	
<b>SBA Debentures:</b>					
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	
<b>Total SBA Debentures</b>			<b>\$ 190,200</b>	<b>\$ 190,200</b>	

(1) Interest rate includes annual charge

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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
<b>Total 2019 Notes Principal Outstanding</b>	<b>\$ 110,364</b>	<b>\$ 110,364</b>

*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.

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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.

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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,		Six Months Ended June 30,	
	2016	2015	2016	2015
Interest expense	\$ 1,931	\$ 2,748	\$ 3,863	\$ 5,729
Amortization of debt issuance cost (loan fees)	160	711	320	952
<b>Total interest expense and fees</b>	<b>\$ 2,091</b>	<b>\$ 3,459</b>	<b>\$ 4,183</b>	<b>\$ 6,681</b>

Cash paid for interest expense and fees	\$ 1,931	\$ 2,981	\$ 3,863	\$ 5,963
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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.

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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:

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	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
<b>Total interest expense and fees</b>	<b>\$ 2,510</b>	<b>\$ 1,692</b>	<b>\$ 4,202</b>	<b>\$ 3,385</b>
Cash paid for interest expense and fees <i>2021 Asset-Backed Notes</i>	\$ 1,609	\$ 1,609	\$ 3,219	\$ 3,219

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

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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:

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	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
<b>Total interest expense and fees</b>	<b>\$ 1,373</b>	<b>\$ 1,363</b>	<b>\$ 2,744</b>	<b>\$ 2,724</b>

Cash paid for interest expense and fees	\$ 1,139	\$ 1,139	\$ 2,278	\$ 2,278
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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

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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)
<b>Carrying value of Convertible Senior Notes</b>	<b>\$ 17,478</b>

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:

(in thousands)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	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
<b>Total interest expense and fees</b>	<b>\$ 120</b>	<b>\$ 359</b>	<b>\$ 477</b>	<b>\$ 668</b>
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.

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*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, Alostark 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.

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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:

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Interest expense	\$ 226	\$	\$ 500	\$
Amortization of debt issuance cost (loan fees)	122	86	227	172
<b>Total interest expense and fees</b>	<b>\$ 348</b>	<b>\$ 86</b>	<b>\$ 727</b>	<b>\$ 172</b>
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.

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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:

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Interest expense	\$ 55	\$	\$ 55	\$
Amortization of debt issuance cost (loan fees)	95	15	133	30
<b>Total interest expense and fees</b>	<b>\$ 150</b>	<b>\$ 15</b>	<b>\$ 188</b>	<b>\$ 30</b>
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.

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

<b>Date Declared</b>	<b>Record Date</b>	<b>Payment Date</b>	<b>Amount Per Share</b>
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.

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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).

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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,

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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.

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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)	Balance	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Description	June 30, 2016			
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
<b>Total</b>	<b>\$ 1,307,428</b>	<b>\$ 20,622</b>	<b>\$ 10,034</b>	<b>\$ 1,276,772</b>

(in thousands)	Balance	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Description	December 31, 2015			
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
<b>Total</b>	<b>\$ 1,203,605</b>	<b>\$ 30,670</b>	<b>\$ 12,235</b>	<b>\$ 1,160,700</b>

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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) <sup>(1)</sup>	Net Change in Unrealized Appreciation (Depreciation) <sup>(2)</sup>	Purchases <sup>(5)</sup>	Sales	Repayments <sup>(6)</sup>	Gross Transfers into Level 3 <sup>(3)</sup>	Gross Transfers out of Level 3 <sup>(3)</sup>	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)				4,650
<b>Total</b>	<b>\$ 1,160,700</b>	<b>\$ (6,633)</b>	<b>\$ (4,151)</b>	<b>\$ 348,504</b>	<b>\$ (1,411)</b>	<b>\$ (220,250)</b>	<b>\$ 5,387</b>	<b>\$ (5,374)</b>	<b>\$ 1,276,772</b>

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