

Hercules Capital, Inc.  
Form 497  
March 07, 2016  
**Table of Contents**

**Index to Financial Statements**

**Filed Pursuant to Rule 497  
Registration No. 333-203511**

**PROSPECTUS SUPPLEMENT**

(To prospectus dated November 3, 2015)

## **Up to 8,000,000 Shares Common Stock**

We have entered into an amended and restated equity distribution agreement, dated March 7, 2016, or the Equity Distribution Agreement, with JMP Securities LLC, or JMP Securities, relating to the shares of common stock offered by this prospectus supplement and the accompanying prospectus. Our common stock is listed on the New York Stock Exchange, or NYSE, under the trading symbol HTGC. The last sale price, as reported on NYSE on March 4, 2016, was \$11.22 per share. The net asset value per share of our common stock at December 31, 2015 (the last date prior to the date of this prospectus supplement on which we determined net asset value) was \$9.94.

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

The equity distribution agreement provides that we may offer and sell up to 8,000,000 shares of our common stock from time to time through JMP Securities, as our sales agent. Sales of our common stock, if any, under this prospectus supplement and the accompanying prospectus may be made in negotiated transactions or transactions that are deemed to be at the market, as defined in Rule 415 under the Securities Act of 1933, as amended, including sales made directly on the NYSE or similar securities exchange or sales made to or through a market maker other than on an exchange, at prices related to the prevailing market prices or at negotiated prices. As of the date of this prospectus supplement, we have sold 650,000 shares of our common stock under the equity distribution agreement for net proceeds of approximately \$9.5 million. As a result, 7,350,000 shares of our common stock remain available for sale pursuant to the equity distribution agreement.

JMP Securities will receive a commission from us to be negotiated from time to time, but in no event in excess of 2.0% of the gross sales price of any shares of our common stock sold through JMP Securities under the equity distribution agreement. JMP Securities is not required to sell any specific number or dollar amount of common stock, but will use its commercially reasonable efforts consistent with its sales and trading practices to sell the shares of our common stock offered by this prospectus supplement and the accompanying prospectus. See Plan of Distribution beginning on page S-26 of this prospectus supplement. The sales price per share of our common stock offered by this prospectus supplement and the accompanying prospectus, less JMP Securities' commission, will not be less than the net asset value per share of our common stock at the time of such sale.

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Please read this prospectus supplement, and the accompanying prospectus, before investing, and keep it for future reference. The prospectus supplement and the accompanying prospectus contain important information about us that a prospective investor should know before investing in our common stock. We file annual, quarterly and current reports, proxy statements and other information about us with the Securities and Exchange Commission, or the SEC. This information is available free of charge by contacting us at 400 Hamilton Avenue, Suite 310, Palo Alto, California 94301, or by telephone by calling collect at (650) 289-3060 or on our website at [www.htgc.com](http://www.htgc.com). The information on our website is not incorporated by reference into this prospectus or the accompanying prospectus. The SEC also maintains a website at [www.sec.gov](http://www.sec.gov) that contains such information.

**An investment in our common stock involves risks, including the risk of a total loss of investment. In addition, the companies in which we invest are subject to special risks. See the Supplementary Risk Factors section beginning on page S-14 of this prospectus supplement and the Risk Factors section beginning on page 11 of the accompanying prospectus to read about risks that you should consider before investing in our common stock, including the risk of leverage.**

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

## JMP Securities

The date of this prospectus supplement is March 7, 2016.

**Table of Contents**

**Index to Financial Statements**

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

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

**TABLE OF CONTENTS**

**Prospectus Supplement**

	<b>Page</b>
<u>FEES AND EXPENSES</u>	S-1
<u>FORWARD-LOOKING STATEMENTS; MARKET DATA</u>	S-3
<u>PROSPECTUS SUPPLEMENT SUMMARY</u>	S-5
<u>SELECTED CONSOLIDATED FINANCIAL DATA</u>	S-10
<u>THE OFFERING</u>	S-12
<u>SUPPLEMENTARY RISK FACTORS</u>	S-14
<u>USE OF PROCEEDS</u>	S-20
<u>PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS</u>	S-21
<u>CAPITALIZATION</u>	S-25
	<b>Page</b>
<u>PLAN OF DISTRIBUTION</u>	S-26
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION</u>	S-28
<u>SENIOR SECURITIES</u>	S-77
<u>SUPPLEMENT TO CERTAIN UNITED STATES INCOME TAX CONSIDERATIONS</u>	S-81
<u>LEGAL MATTERS</u>	S-82
<u>EXPERTS</u>	S-82
<u>AVAILABLE INFORMATION</u>	S-82
<u>INDEX TO FINANCIAL STATEMENTS</u>	S-83

**Prospectus**

<u>SUMMARY</u>	<b>Page</b> 1
----------------	------------------

## Edgar Filing: Hercules Capital, Inc. - Form 497

<u>FEES AND EXPENSES</u>	7
<u>SELECTED CONSOLIDATED FINANCIAL DATA</u>	9
<u>RISK FACTORS</u>	11
<u>FORWARD-LOOKING STATEMENTS</u>	51
<u>USE OF PROCEEDS</u>	53
<u>PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS</u>	54
<u>RATIO OF EARNINGS TO FIXED CHARGES</u>	58
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	59
<u>BUSINESS</u>	115
<u>PORTFOLIO COMPANIES</u>	128
<u>SENIOR SECURITIES</u>	153
<u>MANAGEMENT</u>	156
<u>CORPORATE GOVERNANCE</u>	163
<u>EXECUTIVE COMPENSATION</u>	172
<u>CONTROL PERSONS AND PRINCIPAL STOCKHOLDERS</u>	194
	<b>Page</b>
<u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</u>	196
<u>CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS</u>	197
<u>REGULATION</u>	206
<u>DETERMINATION OF NET ASSET VALUE</u>	212
<u>DIVIDEND REINVESTMENT PLAN</u>	221
<u>DESCRIPTION OF CAPITAL STOCK</u>	222
<u>DESCRIPTION OF OUR PREFERRED STOCK</u>	229
<u>DESCRIPTION OF OUR SUBSCRIPTION RIGHTS</u>	231
<u>DESCRIPTION OF WARRANTS</u>	233
<u>DESCRIPTION OF OUR DEBT SECURITIES</u>	235
<u>PLAN OF DISTRIBUTION</u>	248
<u>BROKERAGE ALLOCATION AND OTHER PRACTICES</u>	250
<u>CUSTODIAN, TRANSFER AND DIVIDEND PAYING AGENT AND REGISTRAR</u>	250
<u>LEGAL MATTERS</u>	250
<u>EXPERTS</u>	250
<u>AVAILABLE INFORMATION</u>	251
<u>INDEX TO FINANCIAL STATEMENTS</u>	F-1

**Table of Contents****Index to Financial Statements****FEES AND EXPENSES**

The following table is intended to assist you in understanding the various costs and expenses that an investor in our common stock will bear directly or indirectly. However, we caution you that some of the percentages indicated in the table below are estimates and may vary. 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>	2.00%
Offering expenses	0.41% <sup>(2)</sup>
Dividend reinvestment plan fees	<sup>(3)</sup>
<b>Total stockholder transaction expenses (as a percentage of the public offering price)</b>	<b>2.41%</b>
<b>Annual Expenses (as a percentage of net assets attributable to common stock):<sup>(4)</sup></b>	
Operating expenses	6.45% <sup>(5)(6)</sup>
Interest and fees paid in connection with borrowed funds	5.10% <sup>(7)</sup>
<b>Total annual expenses</b>	<b>11.55%<sup>(8)</sup></b>

- (1) Represents the estimated commission with respect to the shares of common stock being sold in this offering. JMP Securities will be entitled to compensation up to 2.00% of the gross proceeds of the sale of any shares of our common stock under the equity distribution agreement, with the exact amount of such compensation to be mutually agreed upon by the Company and JMP Securities from time to time. There is no guarantee that there will be any sales of our common stock pursuant to this prospectus supplement and the accompanying prospectus.
- (2) The percentage reflects estimated offering expenses of approximately \$400,000.
- (3) The expenses associated with the administration of our dividend reinvestment plan are included in Operating expenses. We pay all brokerage commissions incurred with respect to open market purchases, if any, made by the administrator under the plan. For more details about the plan, see Dividend Reinvestment Plan in the accompanying prospectus.
- (4) Net assets attributable to common stock equals the weighted average net assets for the year ended December 31, 2015, which is approximately \$717.1 million.
- (5) Operating expenses represent our actual operating expenses incurred for the year ended December 31, 2015, including all fees and expenses of our consolidated subsidiaries and excluding interest and fees on indebtedness. See Management's Discussion and Analysis and Results of Operations, Management, and Executive Compensation in this prospectus supplement.
- (6) We do not have an investment adviser and are internally managed by our executive officers under the supervision of our Board of Directors. As a result, we do not pay investment advisory fees, but instead we pay the operating costs associated with employing investment management professionals.
- (7) Interest and fees paid in connection with borrowed funds represents our interest, fees and credit facility expenses incurred for the year ended December 31, 2015, including our Wells Facility, Union Bank Facility, the Convertible Senior Notes, the 2019 Notes, the 2024 Notes, the Asset-Backed Notes and the SBA debentures, each of which is defined herein. These expenses do not include the loss on debt extinguishment (Long-term Liabilities Convertible Senior Notes) for the year ended December 31, 2015. If this item were included in the annualized expenses, the percentage would be 5.10%.
- (8) Total annual expenses is the sum of operating expenses and interest and fees paid in connection with borrowed funds. Total annual expenses is presented as a percentage of weighted average net assets attributable to common stockholders, because the holders of shares of our common stock (and not the holders of our debt securities or preferred stock, if any) bear all of our fees and expenses, including the fees and expenses of our wholly-owned consolidated subsidiaries, all of which are included in this fee table presentation.

**Table of Contents**

**Index to Financial Statements**

**Example**

The following example demonstrates the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a \$1,000 hypothetical investment in our common stock, assuming (1) a 2.00% sales load (underwriting discounts and commissions) and offering expenses totaling 2.41%, (2) total net annual expenses of 11.55% of net assets attributable to common shares as set forth in the table above and (3) a 5% annual return. These amounts are based upon our payment of annual operating expenses at the levels set forth in the table above and assume no additional leverage.

	<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 investment, assuming a 5% annual return	\$ 133	\$ 331	\$ 505	\$ 851

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

**Table of Contents**

**Index to Financial Statements**

**FORWARD-LOOKING STATEMENTS**

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

our future operating results;

our business prospects and the prospects of our prospective portfolio companies;

the impact of investments that we expect to make;

the impact of a protracted decline in the liquidity of credit markets on our business;

our informal relationships with third parties including in the venture capital industry;

the expected market for venture capital investments and our addressable market;

the dependence of our future success on the general economy and its impact on the industries in which we invest;

our ability to access debt markets and equity markets;

the ability of our portfolio companies to achieve their objectives;

our expected financings and investments;

our regulatory structure and tax status;

our ability to operate as a business development company, a small business investment company and a regulated investment company, or RIC;

the adequacy of our cash resources and working capital;

the timing of cash flows, if any, from the operations of our portfolio companies;

the timing, form and amount of any dividend distributions;

the impact of fluctuations in interest rates on our business;

the valuation of any investments in portfolio companies, particularly those having no liquid trading market;

our ability to recover unrealized losses; and

the risks, uncertainties and other factors we identify in [Risk Factors](#) and elsewhere in the accompanying prospectus and in our filings with the SEC.



**Table of Contents**

**Index to Financial Statements**

For a discussion of factors that could cause our actual results to differ from forward-looking statements contained in this prospectus supplement and the accompanying prospectus, please see the discussion under **Supplementary Risk Factors** contained in this prospectus supplement and **Risk Factors** in the accompanying prospectus. You should not place undue reliance on these forward-looking statements. The forward-looking statements made in this prospectus relate only to events as of the date on which the statements are made and are excluded from the safe harbor protection provided by Section 27A of the Securities Act of 1933, as amended (the **Securities Act** ).

**Industry and Market Data**

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

**Table of Contents**

**Index to Financial Statements**

**PROSPECTUS SUPPLEMENT SUMMARY**

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

**Our Company**

We are a specialty finance company focused on providing senior secured venture growth loans to high-growth, innovative venture capital-backed companies in a broadly diversified variety of technology, life sciences, healthcare, 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. We have qualified as and have 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 December 31, 2015, our total assets were approximately \$1.3 billion, of which our investments comprised \$1.2 billion at fair value and \$1.3 billion at cost. Since inception through December 31, 2015, we have made debt and equity commitments of over \$5.7 billion to our portfolio companies.

We also make investments in qualifying small businesses through two wholly-owned, small business investment company, or SBIC, subsidiaries, Hercules Technology II, L.P., or HT II, and Hercules Technology III, L.P., or HT III. At December 31, 2015, we have issued approximately \$190.2 million in SBA-guaranteed debentures in our SBIC subsidiaries. See Regulation Small Business Administration Regulations in the accompanying prospectus for additional information regarding our SBIC subsidiaries.

As of December 31, 2015, our investment professionals, including Manuel A. Henriquez, our co-founder, Chairman, President and Chief Executive Officer, are currently comprised of 35 professionals who have, on average 15 years of experience in venture capital, structured finance, commercial lending or acquisition finance with the types of technology-related companies that we are targeting. We believe that we can leverage the experience and relationships of our management team to successfully identify attractive investment opportunities, underwrite prospective portfolio companies and structure customized financing solutions.

**Table of Contents**

**Index to Financial Statements**

**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 as the number of lenders has declined due to the recent financial market turmoil; and

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

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

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

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

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

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

***Structured Debt with Warrants Products Complement Equity Financing From Venture Capital and Private Equity Funds.*** We believe that technology-related companies and their financial sponsors will continue to view structured debt securities as an attractive source of capital because it augments the capital provided by



**Table of Contents**

**Index to Financial Statements**

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 prior to liquidity events.

**Our Business Strategy**

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

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

***Mitigate Risk of Principal Loss and Build a Portfolio of Equity-Related Securities.*** We expect that our investments have the potential to produce attractive risk adjusted returns through current income, in the form of interest and fee income, as well as capital appreciation from warrant and equity-related securities. We believe 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 (generally 12-60 months), security interests in the assets of our portfolio companies, and on select investment covenants requiring prospective portfolio companies to have certain amounts of available cash at the time of our investment and the continued support from a venture capital or private equity firm at the time we make our investment.

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

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

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

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

**Table of Contents**

**Index to Financial Statements**

**Recent Developments**

*Dividend Declaration*

On February 17, 2016 the Board of Directors declared a cash dividend of \$0.31 per share to be paid on March 14, 2016 to shareholders of record as of March 7, 2016. This dividend would represent our forty-second consecutive dividend declaration since our initial public offering, bringing the total cumulative dividend declared to date to \$11.54 per share.

*Corporate Rebranding*

On February 25, 2016, we changed our name to Hercules Capital, Inc. , from Hercules Technology Growth Capital, Inc. We will continue to trade on the New York Stock Exchange under the HTGC ticker symbol.

*Share Repurchase Program*

On February 24, 2015, the Board of Directors approved a \$50.0 million open market share repurchase program and on February 17, 2016, the Board of Directors extended the program until August 23, 2016. The Company may repurchase shares of its common stock in the open market, including block purchases, at prices that may be above or below the net asset value as reported in our then most recently published financial statements. The Company expects 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. Subsequent to December 31, 2015 and as of March 4, 2016, the Company repurchased 449,588 shares of its common stock at an average price per share of \$10.64 per share and a total cost of approximately \$4.8 million. As of March 4, 2016, approximately \$40.6 million of common stock remains eligible for repurchase under the stock repurchase plan.

*Restricted Stock Award Grants*

In January 2016, the Company granted approximately 536,250 restricted stock awards pursuant to the Company s 2004 Equity Incentive Plan and 2006 Non-Employee Director Plan.

*Closed and Pending Commitments*

As of March 4, 2016, we have:

Closed debt and equity commitments of approximately \$126.4 million to new and existing portfolio companies and funded approximately \$98.4 million since the close of the fourth quarter.

Pending commitments (signed non-binding term sheets) of approximately \$153.5 million.

The table below summarizes our year-to-date closed and pending commitments as follows:

**Closed Commitments and Pending Commitments (in millions)**

Q1-16 Closed Commitments (as of March 4, 2016) <sup>(a)</sup>	\$ 126.4
Pending Commitments (as of March 4, 2016) <sup>(b)</sup>	\$ 153.5
<b>Year to date 2016 Closed and Pending Commitments</b>	<b>\$ 279.9</b>

Notes:

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

S-8

**Table of Contents**

**Index to Financial Statements**

*Portfolio Company Developments*

As of March 4, 2016, we held warrants or equity positions in three companies that have filed registration statements on Form S-1 with the SEC in contemplation of potential initial public offerings. All three companies filed confidentially under the JOBS Act. There can be no assurance that these companies will complete their initial public offerings in a timely manner or at all.

**Corporate 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, McLean, VA, Santa Monica, CA and Hartford, CT. We maintain a website on the Internet at [www.htgc.com](http://www.htgc.com). Information contained in our website is not incorporated by reference into this prospectus supplement or the accompanying prospectus, and you should not consider that information to be part of this prospectus supplement or the accompanying prospectus.

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



**Table of Contents****Index to Financial Statements****SELECTED CONSOLIDATED FINANCIAL DATA**

The selected consolidated financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations, Senior Securities and the consolidated financial statements and related notes included elsewhere herein. The selected balance sheet data as of the end of fiscal year 2015, 2014, 2013, 2012, and 2011 and the financial statement of operations data for fiscal 2015, 2014, 2013, 2012, and 2011 has been derived from our audited financial statements, which have been audited by PricewaterhouseCoopers LLP, our independent registered public accounting firm. The historical data are not necessarily indicative of results to be expected for any future period.

(in thousands, except per share amounts)	2015	For the Year Ended December 31,			
	2015	2014	2013	2012	2011
<b>Investment income:</b>					
Interest	\$ 140,266	\$ 126,618	\$ 123,671	\$ 87,603	\$ 70,346
Fees	16,866	17,047	16,042	9,917	9,509
<b>Total investment income</b>	157,132	143,665	139,713	97,520	79,855
<b>Operating expenses:</b>					
Interest	30,834	28,041	30,334	19,835	13,252
Loan fees	6,055	5,919	4,807	3,917	2,635
General and administrative	16,658	10,209	9,354	8,108	7,992
Employee Compensation:					
Compensation and benefits	20,713	16,604	16,179	13,326	13,260
Stock-based compensation	9,370	9,561	5,974	4,227	3,128
Total employee compensation	30,083	26,165	22,153	17,553	16,388
<b>Total operating expenses</b>	83,630	70,334	66,648	49,413	40,267
Loss on debt extinguishment (Long-term Liabilities - Convertible Senior Notes)	(1)	(1,581)			
<b>Net investment income</b>	73,501	71,750	73,065	48,107	39,588
Net realized gain on investments	5,147	20,112	14,836	3,168	2,741
Net change in unrealized appreciation (depreciation) on investments	(35,732)	(20,674)	11,545	(4,516)	4,607
<b>Total net realized and unrealized gain (loss)</b>	(30,585)	(562)	26,381	(1,348)	7,348
<b>Net increase in net assets resulting from operations</b>	\$ 42,916	\$ 71,188	\$ 99,446	\$ 46,759	\$ 46,936
Change in net assets per common share (basic)	\$ 0.60	\$ 1.12	\$ 1.67	\$ 0.93	\$ 1.08
Cash dividends declared per common share	\$ 1.24	\$ 1.24	\$ 1.11	\$ 0.95	\$ 0.88



**Table of Contents****Index to Financial Statements**

(in thousands, except per share amounts)	For the Year Ended December 31,				
	2015	2014	2013	2012	2011
<b>Balance sheet data:</b>					
Investments, at value	\$ 1,200,638	\$ 1,020,737	\$ 910,295	\$ 906,300	\$ 652,870
Cash and cash equivalents	95,196	227,116	268,368	182,994	64,474
Total assets	1,334,761	1,299,223	1,221,715	1,123,643	747,394
Total liabilities	617,627	640,359	571,708	607,675	316,353
Total net assets	717,134	658,864	650,007	515,968	431,041
<b>Other Data:</b>					
Total debt investments, at value	1,110,209	923,906	821,988	827,540	585,767
Total warrant investments, at value	22,987	25,098	35,637	29,550	30,045
Total equity investments, at value	67,442	71,733	52,670	49,210	37,058
Unfunded Commitments <sup>(2)</sup>	75,402	147,689	69,091	19,265	76,128
Net asset value per share <sup>(1)</sup>	\$ 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 by the portfolio company.

The following tables set forth certain quarterly financial information for each of the last eight quarters ended December 31, 2015. This information was derived from the Company's unaudited consolidated financial statements. Results for any quarter are not necessarily indicative of results for the full year or for any further quarter.

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

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

**Table of Contents**

**Index to Financial Statements**

**THE OFFERING**

Common stock offered by us	Up to 8,000,000 shares of our common stock. As of the date of this prospectus supplement, 650,000 shares of common stock have been issued and sold pursuant to the equity distribution agreement and 7,350,000 shares of common stock remain available for sale.
Common stock outstanding prior to this offering, including shares of common stock sold pursuant to the equity distribution agreement	72,165,096 shares
Manner of offering	At the market offering that may be made from time to time through JMP Securities, as sales agent, using commercially reasonable efforts. See Plan of Distribution in this prospectus supplement.
Use of proceeds	We expect to use the net proceeds from this offering to fund investments in debt and equity securities in accordance with our investment objective and for other general corporate purposes.  Pending such use, we will invest a portion of the net proceeds of this offering in short-term investments, such as cash and cash equivalents, which we expect will earn yields substantially lower than the interest income that we anticipate receiving in respect of investments in accordance with our investment objective. See Use of Proceeds in this prospectus supplement.
Distribution	To the extent that we have income available, we intend to distribute quarterly dividends to our stockholders. The amount of our dividends, if any, will be determined by our Board of Directors. Any dividends to our stockholders will be declared out of assets legally available for distribution. See Price Range of Common Stock and Distributions in the accompanying prospectus.
Taxation	We have elected to be treated for federal income tax purposes as a RIC under Subchapter M of the Code. As a RIC, we generally do not have to pay corporate-level federal income taxes on any ordinary income or capital gains that we distribute to our stockholders as dividends. To maintain our RIC tax status, we must meet specified source-of-income and asset diversification requirements and distribute annually at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any. See Price Range of Common Stock and Distributions in the accompanying prospectus and Certain United States Federal Income Tax Considerations in the accompanying prospectus.
New York Stock Exchange symbol	HTGC

S-12

**Table of Contents**

**Index to Financial Statements**

Risk factors

An investment in our common stock is subject to risks and involves a heightened risk of total loss of investment. In addition, the companies in which we invest are subject to special risks. See Supplementary Risk Factors beginning on page S-14 of this prospectus supplement and Risk Factors beginning on page 11 of the accompanying prospectus to read about factors you should consider, including the risk of leverage, before investing in our common stock.

S-13

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**Table of Contents**

**Index to Financial Statements**

**SUPPLEMENTARY RISK FACTORS**

**Risks Related to our Business Structure**

*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 net asset value 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 net asset value 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, ), our Convertible Senior Notes, 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 dividends if we default under certain provisions.

As of March 4, 2016, we had approximately \$190.2 million of indebtedness outstanding incurred by our SBIC subsidiaries, approximately \$17.6 million in aggregate principal amount of 6.00% convertible senior notes (the Convertible Senior Notes ), 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 ). As of March 4, 2016, we had \$18.3 million of outstanding borrowings under our Wells Facility and no outstanding borrowings under our Union Bank Facility.

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 or other 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 dividend, 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.

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**Table of Contents**

**Index to Financial Statements**

***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, original issue discount or market discount, when and to what extent deductions may be taken for bad debts or worthless debt or 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 Supplement to Certain United States Income Tax Considerations in this prospectus supplement and Certain United States Federal Income Tax Considerations in the accompanying prospectus.

***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.

***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 March 4, 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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**Table of Contents**

**Index to Financial Statements**

*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.

**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 December 31, 2015, approximately 63.0% of the fair value of our portfolio was composed of investments in four industries: 23.7% was composed of investments in the drug discovery and development industry, 13.7% was composed of investments in the drug delivery industry, 13.3% was composed of investments in the sustainable and renewable technology industry and 12.3% was composed of investments in the software 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.

*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

**Table of Contents****Index to Financial Statements**

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.

***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 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 December 31, 2015 that represent greater than 5% of our net assets:

(in thousands)	December 31, 2015	
	Fair Value	Percentage of Net Assets
Machine Zone, Inc.	\$ 90,178	12.6%
Sungevity Development, LLC.	\$ 62,779	8.8%

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.

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 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 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.

**Table of Contents**

**Index to Financial Statements**

**Risks Related to Our Securities**

*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 net asset value 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 net asset value per share of common stock. Any such issuance could materially dilute your interest in our common stock and reduce our net asset value per share.*

We may periodically obtain the approval of our stockholders to issue shares of our common stock at prices below the then current net asset value 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 net asset value 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 net asset value 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 net asset value 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 net asset value 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 net asset value 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 net asset value 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 net asset value.

*If we conduct an offering of our common stock at a price below net asset value, 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 net asset value per share. We may, however, sell our common stock, at a price below the current net asset value of the common stock, or sell warrants, options or other rights to acquire such common stock, at a price below the current net asset value 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.

At the 2015 Annual Meeting of Stockholders, our common stockholders approved a proposal to allow us to issue common stock at a discount from its then current net asset value 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 it issues at a price below net asset value pursuant to this authorization so that the aggregate dilutive effect on our then outstanding shares will not exceed 20%. Our Board of Directors, subject to its fiduciary duties and regulatory requirements, has the discretion to determine the amount of the discount, and as a result, the discount could be up to 100% of net asset value per share. If we were to issue shares at a price below net asset value, such sales would result in an immediate dilution to existing common stockholders, which would include a reduction in the net asset value per share as a result of

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**Table of Contents**

**Index to Financial Statements**

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 net asset value. 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 net asset value during the year ended December 31, 2015.

***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 net asset value 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 net asset value, 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 stockholders may experience dilution upon the conversion of the Convertible Notes.***

On or after October 15, 2015 until the close of business on the scheduled trading day immediately preceding the maturity date, holders of our Convertible Senior Notes may convert their notes into shares of our common stock at any time. Upon conversion of the Convertible Senior Notes, we have the choice to pay or deliver, as the case may be, at our election, cash, shares of our common stock or a combination of cash and shares of our common stock. The current conversion price of the Convertible Senior Notes is approximately \$11.03 per share of common stock, in each case subject to adjustment in certain circumstances. Since the Convertible Senior Notes became convertible, we have made the election to deliver the combination of cash and stock. If we deliver shares of common stock upon a conversion at the time our tangible book value per share exceeds the conversion price in effect at such time, our stockholders will incur dilution. In addition, our stockholders will experience dilution in their ownership percentage of common stock upon our issuance of common stock in connection with the conversion of the Convertible Senior Notes and any dividends paid on our common stock will also be paid on shares issued in connection with such conversion after such issuance.

***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.

**Table of Contents**

**Index to Financial Statements**

**USE OF PROCEEDS**

**Overview**

Sales of our common stock, if any, under this prospectus supplement and the accompanying prospectus may be made in negotiated transactions or transactions that are deemed to be at the market as defined in Rule 415 under the Securities Act, including sales made directly on the NYSE or sales made to or through a market maker other than on an exchange. There is no guarantee that there will be any sales of our common stock pursuant to this prospectus supplement and the accompanying prospectus. Actual sales, if any, of our common stock under this prospectus supplement and the accompanying prospectus may be less than as set forth in this paragraph depending on, among other things, the market price of our common stock at the time of any such sale. As a result, the actual net proceeds we receive may be more or less than the amount of net proceeds estimated in this prospectus supplement. Assuming the sale of the remaining 7,350,000 shares available of common stock offered under this prospectus supplement and the accompanying prospectus, at the last reported sale price of \$11.22 per share for our common stock on the NYSE as of March 4, 2015 we estimate that the net proceeds of this offering will be approximately \$80,417,660 million after deducting the estimated sales commission payable to JMP Securities and our estimated offering expenses.

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

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

**Status of the Offering**

On August 16, 2013, we established an at-the-market program to which this prospectus supplement relates and through which we may sell, from time to time and at our sole discretion up to 8,000,000 shares of our common stock. During the period from August 16, 2013 through the date of this prospectus supplement, 650,000 shares of common stock have been issued and sold pursuant to the equity distribution agreement and 7,350,000 shares of common stock remain available for sale. Gross proceeds raised were approximately \$10.0 million, offset by related underwriting fees (\$200,000) and offering expenses (approximately \$350,000) resulted in net proceeds of approximately \$9.5 million or an average price per share of approximately \$14.56.

**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 net asset value and the dividends 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 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	30.4%	9.7%	\$ 0.310
Third quarter	\$ 10.02	\$ 12.23	\$ 9.99	22.0%	0.29%	\$ 0.310
Fourth quarter	\$ 9.94	\$ 12.44	\$ 10.23	25.1%	2.9%	\$ 0.310
<b>2016</b>						
First quarter (through March 4, 2016)	*	\$ 12.39	\$ 10.03	*	*	\$ 0.310

(1) Net asset value per share is generally determined as of the last day in the relevant quarter and therefore may not reflect the net asset value per share on the date of the high and low sales prices. The net asset values 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 per share has not yet been determined for this period.

The last reported price for our common stock on March 4, 2016 was \$11.22 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 net asset value or at premiums that are unsustainable over the long term are separate and distinct from the risk that our net asset value will decrease. At times, our shares of common stock have traded at a premium to net asset value 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 net asset value.

**Dividends**

As a RIC, we intend to distribute quarterly dividends to our stockholders. To the extent we do not distribute dividends to our stockholders in respect of each calendar year dividends of an amount at least equal to the sum of (1) 98% of our ordinary income (taking into account certain deferrals and elections) for the calendar year, (2) 98.2% of our capital gains in excess of capital losses, or capital gain net income (adjusted for certain ordinary losses), for the one year period ending on October 31 of the calendar year, and (3) any ordinary income and capital gain net income for preceding years that were not distributed, we are required to pay a 4% excise tax on our undistributed income.

To the extent that we earn annual taxable income in excess of dividends paid from such taxable income for a taxable year, we may carry over the excess taxable income into the next taxable year and such excess income will be available for distribution in the next taxable year as permitted by the Code. 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). In



**Table of Contents****Index to Financial Statements**

order to obtain the tax benefits applicable to RICs, we are required to distribute dividends to our stockholders with respect to each taxable year of an amount at least equal to 90% of our investment company taxable income. We may, in the future, make actual distributions to our stockholders of some or all realized net long-term capital gains in excess of realized net short-term capital losses, or net capital gains. We can offer no assurance that we will achieve results that will permit the payment of any distributions and, if we issue senior securities, we may 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.

The following table summarizes 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



**Table of Contents****Index to Financial Statements**

<b>Date Declared</b>	<b>Record Date</b>	<b>Payment Date</b>	<b>Amount Per Share</b>
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
			\$ 11.54

\* Dividend paid in cash and stock.

On February 17, 2016 the Board of Directors declared a cash dividend of \$0.31 per share to be paid on March 14, 2016 to shareholders of record as of March 7, 2016. This dividend would represent our forty-second consecutive dividend declaration since our initial public offering, bringing the total cumulative dividends declared to date to \$11.54 per share.

Our Board of Directors maintains a variable dividend 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 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 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 fiscal year based upon our taxable income for the full fiscal year and distributions paid for the full fiscal year. Of the dividends declared during the fiscal years ended December 31, 2015, 2014, and 2013, 100% were distributions 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 shareholders in connection with the dividend reinvestment plan.

We operate to qualify to be taxed as a RIC under the Code. Generally, a RIC is entitled to deduct dividends it pays to its shareholders from its income to determine "taxable income" for U.S. federal income tax purposes. Taxable income includes our taxable interest, dividend and fee income, as well as taxable net capital 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 gains or losses are not included in taxable income until they are realized. In addition, gains realized for financial reporting purposes may differ from gains included in taxable income as a result of our election to recognize gains using installment sale treatment, which generally results in the deferment of gains for tax purposes until notes or other amounts, including amounts held in escrow, received as consideration from the sale of investments are collected in cash. Taxable income includes non-cash income, such as changes in accrued and reinvested interest and dividends, which includes contractual payment-in-kind interest, and the amortization of discounts and fees. Cash collections of income resulting from contractual PIK interest or the amortization of discounts and fees generally occur upon the repayment of the loans or debt securities that include such items. Non-cash taxable income is reduced by non-cash expenses, such as realized losses and depreciation and amortization expense.



**Table of Contents**

**Index to Financial Statements**

As a RIC, we will be subject to a 4% nondeductible U.S. federal excise tax on certain undistributed income unless we distribute in a timely manner an amount 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 (the Excise Tax Avoidance Requirements ). 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 tax year, we may choose to carry over taxable income in excess of current year distributions from such taxable income into the next tax year and pay a 4% excise tax on such income, as required. The maximum amount of excess taxable income that may be carried over for distribution in the next year under the Code is the total amount of dividends paid in the following year, subject to certain declaration and payment guidelines. To the extent we choose to carry over taxable income into the next tax year, dividends declared and paid by us in a year may differ from taxable income for that year as such dividends may include the distribution of current year taxable income, the distribution of prior year taxable income carried over into and distributed in the current 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 in the accompanying prospectus.

Our ability to make distributions will be limited by the asset coverage requirements under the 1940 Act.

**Table of Contents****Index to Financial Statements****CAPITALIZATION**

The equity distribution agreements provide that we may offer and sell up to 8,000,000 shares of our common stock from time to time through JMP Securities, as our sales agent for the offer and sale of such common stock. The table below assumes that we will sell the remaining 7,350,000 shares available at a price of \$11.22 per share (the last reported sale price per share of our common stock on the NYSE on March 4, 2016) but there is no guarantee that there will be any further sales of our common stock pursuant to this prospectus supplement and the accompanying prospectus. Actual sales, if any, of our common stock under this prospectus supplement and the accompanying prospectus may be less than as set forth in the table below. In addition, the price per share of any such sale may be greater or less than \$11.22, depending on the market price of our common stock at the time of any such sale. The following table sets forth our capitalization as of December 31, 2015:

on an actual basis; and

on an as adjusted basis giving effect to the transactions noted above and the assumed sale of the 7,350,000 available shares of our common stock at a price of \$11.22 per share (the last reported sale price per share of our common stock on the NYSE on March 4, 2016) less commissions and expenses.

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

	As of December 31, 2015	
	Actual	As Adjusted
	(in thousands)	
Investments at Fair Value	\$ 1,200,683	\$ 1,200,683
Cash and cash equivalents	\$ 95,196	\$ 175,983
<b>Debt:</b>		
Long-term SBA borrowings	\$ 190,200	\$ 190,200
Convertible Debt	17,522	17,522
Wells Facility	50,000	50,000
2019 Notes	110,364	110,364
2024 Notes	103,000	103,000
Asset-Backed Notes	129,300	129,300
Total Debt	\$ 600,386	\$ 600,386
<b>Stockholders' equity:</b>		
Common Stock, par value \$0.001 per share; 100,000,000 shares authorized; 72,635,777 shares issued and outstanding, actual 79,985,777 shares issued and outstanding, as adjusted, respectively	\$ 73	\$ 80
Capital in Excess of Par	752,244	833,023
Unrealized appreciation (depreciation) on investments	(52,808)	(52,808)
Accumulated realized gains (losses) on investments	27,993	27,993
Distributions in excess of investment income	(10,368)	(10,368)
Total stockholders' equity	\$ 717,134	\$ 797,920
Total capitalization	\$ 1,317,520	\$ 1,398,306



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**Table of Contents**

**Index to Financial Statements**

**PLAN OF DISTRIBUTION**

JMP Securities is acting as our sales agent in connection with the offer and sale of shares of our common stock pursuant to this prospectus supplement and the accompanying prospectus. Upon written instructions from us, JMP Securities will use its commercially reasonable efforts consistent with its sales and trading practices to sell, as our sales agent, our common stock under the terms and subject to the conditions set forth in our amended and restated equity distribution agreement with JMP Securities dated March 7, 2016. We will instruct JMP Securities as to the amount of common stock to be sold by it. We may instruct JMP Securities not to sell common stock if the sales cannot be effected at or above the price designated by us in any instruction. The sales price per share of our common stock offered by this prospectus supplement and the accompanying prospectus, less JMP Securities' commission, will not be less than the net asset value per share of our common stock at the time of such sale. We or JMP Securities may suspend the offering of shares of common stock upon proper notice and subject to other conditions.

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

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

JMP Securities will receive a commission from us to be negotiated from time to time but in no event in excess of 2.0% of the gross sales price of any shares of our common stock sold through JMP Securities under the equity distribution agreement. We estimate that the total expenses for the offering, excluding compensation payable to JMP Securities under the terms of the equity distribution agreement, will be approximately \$400,000 (including up to \$10,000 in reimbursement of the underwriters' counsel fees in connection with the review of the terms of the offering by the Financial Industry Regulatory Authority, Inc.).

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

We will report at least quarterly the number of shares of our common stock sold through JMP Securities under the equity distribution agreement and the net proceeds to us. As of September 30, 2014, 650,000 shares of common stock were issued and sold pursuant to the equity distribution agreement for net proceeds of approximately \$9.5 million. As a result, 7,350,000 shares of common stock remain available for sale pursuant to the equity distribution agreement.

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

The offering of our shares of common stock pursuant to the equity distribution agreement will terminate upon the earlier of (i) the sale of all common stock subject to the equity distribution agreement or (ii) the termination of the equity distribution agreement. The equity distribution agreement may be terminated by us in

**Table of Contents**

**Index to Financial Statements**

our sole discretion under the circumstances specified in the equity distribution agreement by giving notice to JMP Securities. In addition, JMP Securities may terminate the equity distribution agreement under the circumstances specified in the equity distribution agreement by giving notice to us.

**Potential Conflicts of Interest**

JMP Securities and its affiliates have provided, or may in the future provide, various investment banking, commercial banking, financial advisory, brokerage and other services to us and our affiliates for which services they have received, and may in the future receive, customary fees and expense reimbursement. JMP Securities and its affiliates may, from time to time, engage in transactions with and perform services for us in the ordinary course of their business for which they may receive customary fees and reimbursement of expenses. In the ordinary course of their various business activities, JMP Securities and its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and such investment and securities activities may involve securities and/or instruments of our company.

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

S-27

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**Table of Contents**

**Index to Financial Statements**

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

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

**Overview**

We are a specialty finance company focused on providing senior secured venture growth loans to high-growth, innovative venture capital-backed companies in a broadly diversified 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, McLean, VA, Santa Monica, CA and Hartford, CT.

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

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

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

We also make investments in qualifying small businesses through our two wholly-owned SBICs. Our SBIC subsidiaries, HT II and HT III, hold approximately \$128.3 million and \$310.8 million in assets, respectively, and accounted for approximately 7.6% and 18.5% of our total assets, respectively, prior to consolidation at December 31, 2015. As of December 31, 2015, 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 December 31, 2015, 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 December 31, 2015, we have issued \$190.2 million in SBA-guaranteed debentures in our SBIC subsidiaries.



## **Table of Contents**

### **Index to Financial Statements**

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

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

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

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

### **Portfolio and Investment Activity**

The total fair value of our investment portfolio was \$1.2 billion at December 31, 2015 as compared to \$1.0 billion at December 31, 2014.

The fair value of our debt investment portfolio at December 31, 2015 was approximately \$1.1 billion, compared to a fair value of approximately \$923.9 million at December 31, 2014. The fair value of the equity portfolio at December 31, 2015 was approximately \$67.4 million, compared to a fair value of approximately \$71.7 million at December 31, 2014. The fair value of the warrant portfolio at December 31, 2015 was approximately \$23.0 million, compared to a fair value of approximately \$25.1 million at December 31, 2014.

### ***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 will be 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 our future cash requirements. Similarly, unfunded contractual commitments may expire without being drawn and do not represent our future cash requirements.

**Table of Contents****Index to Financial Statements**

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

Our portfolio activity for the years ended December 31, 2015 and 2014 was comprised of the following:

(in millions)	December 31, 2015	December 31, 2014
<b>Debt Commitments<sup>(1)</sup></b>		
New portfolio company	\$ 544.0	\$ 776.9
Existing portfolio company	181.7	118.0
<b>Total</b>	<b>\$ 725.7</b>	<b>\$ 894.9</b>
<b>Funded and Restructured Debt Investments<sup>(3)</sup></b>		
New portfolio company	\$ 352.5	\$ 434.0
Existing portfolio company	341.6	177.0
<b>Total</b>	<b>\$ 694.1</b>	<b>\$ 611.0</b>
<b>Funded Equity Investments</b>		
New portfolio company	\$ 1.0	\$ 7.2
Existing portfolio company	17.6	3.1
<b>Total</b>	<b>\$ 18.6</b>	<b>\$ 10.3</b>
<b>Unfunded Contractual Commitments<sup>(2)</sup></b>		
<b>Total</b>	<b>\$ 75.4</b>	<b>\$ 147.7</b>
<b>Non-Binding Term Sheets</b>		
New portfolio company	\$ 81.0	\$ 104.0
Existing portfolio company	5.0	4.2
<b>Total</b>	<b>\$ 86.0</b>	<b>\$ 108.2</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 and unencumbered by 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 year ended December 31, 2015, we received approximately \$503.6 million in aggregate principal repayments. Of the approximately \$503.6 million of aggregate principal repayments, approximately \$115.1 million were scheduled principal payments, and approximately \$388.5 million were early principal repayments related to 45 portfolio companies. Of the approximately \$388.5 million early principal repayments, approximately \$70.7 million were early repayments due to M&A transactions and IPOs related to six portfolio companies. Given the high level of early repayments during the year ended December 31, 2015, we anticipate that early repayment activity and our effective yields will normalize going forward.



**Table of Contents****Index to Financial Statements**

Total portfolio investment activity (inclusive of unearned income and excluding activity related to taxes payable, escrow receivables and Citigroup warrant participation) as of and for each of the years ended December 31, 2015 and 2014 was as follows:

(in millions)	December 31, 2015	December 31, 2014
<b>Beginning portfolio</b>	\$ 1,020.7	\$ 910.3
New fundings and restructures	712.3	621.3
Warrants not related to current period fundings	0.1	0.8
Principal payments received on investments	(115.1)	(135.8)
Early payoffs	(388.5)	(358.3)
Accretion of loan discounts and paid-in-kind principal	31.7	24.5
Net acceleration of loan discounts and loan fees due to early payoff or restructure	(1.7)	(3.3)
New loan fees	(9.5)	(9.2)
Warrants converted to equity	0.4	2.0
Sale of investments	(5.2)	(9.1)
Loss on investments due to write offs	(7.5)	(3.9)
Net change in unrealized depreciation	(37.1)	(18.6)
<b>Ending portfolio</b>	<b>\$ 1,200.6</b>	<b>\$ 1,020.7</b>

The following table shows the fair value of our portfolio of investments by asset class as of December 31, 2015 and December 31, 2014.

(in thousands)	December 31, 2015		December 31, 2014	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
Senior Secured Debt with Warrants	\$ 961,464	80.1%	\$ 740,659	72.6%
Senior Secured Debt	171,732	14.3%	208,345	20.4%
Preferred Stock	35,245	2.9%	57,548	5.6%
Common Stock	32,197	2.7%	14,185	1.4%
<b>Total</b>	<b>\$ 1,200,638</b>	<b>100.0%</b>	<b>\$ 1,020,737</b>	<b>100.0%</b>

The increase in common stock and the decrease in preferred stock is primarily due to the IPO of Box, Inc. on January 23, 2015 in which all of our preferred shares were converted to common stock in the public portfolio company. Any potential future gain is subject to the price of the shares when we exit the investment.

A summary of our investment portfolio at value by geographic location is as follows:

(in thousands)	December 31, 2015		December 31, 2014	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
United States	\$ 1,167,281	97.2%	\$ 967,803	94.8%
Netherlands	20,112	1.7%	19,913	2.0%
England	8,884	0.8%	34	0.0%
Israel	3,764	0.3%	6,498	0.6%
Canada	595	0.0%	2,314	0.2%
India	2	0.0%	24,175	2.4%

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<b>Total</b>	\$ 1,200,638	100.0%	\$ 1,020,737	100.0%
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As of December 31, 2015, we held warrants or equity positions in three companies that had filed registration statements on Form S-1 with the SEC in contemplation of potential IPOs. All three 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 IPO will do so in a timely manner or at all.

S-31

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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. 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 December 31, 2015, our debt investments have a term of between two and seven years and typically bear interest at a rate ranging from Prime or LIBOR to approximately 13.0%. 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.

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 \$26.1 million of unamortized fees at December 31, 2015, 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. At December 31, 2014 we had approximately \$21.9 million of unamortized fees, of which approximately \$17.4 million was included as an offset to the cost basis of our current debt investments and approximately \$4.5 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 December 31, 2015 we had approximately \$22.7 million in exit fees receivable, of which approximately \$17.4 million was included as an offset to the cost basis of our current debt investments and approximately \$5.3 million was deferred related to expired commitments. At December 31, 2014 we had approximately \$19.3 million in exit fees receivable, of which approximately \$8.4 million was included as an offset to the cost basis of our current debt investments and approximately \$10.9 million was 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 dividends even though we have not yet collected the cash. Amounts necessary to pay these dividends may come from available cash or the liquidation of certain investments. We recorded approximately \$4.7 million and \$3.3 million in PIK income in the years ended December 31, 2015 and December 31, 2014, respectively.

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 obtain a negative pledge covering a company's intellectual property. At December 31, 2015, approximately 39.7% 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, 49.7% of the debt investments were to portfolio companies that were prohibited from pledging or encumbering their intellectual property, or subject to a negative pledge, 7.9% of 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 2.7% of our portfolio company debt investments were subordinated and secured by all of the portfolio company's assets, including intellectual property. At December 31, 2015 we had no equipment only liens on any of our portfolio companies.

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.

**Table of Contents****Index to Financial Statements**

The core yield on our debt investments, which excludes any benefits from the fees and income related to early loan repayment acceleration of unamortized fees and income as well as prepayment of fees, was 13.0% and 13.6% during the years ended December 31, 2015 and 2014, respectively. The effective yield on our debt investments, which includes the effects of fee and income accelerations attributed to early payoffs, restructuring, loan modifications and other one-time event fees, was 14.3% and 16.8% for the years ended December 31, 2015 and 2014, respectively. The effective yield is derived by dividing total investment income by the weighted average earning investment portfolio assets outstanding during the year, 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 -9.7% and -1.8% during the years ended December 31, 2015 and 2014, respectively. The total return equals the change in the ending market value over the beginning of the period price per share plus dividends paid per share during the period, divided by the beginning price assuming the dividend 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.

***Portfolio Composition***

Our portfolio companies are primarily privately held companies and public companies which are active in the drug discovery and development, drug delivery, sustainable and renewable technology, software, media/content/info, medical devices and equipment, internet consumer and business services, specialty pharmaceuticals, communications and networking, consumer and business products, semiconductors, healthcare services, surgical devices, electronics and computer hardware, information services, biotechnology tools and diagnostic 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 December 31, 2015, approximately 63.0% of the fair value of our portfolio was composed of investments in four industries: 23.7% was composed of investments in the drug discovery and development industry, 13.7% was composed of investments in the drug delivery industry, 13.3% was composed of investments in the sustainable and renewable technology industry and 12.3% was composed of investments in the software industry.

The following table shows the fair value of our portfolio by industry sector at December 31, 2015 and December 31, 2014:

(in thousands)	December 31, 2015		December 31, 2014	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
Drug Discovery & Development	\$ 284,266	23.7%	\$ 267,618	26.2%
Drug Delivery	164,665	13.7%	88,491	8.7%
Sustainable and Renewable Technology	159,487	13.3%	68,280	6.7%
Software	147,237	12.3%	125,412	12.3%
Media/Content/Info	95,488	7.9%	29,219	2.9%
Medical Devices & Equipment	90,560	7.5%	138,046	13.5%
Internet Consumer & Business Services	88,377	7.4%	69,655	6.8%
Specialty Pharmaceuticals	52,088	4.3%	51,536	5.0%
Communications & Networking	33,213	2.8%	61,433	6.0%
Consumer & Business Products	26,611	2.2%	63,225	6.2%
Semiconductors	22,705	1.9%	5,126	0.5%
Healthcare Services, Other	15,131	1.3%	10,527	1.0%
Surgical Devices	11,185	0.9%	9,915	1.0%
Electronics & Computer Hardware	6,928	0.6%	692	0.1%
Information Services	1,657	0.1%	27,016	2.6%
Biotechnology Tools	719	0.1%	3,721	0.4%
Diagnostic	321	0.0%	825	0.1%
<b>Total</b>	<b>\$ 1,200,638</b>	<b>100.0%</b>	<b>\$ 1,020,737</b>	<b>100.0%</b>





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**Table of Contents**

**Index to Financial Statements**

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

For the years ended December 31, 2015 and 2014, our ten largest portfolio companies represented approximately 32.1% and 28.6% of the total fair value of our investments in portfolio companies, respectively. At December 31, 2015 and December 31, 2014, we had two and three investments, respectively, that represented 5% or more of our net assets. At December 31, 2015 and December 31, 2014, we had four and three equity investments representing approximately 53.2% and 61.5%, respectively, 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 December 31, 2015, 89.4% of our debt investments were in a senior secured first lien position, with the remaining 10.6% secured by a senior second lien position or a subordinated lien on all of the portfolio company's assets and approximately 93.7% 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 continue to rise.

Our investments in senior secured debt with warrants have equity enhancement features, typically in the form of warrants or other equity-related securities designed to provide us with an opportunity for capital appreciation. 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 December 31, 2015, we held warrants in 129 portfolio companies, with a fair value of approximately \$23.0 million. The fair value of our warrant portfolio decreased by approximately \$2.0 million, as compared to a fair value of \$25.1 million at December 31, 2014 primarily related to depreciation on our private warrant portfolio due to a decline in market comparable and portfolio company performance, offset by the addition of warrants in 21 new and 15 existing portfolio companies during the period.

Our existing warrant holdings would require us to invest approximately \$88.8 million to exercise such warrants as of December 31, 2015. 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 14.93x based on the historical rate of return on our investments. However, our warrants may not appreciate in value and, in fact, may decline in value. Accordingly, we may experience losses from our warrant portfolio.

As required by the 1940 Act, we classify our investments by level of control. Control investments are defined in the 1940 Act as investments in those companies that we are deemed to control, which, in general, includes a company in which we own 25% or more of the voting securities of such company or have greater than 50% representation on its board. Affiliate investments are investments in those companies that are affiliated companies of ours, as defined in the 1940 Act, which are not control investments. We are deemed to be an affiliate of a company in which we have invested if we own 5% or more, but 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.

**Table of Contents****Index to Financial Statements**

The following table summarizes our realized and unrealized gain and loss and changes in our unrealized appreciation and depreciation on affiliate investments for the years ended December 31, 2015, 2014, and 2013. We did not hold any control investments at December 31, 2015, 2014 or 2013.

(in thousands)

Portfolio Company	Type	Fair Value at December 31, 2015	Investment Income	Year Ended December 31, 2015		Realized Gain/(Loss)
				Net Change in Unrealized Appreciation/ (Depreciation)	Reversal of Unrealized Appreciation/ (Depreciation)	
Optiscan BioMedical, Corp.	Affiliate	\$ 6,973	\$	\$ 901	\$	\$
Stion Corporation	Affiliate	1,013	348	206		
<b>Total</b>		\$ 7,986	\$ 348	\$ 1,107	\$	\$

(in thousands)

Portfolio Company	Type	Fair Value at December 31, 2014	Investment Income	Year Ended December 31, 2014		Realized Gain/(Loss)
				Net Change in Unrealized Appreciation/ (Depreciation)	Reversal of Unrealized Appreciation/ (Depreciation)	
Gelesis, Inc.	Affiliate	\$ 327	\$	\$ (146)	\$	\$
Optiscan BioMedical, Corp.	Affiliate	6,072		(24)		
Stion Corporation	Affiliate	1,600	1,876	(3,112)		
<b>Total</b>		\$ 7,999	\$ 1,876	\$ (3,282)	\$	\$

(in thousands)

Portfolio Company	Type	Fair Value at December 31, 2013	Investment Income	Year Ended December 31, 2013		Realized Gain/(Loss)
				Net Change in Unrealized Appreciation/ (Depreciation)	Reversal of Unrealized Appreciation/ (Depreciation)	
Gelesis, Inc.	Affiliate	\$ 473	\$	\$ (1,193)	\$	\$
Optiscan BioMedical, Corp.	Affiliate	4,784	1,933	(225)		
Stion Corporation	Affiliate	5,724	462	593		
<b>Total</b>		\$ 10,981	\$ 2,395	\$ (825)	\$	\$

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

*Portfolio Grading*

We use an investment grading system, which grades each debt investment on a scale of 1 to 5, to characterize and monitor our expected level of risk on the debt investments in our portfolio with 1 being the highest quality. See *Business Investment Process Loan and Compliance Administration* in the accompanying prospectus. The following table shows the distribution of our outstanding debt investments on the 1 to 5 investment grading scale at fair value as of December 31, 2015 and 2014, respectively:

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(in thousands)	December 31, 2015			December 31, 2014		
	Number of Companies	Debt Investments at Fair Value	Percentage of Total Portfolio	Number of Companies	Debt Investments at Fair Value	Percentage of Total Portfolio
<b>Investment Grading</b>						
1	18	\$ 215,202	19.4%	19	\$ 195,819	21.2%
2	47	759,274	68.4%	45	479,037	51.8%
3	6	44,837	4.0%	16	183,522	19.9%
4	4	34,153	3.1%	6	39,852	4.3%
5	10	56,743	5.1%	8	25,676	2.8%
	85	\$ 1,110,209	100.0%	94	\$ 923,906	100.0%

S-35

**Table of Contents**

**Index to Financial Statements**

As of December 31, 2015, our debt investments had a weighted average investment grading of 2.16, as compared to 2.24 at December 31, 2014. 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 December 31, 2015 from December 31, 2014 is primarily due to the increase in the average fair value of rated 2 portfolio companies between periods and the net reduction in the size of the portfolio by nine portfolio companies that were rated 3, 4, or 5 at December 31, 2014. This improvement is partially offset by the downgrade of five new portfolio companies to a 5 that were rated 3 or 4 at December 31, 2014 due to liquidity and portfolio company performance concerns during the year ended December 31, 2015.

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. Comparatively, at December 31, 2014, we had four debt investments on non-accrual with a cumulative investment cost and fair value of \$28.9 million and \$10.6 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 is on non-accrual. The increase in the cumulative cost and fair value of debt investments on non-accrual between December 31, 2015 and December 31, 2014 is the result of placing three new debt investments on non-accrual status during the period, offset by the liquidation of two debt investments that were on non-accrual at December 31, 2014. During the year ended December 31, 2015, we recognized a realized loss of approximately \$180,000 on the write off of one debt investment that was on non-accrual at December 31, 2014. In addition, we recognized a realized loss of \$1.2 million on the partial write off of one debt investment that is on non-accrual as of December 31, 2015.

**Results of Operations**

**Comparison of periods ended December 31, 2015 and 2014**

***Investment Income***

***Interest Income***

Total investment income for the year ended December 31, 2015 was approximately \$157.1 million as compared to approximately \$143.7 million for the year ended December 31, 2014.

Interest income for the year ended December 31, 2015 totaled approximately \$140.3 million as compared to approximately \$126.6 million for the year ended December 31, 2014. The increase in interest income for the year ended December 31, 2015 as compared to the year ended December 31, 2014 is primarily attributable to debt investment portfolio growth, specifically an increase in the weighted average principal outstanding between the periods.

Of the \$140.3 million in interest income for the year ended December 31, 2015, approximately \$130.4 million represents recurring income from the contractual servicing of our loan portfolio and approximately \$9.9 million represents income related to the acceleration of income due to early loan repayments and other one-time events during the period. Income from recurring interest and the acceleration of interest income due to early loan repayments represented \$106.8 million and \$19.8 million, respectively, of the \$126.6 million interest income for the year ended December 31, 2014.

**Table of Contents****Index to Financial Statements**

The following table shows the PIK-related activity, for the years ended December 31, 2015 and 2014, at cost:

<b>(in thousands)</b>	<b>Year Ended December 31,</b>	
	<b>2015</b>	<b>2014</b>
Beginning PIK loan balance	\$ 6,250	\$ 5,603
PIK interest income during the period	4,658	3,346
Payments received from PIK loans	(5,483)	(2,699)
Realized loss	(276)	
<b>Ending PIK loan balance</b>	<b>\$ 5,149</b>	<b>\$ 6,250</b>

The increase in payments received from PIK loans and the increase in PIK interest capitalized during the year ended December 31, 2015 as compared to the year ended December 31, 2014 is due to an increase in the weighted average principal outstanding for loans which bear PIK interest and the number of PIK loans which paid-off during the period.

*Fee Income*

Income from commitment, facility and loan related fees for the year ended December 31, 2015 totaled approximately \$16.9 million as compared to approximately \$17.0 million for the year ended December 31, 2014. The decrease in fee income is primarily attributable to the acceleration of early loan repayments and restructures, slightly offset by an increase in normal fee amortization due to a higher weighted average debt investment portfolio outstanding during the period.

Of the \$16.9 million in income from commitment, facility and loan related fees for the year ended December 31, 2015, approximately \$5.8 million represents income from recurring fee amortization and approximately \$11.1 million represents income related to the acceleration of unamortized fees for the period. Income from recurring fee amortization and the acceleration of unamortized fees due to early loan repayments represented \$5.2 million and \$11.8 million, respectively, of the \$17.0 million income for the year ended December 31, 2014.

In certain investment transactions, we may earn income from advisory services; however, we had no income from advisory services in the years ended December 31, 2015 and 2014, respectively.

*Operating Expenses*

Our operating expenses are comprised of interest and fees on our borrowings, general and administrative expenses and employee compensation and benefits. Operating expenses totaled approximately \$83.6 million and \$70.3 million during the years ended December 31, 2015 and 2014, respectively.

*Interest and Fees on our Borrowings*

Interest and fees on our borrowings totaled approximately \$36.9 million and \$34.0 million for the years ended December 31, 2015 and 2014, respectively. Interest and fee expense for the year ended December 31, 2015 as compared to December 31, 2014 increased primarily due to higher weighted average principal balances outstanding on our Asset Backed Notes, Credit Facilities, 2019 Notes and 2024 Notes (together with the 2019 Notes, the Baby Bonds), slightly offset by a reduction in weighted average principal balances outstanding on our SBA debentures, Convertible Senior Notes and lower debt issuance cost amortization related to our Convertible Senior Notes and Asset Backed Notes.

We had a weighted average cost of debt, comprised of interest and fees and loss on debt extinguishment (long-term liabilities convertible senior notes), of approximately 6.0% and 6.6% for the years ended December 31, 2015 and 2014, respectively. The decrease between comparative periods was primarily driven by a reduction in the weighted average principal outstanding on our higher yielding debt instruments and a reduction

## **Table of Contents**

### **Index to Financial Statements**

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 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 years ended December 31, 2015 and 2014 was approximately \$1,000 and \$1.6 million, respectively. The loss on extinguishment of debt was classified as a component of net investment income in our Consolidated Statements of Operations.

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

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

**Table of Contents****Index to Financial Statements**

A summary of realized gains and losses for the years ended December 31, 2015 and 2014 is as follows:

(in thousands)	Year Ended December 31,	
	2015	2014
Realized gains	\$ 12,677	\$ 24,027
Realized losses	(7,530)	(3,915)
<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., 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.





**Table of Contents****Index to Financial Statements**

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 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.

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>

**Table of Contents****Index to Financial Statements**

(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
Total Fair Value Market/Yield Adjustments	4.9	23.1	(2.8)	25.2
<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 ASC 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 \$8.2 million of spillover earnings from ordinary income for our taxable year ended December 31, 2015 to our shareholders in 2016.

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

For the years ended December 31, 2015 and 2014, the net increase in net assets resulting from operations totaled approximately \$42.9 million and approximately \$71.2 million, respectively. These changes are made up of the items previously described.

The basic and fully diluted net change in net assets per common share for the year ended December 31, 2015 were \$0.60 and \$0.59, respectively, whereas the basic and fully diluted net change in net assets per common share for the year ended December 31, 2014 was \$1.12 and \$1.10, respectively.

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.

**Comparison of periods ended December 31, 2014 and 2013*****Investment Income******Interest Income***

Total investment income for the year ended December 31, 2014 was approximately \$143.7 million as compared to approximately \$139.7 million for the year ended December 31, 2013.

Interest income for the year ended December 31, 2014 totaled approximately \$126.6 million as compared to approximately \$123.7 million for the year ended December 31, 2013. The increase in interest income is primarily attributable to an increase in new loan originations during the year and an increase in accelerations of original issue discounts related to early loan pay-offs and restructures in 2014.



**Table of Contents****Index to Financial Statements**

The following table shows the lending activity involving PIK interest arrangements, including PIK receivables, for the years ended December 31, 2014 and 2013, at cost:

(in thousands)	Years Ended December 31,	
	2014	2013
Beginning PIK loan balance	\$ 5,603	\$ 3,548
PIK interest capitalized during the period	3,346	3,515
Payments received from PIK loans	(2,699)	(1,153)
Realized loss		(307)
<b>Ending PIK loan balance</b>	<b>\$ 6,250</b>	<b>\$ 5,603</b>

The increase in payments received from PIK loans and the decrease in PIK interest capitalized during the year ended December 31, 2014 is due to the payoff of seven PIK loans offset by additions of eight PIK loans which have incurred PIK capitalizations during the period ended December 31, 2014.

*Fee Income*

Income from commitment, facility and loan related fees for the year ended December 31, 2014 totaled approximately \$17.0 million as compared to approximately \$16.0 million for the year ended December 31, 2013. The increase in fee income is primarily attributable to additional fee accelerations and one time fees due to early pay-offs and restructures during the year ended December 31, 2014, as compared to the same period in 2013.

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, 2014 and 2013, 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 \$70.3 million and \$66.6 million during the years ended December 31, 2014 and 2013, respectively.

*Interest and Fees on our Borrowings*

Interest and fees on our borrowings totaled approximately \$34.0 million and \$35.1 million for the years ended December 31, 2014 and 2013, respectively. The decrease was primarily attributable to the lower weighted average balances outstanding on our SBA debentures, Convertible Senior Notes, and 2017 Asset-Backed Notes (as defined herein). During the year ended December 31, 2014, we paid off \$34.8 million of SBA debentures in the first quarter of 2014, settled of \$57.3 million of our Convertible Senior Notes, and had amortization of our 2017 Asset-Backed Notes from a balance of \$89.6 million as of December 31, 2013 to \$16.0 million as of December 31, 2014. In addition, interest expense decreased by approximately \$1.7 million related to Convertible Senior Notes settled in the period. These decreases were partially offset by additional interest and fees of approximately \$3.8 million on our 2024 Notes issued in the third quarter of 2014 and our 2017 Asset-Backed Notes issued in November 2014.

During the year ended December 31, 2014, we recorded a net loss on extinguishment of our convertible senior notes of approximately \$1.6 million. The net loss was classified as a component of net investment income in our Consolidated Statements of Operations. We did not incur a loss on extinguishment of debt during the twelve months ended December 31, 2013.

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 6.6% and 6.1% for the years ended December 31, 2014 and 2013, respectively. The increase was primarily driven by the acceleration of fees related to the early payoffs of SBA obligations and our Asset-Backed Notes as well as the loss on debt extinguishment (long-term liabilities convertible senior notes) as described above.



**Table of Contents****Index to Financial Statements***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 \$10.2 million from \$9.3 million for the years ended December 31, 2014 and 2013, respectively. These increases were primarily due to increases in facility rent, marketing, corporate legal expenses and outside consulting services partially offset by a decrease in accounting expenses.

*Employee Compensation*

Employee compensation and benefits totaled approximately \$16.6 million for the year ended December 31, 2014 as compared to approximately \$16.2 million for the year ended December 31, 2013. The increase was primarily due to changes in variable compensation accrued during the periods.

Stock-based compensation totaled approximately \$9.6 million for the year ended December 31, 2014 as compared to approximately \$6.0 million for the year ended December 31, 2013. The increase was primarily due to an increase in the number of restricted stock awards granted in April 2014 as compared March 2013.

*Loss on Extinguishment of Convertible Senior Notes*

Upon meeting the stock trading price conversion requirement as set forth in the Indenture, dated April 15, 2011, between us and U.S. Bank National Association, during the three months ended June 30, 2014, the Convertible Senior Notes became convertible on July 1, 2014 and continued to be convertible through December 31, 2014. As of December 31, 2014, holders of approximately \$57.3 million of our Convertible Senior Notes 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 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, 2014 was approximately \$1.6 million and 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.

A summary of realized gains and losses for the years ended December 31, 2014 and 2013 is as follows:

<b>(in thousands)</b>	<b>Years Ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
Realized gains	\$ 24,027	\$ 32,577
Realized losses	(3,915)	(17,741)
<b>Net realized gains</b>	<b>\$ 20,112</b>	<b>\$ 14,836</b>

**Table of Contents****Index to Financial Statements**

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.

During the year ended December 31, 2013, we recognized net realized gains of approximately \$14.8 million. These net realized gains include gross realized gains of approximately \$32.6 million primarily from the sale of equity and warrant investments in nine portfolio companies, including Virident Systems, Inc. (\$7.5 million), Anacor Pharmaceuticals, Inc. (\$5.0 million), iWatt, Inc. (\$4.7 million), Althea Technologies, Inc. (\$4.3 million), WageWorks, Inc. (\$2.0 million), Lanx, Inc. (\$1.9 million), InsMed, Inc. (\$1.4 million), Pacira Pharmaceuticals, Inc. (\$1.3 million) and AcelRx, Inc. (\$1.1 million). These gains were partially offset by gross realized losses of approximately \$17.8 million primarily from the liquidation of our debt and equity investments in five portfolio companies, including Bridgewave Communications (\$4.4 million), E-Band Communications Corp (\$3.3 million), Tethys Bioscience, Inc. (\$2.5 million), Just.Me, Inc. (\$1.3 million), and PointOne, Inc. (\$1.1 million).

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, 2014 and 2013:

(in thousands)	Year Ended December 31,	
	2014	2013
Gross unrealized appreciation on portfolio investments	\$ 72,968	\$ 80,616
Gross unrealized depreciation on portfolio investments	(79,412)	(63,855)
Reversal of prior period net unrealized appreciation upon a realization event	(15,335)	(26,489)
Reversal of prior period net unrealized depreciation upon a realization event	3,182	21,763
Net unrealized (depreciation) on taxes payable	(1,882)	(898)
Net unrealized appreciation (depreciation) on escrow receivables	(465)	465
Citigroup Warrant Participation	270	(57)
<b>Net unrealized appreciation (depreciation) on portfolio investments</b>	<b>\$ (20,674)</b>	<b>\$ 11,545</b>

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 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.

**Table of Contents**

**Index to Financial Statements**

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.

During the year ended December 31, 2013, we recorded approximately \$11.5 million of net unrealized appreciation, of which \$12.0 million is net unrealized appreciation from our debt, equity and warrant investments. Of the \$12.0 million, approximately \$15.7 million is attributed to net unrealized appreciation on equity, including approximately \$5.6 million of net unrealized depreciation due to the reversal of prior period net unrealized appreciation upon being realized as a gain. Approximately \$4.5 million is attributed to net unrealized appreciation on our warrant investments, including approximately \$9.4 million of net unrealized depreciation due to the reversal of prior period net unrealized appreciation upon being realized as a gain. This unrealized appreciation was partially offset by approximately \$8.2 million of net unrealized depreciation on our debt investments, which primarily related to \$21.2 million of unrealized depreciation for collateral based impairments, offset by the reversal of approximately \$13.0 million of prior period net unrealized depreciation upon being realized as a loss due to the write-off or early payoff of debt investments.

Net unrealized appreciation decreased by approximately \$898,000 as a result of estimated taxes payable for the year ended December 31, 2013.

Net unrealized appreciation further increased by approximately \$465,000 as a result of escrow receivables related to merger and acquisition transactions closed during the year ended December 31, 2013.

For the year ended December 31, 2013, net unrealized appreciation decreased by approximately \$57,000 as a result of net appreciation of fair value on the pool of warrants collateralized under the Citigroup warrant participation agreement.

The following table summarizes the change in net unrealized appreciation/ (depreciation) in the investment portfolio by investment type for the years ended December 31, 2014 and December 31, 2013.

(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
Total Fair Value Market/Yield Adjustments	4.9	23.1	(2.8)	25.2
<b>Total Unrealized Appreciation/(Depreciation)</b>	<b>\$ (14.2)</b>	<b>\$ 11.4</b>	<b>\$ (15.8)</b>	<b>\$ (18.6)</b>

(in millions)	Year Ended December 31, 2013			
	Debt	Equity	Warrants	Total
Collateral based impairments	\$ (21.2)	\$	\$ (0.1)	(21.3)
Reversals of Prior Period Collateral based impairments				
Reversals due to Debt Payoffs & Warrant/Equity sales	13.0	(5.8)	(10.6)	(3.4)
Fair Value Market/Yield Adjustments*				
Level 1 & 2 Assets		7.6	3.5	11.1
Level 3 Assets		13.9	11.7	25.6
Total Fair Value Market/Yield Adjustments		21.5	15.2	36.7
<b>Total Unrealized Appreciation/(Depreciation)</b>	<b>\$ (8.2)</b>	<b>\$ 15.7</b>	<b>\$ 4.5</b>	<b>\$ 12.0</b>



S-45

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**Table of Contents**

**Index to Financial Statements**

\* 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 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 distributed 100% of our spillover from long term capital gains for our taxable year ended December 31, 2014 to our shareholders during 2015.

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

For the years ended December 31, 2014 and 2013, the net increase in net assets resulting from operations totaled approximately \$71.2 million and approximately \$99.4 million, respectively. These changes are made up of the items previously described.

The basic and fully diluted net change in net assets per common share for the year ended December 31, 2014 were \$1.12 and \$1.10, respectively, whereas the basic and fully diluted net change in net assets per common share for the year ended December 31, 2013 were \$1.67 and \$1.63, respectively.

For the purpose of calculating diluted earnings per share for years ended December 31, 2014 and 2013, 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 \$11.36 in effect as of December 31, 2014 and \$11.63 as of December 31, 2013 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, Convertible Senior Notes, 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, or JMP. 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 year ended December 31, 2014, we sold 650,000 shares of common stock for total accumulated net proceeds of approximately \$9.5 million, all of which is accretive to net asset value. We generally use the net

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**Table of Contents**

**Index to Financial Statements**

proceeds from these offerings to make investments, to repurchase or pay down liabilities and for general corporate purposes. As of December 31, 2015, approximately 7.35 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. We may repurchase shares of our common stock in the open market, including block purchases, at prices that may be above or below the net asset value 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 year ended December 31, 2015, we repurchased 437,006 shares of our common stock at an average price per share of \$10.61 per share and a total cost of approximately \$4.6 million. As of December 31, 2015, approximately \$45.4 million of common stock remains eligible for repurchase under the stock repurchase plan. See Subsequent Events.

On March 27, 2015, we raised approximately \$100.1 million, after deducting offering expenses, in a public offering of 7,590,000 shares of our common stock.

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 net asset value ( NAV ) per share, which is effective for a period expiring on the earlier of July 7, 2016 or the 2016 annual meeting of stockholders. In connection with the receipt of such stockholder approval, we will limit the number of shares that we issue at a price below NAV pursuant to this authorization so that the aggregate dilutive effect on our then outstanding shares will not exceed 20%. Our Board of Directors, subject to its fiduciary duties and regulatory requirements, has the discretion to determine the amount of the discount, and as a result, the discount could be up to 100% of NAV per share. During the year ended December 31, 2015, we have not issued common stock at a discount to NAV.

As of December 31, 2015, approximately \$57.4 million of our Convertible Senior Notes had been converted and were settled with a combination of cash equal to the outstanding principal amount of the Convertible Senior Notes and approximately 1.5 million of our common stock, or \$24.3 million. By not meeting the stock trading price conversion requirement during the three months ended March 31, 2015, June 30, 2015, or September 30, 2015 the Convertible Senior Notes are not convertible for the period between April 1, 2015 and October 14, 2015. On or after October 15, 2015 until the close of business on the scheduled trading day immediately preceding the maturity date, holders may convert their Convertible Senior Notes at any time.

At December 31, 2015, we had \$17.6 million of Convertible Senior Notes, \$110.4 million of 2019 Notes, \$103.0 million of 2024 Notes, \$129.3 million of 2021 Asset-Backed Notes, \$190.2 million of SBA debentures payable and \$50.0 million of borrowings outstanding on the Wells Facility. We had no borrowings outstanding under the Union Bank Facility.

At December 31, 2015, we had \$195.2 million in available liquidity, including \$95.2 million in cash and cash equivalents. We had available borrowing capacity of approximately \$25.0 million under the Wells Facility and \$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 December 31, 2015, 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 December 31, 2015, we have issued \$190.2 million in SBA guaranteed debentures in our SBIC subsidiaries.

**Table of Contents**

**Index to Financial Statements**

At December 31, 2015, we had approximately \$9.2 million of restricted cash, which consists of collections of interest and principal payments on assets that are securitized. In accordance with the terms of the related securitized 2021 Asset-Backed Notes, based on current characteristics of the securitized debt investment portfolios, the restricted funds may be used to pay monthly interest and principal on the securitized debt and are not distributed to us or available for our general operations. During the year ended December 31, 2015, 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 year ended December 31, 2015, our operating activities used \$114.4 million of cash and cash equivalents, compared to \$26.5 million used during the year ended December 31, 2014. This \$87.9 million increase in cash used by operating activities resulted primarily from the increase in purchase of investments of approximately \$89.5 million and the decrease in net assets resulting from operations of approximately \$28.3 million, offset by increases in unrealized depreciation on investments of approximately \$15.1 million and decreases in realized gains on investments of approximately \$15.0 million.

During the year ended December 31, 2015, our investing activities provided \$3.3 million of cash, compared to approximately \$6.6 million used during the year ended December 31, 2014. This \$9.9 million increase in cash provided by investing activities was primarily due to a decrease in cash classified as restricted cash on assets that are securitized.

During the year ended December 31, 2015, our financing activities used \$20.8 million of cash, compared to \$8.2 million used during the year ended December 31, 2014. This \$12.6 million increase in cash used was primarily due to the repayments of approximately \$88.7 million on the Wells Facility and \$60.0 million of 2019 Notes. These increases were offset by increases in proceeds from issuance of common stock of \$90.3 million as a result of a public offering of 7,590,000 shares on March 27, 2015 and decreases in settlements of Convertible Senior Notes of \$53.1 million.

As of December 31, 2015, net assets totaled \$717.1 million, with a NAV per share of \$9.94. 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 December 31, 2015 our asset coverage ratio under our regulatory requirements as a business development company was 274.8%, 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 219.4% at December 31, 2015.

**Table of Contents****Index to Financial Statements****Outstanding Borrowings**

At December 31, 2015 and December 31, 2014, we had the following available borrowings and outstanding amounts:

(in thousands)	December 31, 2015		December 31, 2014	
	Total Available	Carrying Value <sup>(1)</sup>	Total Available	Carrying Value <sup>(1)</sup>
SBA Debentures <sup>(2)</sup>	\$ 190,200	\$ 190,200	\$ 190,200	\$ 190,200
2019 Notes	110,364	110,364	170,364	170,364
2024 Notes	103,000	103,000	103,000	103,000
2017 Asset-Backed Notes			16,049	16,049
2021 Asset-Backed Notes	129,300	129,300	129,300	129,300
Convertible Senior Notes <sup>(3)</sup>	17,604	17,522	17,674	17,345
Wells Facility <sup>(4)</sup>	75,000	50,000	75,000	
Union Bank Facility <sup>(4)</sup>	75,000		75,000	
<b>Total</b>	<b>\$ 700,468</b>	<b>\$ 600,386</b>	<b>\$ 776,587</b>	<b>\$ 626,258</b>

(1) Except for the Convertible Senior Notes, all carrying values are the same as the principal amount outstanding.

(2) At both December 31, 2015 and December 31, 2014, 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) During the year ended December 31, 2015, holders of approximately \$70,000 of our Convertible Senior Notes exercised their conversion rights. The balance at December 31, 2015 represents the remaining aggregate principal amount outstanding of the Convertible Senior Notes less the remaining unaccreted discount initially recorded upon issuance of the Convertible Senior Notes. The total remaining unaccreted discount for the Convertible Senior Notes was approximately \$82,000 at December 31, 2015 and \$329,000 at December 31, 2014.

(4) Availability subject to meeting the borrowing base requirements.

Our net asset value may decline as a result of economic conditions in the United States. Our continued compliance with the covenants under our Credit Facilities, Convertible Senior Notes, 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 financing costs are fees and other direct incremental costs we incur in obtaining debt financing and are recognized as prepaid expenses and amortized into the Consolidated Statement of Operations as loan fees over the term of the related debt instrument. Prepaid financing costs, net of accumulated amortization, as of December 31, 2015 and December 31, 2014 were as follows:

(in thousands)	December 31, 2015	December 31, 2014
SBA Debentures	\$ 3,371	\$ 4,038
2019 Notes	2,185	4,352
2024 Notes	2,872	3,205
2017 Asset-Backed Notes		506
2021 Asset-Backed Notes	2,305	3,207
Convertible Senior Notes	44	175
Wells Facility	669	794
Union Bank Facility	229	156
<b>Total</b>	<b>\$ 11,675</b>	<b>\$ 16,433</b>



**Table of Contents****Index to Financial Statements****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 our 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 December 31, 2015, we had approximately \$75.4 million of unfunded commitments, including undrawn revolving facilities, which were available at the request of the portfolio company and unencumbered by milestones. In addition, we had approximately \$40.5 million of unavailable commitments to portfolio companies due to milestone and other covenant restrictions. 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 \$86.0 million of non-binding term sheets outstanding to eight new and existing companies, which generally convert to contractual commitments within approximately 90 days of signing. Non-binding outstanding term sheets are subject to completion of our due diligence and final investment committee approval process, as well as the negotiation of definitive documentation with the prospective portfolio companies. Not all non-binding term sheets are expected to close and do not necessarily represent future cash requirements.

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

As of December 31, 2015, 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)

<b>Portfolio Company</b>	<b>Total Unfunded Commitments</b>
Paratek Pharmaceuticals, Inc.	\$ 20,000
NewVoiceMedia Limited	15,000
Machine Zone, Inc.	10,000
Aquantia Corp.	6,499
Message Systems, Inc.	5,882
Genocea Biosciences, Inc.	5,000
Antenna79 (p.k.a. Pong Research Corporation)	4,692
Druva, Inc.	3,000
Flownix Medical	2,000
Cranford Pharmaceuticals, LLC	1,900
Zoom Media Group, Inc.	940
Touchcommerce, Inc.	489
<b>Total</b>	<b>\$ 75,402</b>

**Table of Contents****Index to Financial Statements****Contractual Obligations**

The following table shows our contractual obligations as of December 31, 2015:

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>	\$ 600,386	\$ 17,522	\$ 129,300	\$ 211,564	\$ 242,000
Operating Lease Obligations <sup>(5)</sup>	4,843	1,624	2,924	295	
<b>Total</b>	<b>\$ 605,229</b>	<b>\$ 19,146</b>	<b>\$ 132,224</b>	<b>\$ 211,859</b>	<b>\$ 242,000</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 borrowings under the SBA debentures, \$110.4 million of the 2019 Notes, \$103.0 million of the 2024 Notes, \$129.3 million in aggregate principal amount of the 2021 Asset-Backed Notes and \$17.5 million of the Convertible Senior Notes and \$50.0 million in outstanding borrowings on the Wells Facility as of December 31, 2015.

(4) Except for the Convertible Senior Notes, all carrying values are the same as the principal amount outstanding. The aggregate principal amount outstanding of the Convertible Senior Notes is \$17.6 million less the remaining unaccreted discount initially recorded upon issuance of the Convertible Senior Notes. The total remaining unaccreted discount for the Convertible Senior Notes was \$82,000 at December 31, 2015.

(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 \$1.7 million, \$1.6 million and \$1.1 million during the years ended December 31, 2015, 2014, and 2013, respectively.

**Indemnification Agreements**

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

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

**Borrowings***Long-Term SBA Debentures*

On September 27, 2006, HT II received a license to operate as a SBIC under the SBIC program and is able to borrow funds from the SBA against eligible investments and additional contributions to regulatory capital. Under the Small Business Investment Company Act and current SBA policy applicable to SBICs, a SBIC can have outstanding at any time SBA guaranteed debentures up to twice the amount of its regulatory capital. With our net investment of \$44.0 million in HT II as of December 31, 2015, 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 December 31, 2015. As of December 31, 2015, HT II has paid the SBA commitment fees and facility fees of approximately \$1.5 million and \$3.6 million, respectively. As of December 31, 2015 we held investments in HT II in 32 companies with a fair value of approximately \$79.5 million, accounting for approximately 6.6% of our total portfolio. HT II held approximately \$128.3 million in assets and accounted for approximately 7.6% of our total assets prior to consolidation at December 31, 2015.





**Table of Contents****Index to Financial Statements**

On May 26, 2010, HT III received a license to operate as a SBIC under the SBIC program and is able to borrow funds from the SBA against eligible investments and additional contributions to regulatory capital. With our net investment of \$74.5 million in HT III as of December 31, 2015, HT III has the capacity to issue a total of \$149.0 million of SBA guaranteed debentures, subject to SBA approval, of which \$149.0 million was outstanding as of December 31, 2015. As of December 31, 2015, HT III has paid commitment fees and facility fees of approximately \$1.5 million and \$3.6 million, respectively. As of December 31, 2015, we held investments in HT III in 44 companies with a fair value of approximately \$255.9 million accounting for approximately 21.3% of our total portfolio. HT III held approximately \$310.8 million in assets and accounted for approximately 18.5% of the Company's total assets prior to consolidation at December 31, 2015.

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 our wholly-owned subsidiaries HT II and HT III, we plan 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 us if they do not have sufficient capital in accordance with SBA regulations. 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 December 31, 2015 as a result of having sufficient capital as defined under the SBA regulations.

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

The average amount of debentures outstanding for the year ended December 31, 2015 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 year ended December 31, 2015 for HT III was approximately \$149.0 million with an average interest rate of approximately 3.43%.

**Table of Contents****Index to Financial Statements**

For the years ended December 31, 2015 and 2014, the components of interest expense and related fees and cash paid for interest expense for the SBA debentures are as follows:

(in thousands)	Year Ended December 31,	
	2015	2014
Interest expense	\$ 6,969	\$ 7,328
Amortization of debt issuance cost (loan fees)	667	1,036
<b>Total interest expense and fees</b>	<b>\$ 7,636</b>	<b>\$ 8,364</b>

Cash paid for interest expense and fees	\$ 6,942	\$ 8,042
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As of December 31, 2015, 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 December 31, 2015, 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 December 31, 2015, we have issued \$190.2 million in SBA-guaranteed debentures in our SBIC subsidiaries.

We reported the following SBA debentures outstanding on our Consolidated Statement of Assets and Liabilities as of December 31, 2015 and December 31, 2014:

(in thousands) Issuance/Pooling Date	Maturity Date	Interest Rate <sup>(1)</sup>	December 31, 2015	December 31, 2014
<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

**2019 Notes**

On March 6, 2012, we and U.S. Bank National Association (the 2019 Trustee ) entered into an indenture (the Base Indenture ). On April 17, 2012, we and the 2019 Trustee entered into the First Supplemental Indenture to the Base Indenture (the First Supplemental Indenture ), dated April 17, 2012, relating to our issuance, offer and sale of \$43.0 million aggregate principal amount of 7.00% notes due 2019 ( the April 2019 Notes ). The sale of the April 2019 Notes generated net proceeds, before expenses, of approximately \$41.7 million.

In July 2012, we reopened our 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.

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On September 24, 2012, we 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 our issuance, offer and sale of \$75.0 million aggregate principal amount of 7.00% notes due 2019 (the September 2019 Notes ). The sale of the September 2019 Notes generated net proceeds, before expenses, of approximately \$72.75 million.

S-53

**Table of Contents****Index to Financial Statements**

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, we 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, we 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 December 31, 2015 and December 31, 2014, the 2019 Notes payable is comprised of:

(in thousands)	December 31, 2015	December 31, 2014
April 2019 Notes	\$ 64,490	\$ 84,490
September 2019 Notes	45,874	85,874
<b>Carrying Value of 2019 Notes</b>	<b>\$ 110,364</b>	<b>\$ 170,364</b>

*April 2019 Notes*

The April 2019 Notes will mature on April 30, 2019 and may be redeemed in whole or in part at our 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 our direct unsecured obligations and rank: (i) *pari passu* with our other outstanding and future senior unsecured indebtedness; (ii) senior to any of our future indebtedness that expressly provides it is subordinated to the April 2019 Notes; (iii) effectively subordinated to all our existing and future secured indebtedness (including indebtedness that is initially unsecured to which we subsequently grant security), to the extent of the value of the assets securing such indebtedness; (iv) structurally subordinated to all existing and future indebtedness and other obligations of any of our subsidiaries.

The Base Indenture, as supplemented by the First Supplemental Indenture, contains certain covenants including covenants requiring our 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 we 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.

The April 2019 Notes were sold pursuant to an underwriting agreement dated April 11, 2012 among us and Stifel, Nicolaus & Company, Incorporated, as representative of the several underwriters named in the underwriting agreement.

*September 2019 Notes*

The September 2019 Notes will mature on September 30, 2019 and may be redeemed in whole or in part at our option at any time or from time to time on or after September 30, 2015, upon not less than 30 days nor more

**Table of Contents****Index to Financial Statements**

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

The Base Indenture, as supplemented by the Second Supplemental Indenture, contains certain covenants including covenants requiring us 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 we 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.

The September 2019 Notes were sold pursuant to an underwriting agreement dated September 19, 2012 among us and Stifel, Nicolaus & Company, Incorporated, as representative of the several underwriters named in the underwriting agreement

For the years ended December 31, 2015 and 2014, the components of interest expense and related fees and cash paid for interest expense for the 2019 Notes are as follows:

(in thousands)	Year Ended December 31,	
	2015	2014
Interest expense	\$ 10,899	\$ 11,926
Amortization of debt issuance cost (loan fees)	2,167	967
<b>Total interest expense and fees</b>	<b>\$ 13,066</b>	<b>\$ 12,893</b>
Cash paid for interest expense and fees	\$ 11,132	\$ 11,926

As of December 31, 2015, we were in compliance with the terms of the Base Indenture, and respective supplemental indentures thereto, governing the April 2019 Notes and September 2019 Notes. See Note 4 to our consolidated financial statements for more detail on the 2019 Notes.

***2024 Notes***

On July 14, 2014, we and U.S. Bank National Association (the 2024 Trustee ), entered into the Third Supplemental Indenture (the Third Supplemental Indenture ) to the Base Indenture between us and the 2024 Trustee, dated July 14, 2014, relating to our issuance, offer and sale of \$100.0 million aggregate principal amount of 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. The sale of the 2024 Notes generated net proceeds of approximately \$99.9 million.

**Table of Contents****Index to Financial Statements**

The 2024 Notes will mature on July 30, 2024 and may be redeemed in whole or in part at our 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 our direct unsecured obligations and rank: (i) *pari passu* with our other outstanding and future senior unsecured indebtedness; (ii) senior to any of our future indebtedness that expressly provides it is subordinated to the 2024 Notes; (iii) effectively subordinated to all of our existing and future secured indebtedness (including indebtedness that is initially unsecured to which we subsequently grant security), to the extent of the value of the assets securing such indebtedness; (iv) structurally subordinated to all existing and future indebtedness and other obligations of any of our subsidiaries.

The Base Indenture, as supplemented by the Third Supplemental Indenture, contains certain covenants including covenants requiring us 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 we provide financial information to the holders of the 2024 Notes and the 2024 Trustee if we 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 December 31, 2015, we were in compliance with the terms of the Base Indenture, as supplemented by the Third Supplemental Indenture.

At both December 31, 2015 and December 31, 2014, the 2024 Notes had an outstanding principal balance of \$103.0 million.

For the years ended December 31, 2015 and 2014, the components of interest expense and related fees and cash paid for interest expense for the 2024 Notes are as follows:

(in thousands)	Year Ended December 31,	
	2015	2014
Interest expense	\$ 6,437	\$ 2,955
Amortization of debt issuance cost (loan fees)	333	153
<b>Total interest expense and fees</b>	<b>\$ 6,770</b>	<b>\$ 3,108</b>
Cash paid for interest expense and fees	\$ 6,437	\$ 1,887

**2017 Asset-Backed Notes**

On December 19, 2012, we completed a \$230.7 million term debt securitization in connection with which an affiliate of ours made an offer of \$129.3 million in aggregate principal amount of fixed-rate asset-backed notes, (the 2017 Asset-Backed Notes ) which were rated A2(sf) by Moody's Investors Service, Inc. The 2017 Asset-Backed Notes were sold by the 2012 Securitization Issuer pursuant to a note purchase agreement, dated as of December 12, 2012, by and among us, the 2012 Trust Depositor, the 2012 Securitization Issuer, and Guggenheim Securities, LLC, as initial purchaser, and were backed by a pool of senior loans made to certain of our portfolio companies and secured by certain assets of those portfolio companies and serviced by us.

**Table of Contents****Index to Financial Statements**

As part of this transaction, we entered into a sale and contribution agreement with the 2012 Trust Depositor under which we have agreed to sell or have contributed to the 2012 Trust Depositor certain senior loans made to certain of our portfolio companies (the 2012 Loans ). We have made customary representations, warranties and covenants in the sale and contribution agreement with respect to the 2012 Loans as of the date of their transfer to the 2012 Trust Depositor.

At December 31, 2014, the 2017 Asset-Backed Notes had an outstanding principal balance of \$16.0 million. In February 2015, changes in the payment schedule of obligors in the 2017 Asset-Backed Notes collateral pool triggered a rapid amortization event in accordance with the sale and servicing agreement for the 2017 Asset-Backed Notes. Due to this event, the 2017 Asset-Backed Notes were fully repaid as of April 16, 2015.

Interest on the 2017 Asset-Backed Notes was paid, to the extent of funds available, at a fixed rate of 3.32% per annum. For the years ended December 31, 2015 and 2014, the components of interest expense and related fees and cash paid for interest expense for the 2017 Asset-Backed Notes are as follows:

(in thousands)	Year Ended December 31,	
	2015	2014
Interest expense	\$ 141	\$ 1,628
Amortization of debt issuance cost (loan fees)	506	2,180
<b>Total interest expense and fees</b>	<b>\$ 647</b>	<b>\$ 3,808</b>

Cash paid for interest expense and fees

\$

\$

Under the terms of the 2017 Asset Backed Notes, we are 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 2017 Asset-Backed Notes. We segregated these funds and classified them as restricted cash. There was approximately \$1.2 million of restricted cash as of December 31, 2014, funded through interest collections. As the 2017 Asset-Backed Notes were fully repaid as of April 16, 2015 there were no funds segregated as restricted cash related to the 2017 Asset-Backed Notes at December 31, 2015.

***2021 Asset-Backed Notes***

On November 13, 2014, we completed a \$237.4 million term debt securitization in connection with which an affiliate of ours 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 the 2014 Securitization Issuer pursuant to a note purchase agreement, dated as of November 13, 2014, by and among us, 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 our portfolio companies and secured by certain assets of those portfolio companies and are to be serviced by us. 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, we entered into a sale and contribution agreement with the 2014 Trust Depositor under which we have agreed to sell or have contributed to the 2014 Trust Depositor certain senior loans made to certain of our portfolio companies. We have 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, we have 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 us. The 2014 Securitization Issuer also entered into an indenture governing the 2021 Asset-Backed Notes, which includes customary representations, warranties and covenants. The 2021 Asset-Backed Notes were sold without being registered





**Table of Contents****Index to Financial Statements**

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) 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 provide 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 us pursuant to a sale and servicing agreement, which contains customary representations, warranties and covenants. We perform certain servicing and administrative functions with respect to the 2014 Loans. We are 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).

We also serve as administrator to the 2014 Securitization Issuer under an administration agreement, which includes customary representations, warranties and covenants.

At both December 31, 2015 and December 31, 2014, the 2021 Asset-Backed Notes had an outstanding principal balance of \$129.3 million.

For the years ended December 31, 2015 and 2014, 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)	Year Ended December 31,	
	2015	2014
Interest expense	\$ 4,557	\$ 608
Amortization of debt issuance cost (loan fees)	902	117
<b>Total interest expense and fees</b>	<b>\$ 5,459</b>	<b>\$ 725</b>

Cash paid for interest expense and fees	\$ 4,557	\$ 418
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Under the terms of the 2021 Asset Backed Notes, we are 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. We have segregated these funds and classified them as restricted cash. There was approximately \$9.2 million and \$11.5 million of restricted cash as of December 31, 2015 and December 31, 2014, respectively, funded through interest collections. See Note 4 to our consolidated financial statements for more detail on the 2021 Asset-Backed Notes.

***Convertible Senior Notes***

In April 2011, we issued \$75.0 million in aggregate principal amount of 6.00% convertible senior notes due 2016. During the year ended December 31, 2015, holders of approximately \$70,000 of our Convertible Senior Notes exercised their conversion rights. As of December 31, 2015, the carrying value of the Convertible Senior Notes, comprised of the aggregate principal amount outstanding less the remaining unaccreted discount initially recorded upon issuance of the Convertible Senior Notes, is approximately \$17.5 million.

The Convertible Senior Notes mature on April 15, 2016, unless previously converted or repurchased in accordance with their terms. The Convertible Senior Notes bear interest at a rate of 6.00% per year payable



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**Table of Contents****Index to Financial Statements**

semiannually in arrears on April 15 and October 15 of each year, commencing on October 15, 2011. The Convertible Senior Notes are our senior unsecured obligations and rank senior in right of payment to our existing and future indebtedness that is expressly subordinated in right of payment to the Convertible Senior Notes; equal in right of payment to our existing and future unsecured indebtedness that is not so subordinated; effectively junior in right of payment to any of our secured indebtedness (including unsecured indebtedness that we later secure) to the extent of the value of the assets securing such indebtedness; and structurally junior to all existing and future indebtedness (including trade payables) incurred by our subsidiaries, financing vehicles or similar facilities.

Prior to the close of business on the business day immediately preceding October 15, 2015, holders could convert their Convertible Senior Notes only under certain circumstances set forth in the indenture governing the Convertible Senior Notes. On or after October 15, 2015, until the close of business on the scheduled trading day immediately preceding the maturity date, holders may convert their Convertible Senior Notes at any time. Upon conversion, we will pay or deliver, as the case may be, at our election, cash, shares of our common stock or a combination of cash and shares of our common stock. The conversion rate was initially 84.0972 shares of common stock per \$1,000 principal amount of Convertible Senior Notes (equivalent to an initial conversion price of approximately \$11.89 per share of common stock). The conversion rate is subject to adjustment in some events but will not be adjusted for any accrued and unpaid interest. In addition, if certain corporate events occur prior to the maturity date, the conversion rate is increased for converting holders. As of December 31, 2015, the conversion rate was 90.6580 shares of common stock per \$1,000 principal amount of Convertible Senior Notes (equivalent to an adjusted conversion price of approximately \$11.03 per share of common stock).

We may not redeem the Convertible Senior Notes prior to maturity. No sinking fund is provided for the Convertible Senior Notes. In addition, if certain corporate events occur, holders of the Convertible Senior Notes may require us to repurchase for cash all or part of their Convertible Senior Notes at a repurchase price equal to 100% of the principal amount of the Convertible Senior Notes to be repurchased, plus accrued and unpaid interest through, but excluding, the required repurchase date.

The Convertible Senior Notes are accounted for in accordance with ASC Subtopic 470-20 (previously the Financial Accounting Standards Board ( FASB ) Staff Position No. APB 14- 1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) ). In accounting for the Convertible Senior Notes, we 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, we record 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%.

Upon meeting the stock trading price conversion requirement as set forth in the indenture governing the Convertible Senior Notes, dated April 15, 2011, between us and U.S. Bank National Association, 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, approximately \$57.4 million of the Convertible Senior Notes were converted and 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 our common stock, or \$24.3 million. By not meeting the stock trading price conversion requirement during the three months ended March 31, 2015, June 30, 2015, or September 30, 2015 the Convertible Senior Notes were not convertible for the period between April 1, 2015 and October 14, 2015. On or after October 15, 2015 until the close of business on the scheduled trading day immediately preceding the maturity date, holders may convert their Convertible Senior Notes at any time as described above.

We recorded a loss on extinguishment of debt for the proportionate amount of unamortized debt issuance costs and original issue discount on Notes converted during the period. 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

**Table of Contents****Index to Financial Statements**

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 the Company's Consolidated Statement of Operations.

As of December 31, 2015 and December 31, 2014, the components of the carrying value of the Convertible Senior Notes were as follows:

(in thousands)	December 31, 2015	December 31, 2014
Principal amount of debt	\$ 17,604	\$ 17,674
Original issue discount, net of accretion	(82)	(329)
<b>Carrying value of Convertible Senior Debt</b>	<b>\$ 17,522</b>	<b>\$ 17,345</b>

For the years ended December 31, 2015 and 2014, the components of interest expense, fees and cash paid for interest expense for the Convertible Senior Notes were as follows:

(in thousands)	Year Ended December 31,	
	2015	2014
Interest expense	\$ 1,007	\$ 2,753
Accretion of original issue discount	246	843
Amortization of debt issuance cost (loan fees)	131	450
<b>Total interest expense and fees</b>	<b>\$ 1,384</b>	<b>\$ 4,046</b>
<b>Cash paid for interest expense and fees</b>	<b>\$ 1,057</b>	<b>\$ 3,465</b>

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 years ended December 31, 2015 and December 31, 2014. Interest expense decreased by approximately \$1.7 million during the year ended December 31, 2015 from the year ended December 31, 2014, due to Convertible Senior Notes settled in the period. As of December 31, 2015, we are in compliance with the terms of the indentures governing the Convertible Senior Notes. See Note 4 to our consolidated financial statements for more detail on the Convertible Senior Notes.

***Wells Facility***

On June 29, 2015, we, through a special purpose wholly-owned subsidiary, Hercules Funding II LLC ( Hercules Funding II ), entered into an Amended and Restated Loan and Security Agreement (the Wells Facility ) with Wells Fargo Capital Finance, LLC, as a lender and as the arranger and the administrative agent, and the lenders party thereto from time to time. The Wells Facility amends, restates, and otherwise replaces the Loan and Security Agreement, which was originally entered into on August 25, 2008, with Wells Fargo Capital Finance, LLC, and had been amended from time to time. The Wells Facility was amended and restated to, among other things, consolidate prior amendments and update certain provisions to reflect our current operations and personnel and those of Hercules Funding II. Many other terms and provisions of the Wells Facility remain the same or substantially similar to the terms and provisions of the original Wells Facility.

On December 16, 2015, we entered into an amendment to the Wells Facility that extended the revolving credit availability period and maturity date of the facility. As amended, the revolving credit availability period ends on August 1, 2018 and 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 has made commitments of \$75.0 million. The Wells Facility contains an accordion feature, in which we can increase the credit line up to an aggregate of \$300.0 million, funded by additional lenders and with the agreement of Wells Fargo Capital Finance, LLC and subject to other customary conditions. We expect 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.



**Table of Contents****Index to Financial Statements**

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 years ended December 31, 2015 and 2014, this non-use fee was approximately \$294,000 and \$380,000, respectively.

The Wells Facility also includes various financial and other covenants applicable to us and our 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 us 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 December 31, 2015, the minimum tangible net worth covenant has increased to \$590.4 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. 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 we 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, we paid an additional \$750,000 in structuring fees and in connection with the amendment in December 2015, we paid an additional \$188,000 in structuring fees. These fees are being amortized through the end of the term of the Wells Facility.

We had aggregate draws of \$138.7 million on the available facility during the year ended December 31, 2015 offset by repayments of \$88.7 million. At December 31, 2015 there was \$50.0 million of borrowings outstanding on this facility. At December 31, 2014 there were no borrowings outstanding on this facility.

For the years ended December 31, 2015 and 2014, the components of interest expense and related fees and cash paid for interest expense for the Wells Facility are as follows:

(in thousands)	Year Ended December 31,	
	2015	2014
Interest expense	\$ 578	\$ 198
Amortization of debt issuance cost (loan fees)	361	198
<b>Total interest expense and fees</b>	<b>\$ 939</b>	<b>\$ 198</b>
Cash paid for interest expense and fees	\$ 402	\$

See Note 4 to our consolidated financial statements for more detail on the Wells Facility.

***Union Bank Facility***

We have a \$75.0 million revolving senior secured credit facility with MUFG Union Bank, N.A. ( MUFG Union Bank ). We originally entered into the Union Bank Facility on February 10, 2010 but, following several amendments, amended and restated the Union Bank Facility on August 14, 2014. The amendment and restatement extends the maturity date of the Union Bank Facility to August 1, 2017, increases the size of the Union Bank Facility to \$75.0 million from \$30.0 million, and adjusts the interest rate for LIBOR borrowings under the Union Bank Facility. We further amended the Union Bank Facility in November 2015 but the amendment did not result in any material changes to the facility.

LIBOR-based borrowings under the Union Bank Facility will bear interest at a rate per annum equal to LIBOR plus 2.25% with no floor, whereas previously we paid a per annum interest rate on such borrowings equal to LIBOR plus 2.50% with a floor of 4.00%. Other borrowings under the Union Bank Facility, which are

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**Table of Contents**

**Index to Financial Statements**

based on a reference rate instead of LIBOR, will continue to bear interest at a rate per annum equal to the reference rate (which is the greater of the federal funds rate plus 1.00% and a periodically announced MUFG Union Bank index rate) plus the greater of (i) 4.00% minus the reference rate and (ii) 1.00%. We continue to have the option of determining which type of borrowing to request under the Union Bank Facility. Subject to certain conditions, the amendment also removes a previous ceiling on the amount of certain unsecured indebtedness that we may incur.

The Union Bank Facility contains an accordion feature, pursuant to which we may increase the size of the Union Bank Facility to an aggregate principal amount of \$300.0 million by bringing in additional lenders, subject to the approval of MUFG Union Bank and other customary conditions. There can be no assurances that additional lenders will join the Union Bank Facility to increase available borrowings.

The Union Bank Facility requires the payment of a non-use fee of 0.50% annually. For the years ended December 31, 2015 and 2014, this non-use fee was approximately \$380,000 and \$240,000, respectively. The amount that we may borrow under the Union Bank Facility is determined by applying an advance rate to eligible loans. The Union Bank Facility generally requires payment of monthly interest on loans based on a reference rate and at the end of a one, two, or three-month period, as applicable, for loans based on LIBOR. All outstanding principal is due upon maturity.

The Union Bank Facility is collateralized by debt investments in our portfolio companies, and includes an advance rate equal to 50.0% of eligible debt investments placed in the collateral pool.

We have various financial and operating covenants required by the Union Bank Facility. These covenants require, among other things, that we maintain certain financial ratios, including liquidity, asset coverage, and debt service coverage, and a minimum tangible net worth in an amount, when added to outstanding subordinated indebtedness, that is in excess of \$550.0 million plus 90% of the amount of net cash proceeds received from the sale of common stock after June 30, 2014. As of December 31, 2015, the minimum tangible net worth covenant has increased to \$640.1 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. The Union Bank Facility provides for customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, bankruptcy events and change of control.

At December 31, 2015 there were no borrowings outstanding on the Union Bank Facility. See Note 4 to our consolidated financial statements for more detail on the Union Bank Facility.

***Citibank Credit Facility***

We, through Hercules Funding Trust I, an affiliated statutory trust, had a securitized credit facility with Citigroup which expired under normal terms. During the first quarter of 2009, we 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, we 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 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 year ended December 31, 2015, we reduced our realized gain by approximately \$143,000 for Citigroup's participation in the realized gain from the acquisition proceeds we received on equity exercised from warrants that were included in the collateral pool. We recorded an increase in participation liability and a decrease in unrealized appreciation by a net amount of approximately \$11,000 primarily due to appreciation of fair value on the pool of warrants collateralized under the warrant participation agreement offset by the acquisition proceeds we received on our Atlanta, Inc. equity investment. The remaining value of their



**Table of Contents****Index to Financial Statements**

participation right on unrealized gains in the related equity investments is approximately \$111,000 as of December 31, 2015 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 Citigroup approximately \$2.2 million under the warrant participation agreement thereby reducing 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 warrant participation agreement are set to expire between February 2016 and January 2017.

**Dividends**

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

\$ 11.54

\* Dividend paid in cash and stock.

S-63

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**Table of Contents**

**Index to Financial Statements**

On February 17, 2016 the Board of Directors declared a cash dividend of \$0.31 per share to be paid on March 14, 2016 to shareholders of record as of March 7, 2016. This dividend will represent our forty-second consecutive dividend declaration since our initial public offering, bringing the total cumulative dividend declared to date to \$11.54 per share.

Our Board of Directors maintains a variable dividend 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, 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 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 fiscal year based upon our taxable income for the full year and distributions paid for the full year. Of the dividends declared during the years ended December 31, 2015, 2014 and 2013, 100% were distributions 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.

Shortly after the close of each calendar year, a statement on Form 1099-DIV 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) is mailed 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 the Code. Generally, a RIC is entitled to deduct dividends it pays to its shareholders in determining taxable income. Taxable income includes our taxable interest, dividend and fee income, reduced by certain deductions, as well as taxable net capital 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.

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 shareholders of an amount at least equal to the Excise Tax Avoidance Requirements. We will not be subject to excise tax on amounts on which we are required to pay corporate income tax (such as retained net capital gains). Depending on the level of taxable income earned in a taxable year, we may choose to carry over taxable income in excess of current taxable year dividend distributions from such taxable income into the next taxable year and pay a 4% excise tax on such taxable income, as required. The maximum amount of excess taxable income that may be carried over for distribution as dividends in the next taxable year under the Code is the total amount of dividends 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 taxable income for that taxable year as such dividends 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.

## **Table of Contents**

### **Index to Financial Statements**

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

We maintain an opt-out dividend reinvestment plan for our common stockholders. As a result, if we declare a dividend, 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 dividends.

### **Critical Accounting Policies**

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

### ***Reclassification***

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

### ***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 December 31, 2015, approximately 90.0% of our total assets represented investments in portfolio companies whose fair value is determined in good faith by the Board of Directors. Value, as defined in Section 2(a)(41) of the 1940 Act, is (i) the market price for those securities for which a market quotation is readily available and (ii) for all other securities and assets, fair value is as determined in good faith by the Board of Directors. Our investments are carried at fair value in accordance with the 1940 Act and ASC 946 and measured in accordance with ASC 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 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 820 and the 1940 Act. Due to the inherent uncertainty in determining the fair value of investments that do not have a readily available market value, the fair value of our investments determined in good faith by our Board of Directors may differ significantly from the value that would have been used had a readily available market existed for such investments, and the differences could be material.

See *Determination of Net Asset Value* for a discussion of our investment valuation process.

**Table of Contents**

**Index to Financial Statements**

Investments measured at fair value on a recurring basis are categorized in the tables below based upon the lowest level of significant input to the valuations as of December 31, 2015 and as of December 31, 2014. 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 year ended December 31, 2015, there were no transfers between Levels 1 or 2.

(in thousands)	Balance December 31, 2015	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Description</b>				
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 <sup>(1)</sup>	2,967			2,967
<b>Total</b>	\$ 1,203,605	\$ 30,670	\$ 12,235	\$ 1,160,700

(in thousands)	Balance December 31, 2014	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Description</b>				
Senior Secured Debt	\$ 923,906	\$	\$	\$ 923,906
Preferred Stock	57,548			57,548
Common Stock	14,185	12,798		1,387
Warrants	25,098		3,175	21,923
<b>Total</b>	\$ 1,020,737	\$ 12,798	\$ 3,175	\$ 1,004,764

(1) Note that escrow receivable has been added to the fair value leveling disclosure as of December 31, 2015. We had \$3.6 million of escrow receivable as of December 31, 2014.

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 years ended December 31, 2015 and December 31, 2014.

(in thousands)	Balance January 1, 2015	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 December 31, 2015
Senior Debt	\$ 923,906	\$ (2,295)	\$ (12,930)	\$ 699,555	\$	\$ (505,274)	\$	\$ (566)	\$ 1,102,396
Preferred Stock	57,548	2,598	(1,539)	15,076	(4,542)		685	(34,581)	35,245
Common Stock	1,387	(298)	743		(305)				1,527
Warrants	21,923	(3,849)	(4,749)	5,311	1,220			(1,291)	18,565
Escrow Receivable	3,598	71		511	(1,032)	(181)			2,967
<b>Total</b>	\$ 1,008,362	\$ (3,773)	\$ (18,475)	\$ 720,453	\$ (4,659)	\$ (505,455)	\$ 685	\$ (36,438)	\$ 1,160,700

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(in thousands)	Balance January 1, 2014	Net Realized Gains (Losses) <sup>(1)</sup>	Net Change in			Sales	Repayments <sup>(6)</sup>	Gross Transfers into Level 3 <sup>(4)</sup>	Gross Transfers out of Level 3 <sup>(4)</sup>	Balance December 31, 2014
			Unrealized Appreciation (Depreciation) <sup>(2)</sup>	Purchases <sup>(5)</sup>						
Senior Debt	\$ 821,988	\$	\$ (14,182)	\$ 615,596	\$	\$ (497,258)	\$	\$ (2,238)	\$ 923,906	
Preferred Stock	35,554	(750)	15,779	7,097	(503)		2,007	(1,636)	57,548	
Common Stock	2,107	(130)	601		(1,189)			(2)	1,387	
Warrants	28,707	(48)	(10,553)	8,596	(2,503)			(2,276)	21,923	
<b>Total</b>	<b>\$ 888,356</b>	<b>\$ (928)</b>	<b>\$ (8,355)</b>	<b>\$ 631,289</b>	<b>\$ (4,195)</b>	<b>\$ (497,258)</b>	<b>\$ 2,007</b>	<b>\$ (6,152)</b>	<b>\$ 1,004,764</b>	

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

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

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**Table of Contents**

**Index to Financial Statements**

- (3) Transfers out of Level 3 during the year ended December 31, 2015 relate to the initial public offerings of Box, Inc., ZP Opco, Inc. (p.k.a. Zosano Pharma, Inc), Neos Therapeutics, Edge Therapeutics Inc., ViewRay, Inc., and Cerecor, Inc. in addition to the exercise of warrants in both Forescout, Inc. and Atrenta, Inc. to preferred stock. Transfers into Level 3 during the year ended December 31, 2015 relate to the acquisition of preferred stock as a result of the exercise of warrants in both Forescout, Inc. and Atrenta, Inc and the conversion of debt to equity in Home Dialysis Plus and Gynesonics.
- (4) Transfers in/out of Level 3 during the year ended December 31, 2014 relate to the conversion of Paratek Pharmaceuticals, Inc., SCI Energy, Inc., Oraya Therapeutics, Inc., and Neuralstem, Inc. debt to equity, the exercise of warrants in Box, Inc and WildTangent, Inc. to equity, the conversion of warrants in Glori Energy, Inc. to equity in the company's reverse public merger, the public merger of Paratek Pharmaceuticals, Inc. with Transcept Pharmaceuticals, Inc. and the initial public offerings of Concert Pharmaceuticals, Inc., Dicerna Pharmaceuticals, Inc., Everyday Health, Inc., Neothetics, Inc., Revance Therapeutics, Inc., and UniQure BV.
- (5) Amounts listed above are inclusive of loan origination fees received at the inception of the loan which are deferred and amortized into fee income as well as the accretion of existing loan discounts and fees during the period.
- (6) Amounts listed above include the acceleration and payment of loan discounts and loan fees due to early payoffs or restructures.

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

For the year ended December 31, 2014, approximately \$15.0 million and \$555,000 in net unrealized appreciation was recorded for preferred stock and common stock Level 3 investments, respectively, relating to assets still held at the reporting date. For the same period, approximately \$14.2 million and \$2.8 million in net unrealized depreciation was recorded for debt and warrant Level 3 investments, respectively, relating to assets still held at the reporting date.

The following tables provide quantitative information about our Level 3 fair value measurements of our investments as of December 31, 2015 and December 31, 2014. In addition to the techniques and inputs noted in the table below, according to our valuation policy we may also use other valuation techniques and methodologies when determining our fair value measurements. The tables below are not intended to be all-inclusive, but rather provide information on the significant Level 3 inputs as they relate to our fair value measurements.

**Table of Contents**

**Index to Financial Statements**

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

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

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

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



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

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

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

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

S-68

**Table of Contents**

**Index to Financial Statements**

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

Investment Type-Level Three Debt Investments	Fair Value at December 31, 2014 (in thousands)	Valuation Techniques/		Range	Weighted Average <sup>(b)</sup>
		Methodologies	Unobservable Input <sup>(a)</sup>		
Pharmaceuticals	\$117,229	Originated Within 6 Months	Origination Yield	10.34% - 16.52%	11.76%
	237,595	Market Comparable Companies	Hypothetical Market Yield	9.75% - 17.73%	10.62%
			Premium/(Discount)	(0.50%) - 1.00%	
Medical Devices	60,332	Originated Within 6 Months	Origination Yield	12.14% - 16.56%	13.69%
	60,658	Market Comparable Companies	Hypothetical Market Yield	11.64% - 22.22%	12.19%
			Premium/(Discount)	0.00% - 1.00%	
12,970	Liquidation <sup>(c)</sup>	Probability weighting of alternative outcomes	50.00%		
Technology	152,645	Originated Within 6 Months	Origination Yield	10.54% - 20.02%	14.08%
	80,835	Market Comparable Companies	Hypothetical Market Yield	6.95% - 15.50%	13.01%
			Premium/(Discount)	0.00% - 0.50%	
27,159	Liquidation <sup>(c)</sup>	Probability weighting of alternative outcomes	10.00% - 90.00%		
Sustainable and Renewable Technology	4,437	Originated Within 6 Months	Origination Yield	13.85% - 21.57%	19.00%
	52,949	Market Comparable Companies	Hypothetical Market Yield	13.20% - 16.62%	15.41%
			Premium/(Discount)	0.00% - 1.50%	
1,600	Liquidation <sup>(c)</sup>	Probability weighting of alternative outcomes	100.00%		
Lower Middle Market	2,962	Originated Within 6 Months	Origination Yield	14.04%	14.04%
	59,254	Market Comparable Companies	Hypothetical Market Yield	11.91% - 15.33%	13.98%
			Premium/(Discount)	0.00% - 0.50%	
4,096	Liquidation <sup>(c)</sup>	Probability weighting of alternative outcomes	45.00% - 55.00%		
		<b>Debt Investments Where Fair Value Approximates Amortized Cost</b>			
	9,318	Imminent Payoffs <sup>(d)</sup>			
	39,867	Debt Investments Maturing in Less than One Year			
	\$923,906	<b>Total Level Three Debt Investments</b>			

(a) The significant unobservable inputs used in the fair value measurement of our securities are hypothetical market yields and premiums/(discounts). The hypothetical market yield is defined as the exit price of an investment in a hypothetical market to hypothetical market participants where buyers and sellers

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are willing participants. The premiums (discounts) relate to company specific characteristics such as underlying investment performance, security liens, and other characteristics of the investment. Significant increases (decreases) in the inputs in isolation may result in a significantly lower (higher) fair value measurement, depending on the materiality of the investment. Debt investments in the industries noted in our Consolidated Schedule of Investments are included in the industries note above as follows:

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

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

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

S-69

**Table of Contents**

**Index to Financial Statements**

Sustainable and Renewable Technology, above, aligns with the Sustainable and Renewable Technology Industry in the Consolidated Schedule of Investments. In our quarterly and annual reports filed with the commission prior to this Annual Report on Form 10-K for the year ended December 31, 2014, we referred to this industry sector as Energy Technology.

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

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

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

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

**Investment Type-Level Three**

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

**Total Level Three Warrant and  
Equity Investments**

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

S-70

**Table of Contents**

**Index to Financial Statements**

Investment Type-Level Three Equity and Warrant	Fair Value at December 31, 2014 (in thousands)	Valuation Techniques/ Methodologies	Unobservable Input <sup>(a)</sup>	Range	Weighted Average
Investments					