

Hercules Capital, Inc.  
Form 10-Q  
November 03, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For The Quarterly Period Ended September 30, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 814-00702

HERCULES CAPITAL, INC.

(Exact Name of Registrant as Specified in its Charter)

Maryland  
(State or Jurisdiction of

Incorporation or Organization)

400 Hamilton Ave., Suite 310

Palo Alto, California

743113410  
(IRS Employer

Identification No.)  
94301

(Zip Code)

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(Address of Principal Executive Offices)

(650) 289-3060

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this Chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

On October 31, 2016, there were 77,189,555 shares outstanding of the Registrant's common stock, \$0.001 par value.

HERCULES CAPITAL, INC.

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## PART I: FINANCIAL INFORMATION

In this Quarterly Report, the “Company,” “Hercules,” “we,” “us” and “our” refer to Hercules Capital, Inc. and its wholly owned subsidiaries and its affiliated securitization trusts on or after February 25, 2016 and “Hercules Technology Growth Capital, Inc.” and its wholly owned subsidiaries and its affiliated securitization trusts prior to February 25, 2016, unless the context otherwise requires.

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS  
HERCULES CAPITAL, INC.

## CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES

(unaudited)

(dollars in thousands, except per share data)

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

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|  |             |             |
|--|-------------|-------------|
| Distributions in excess of net investment income   | (11,549 )   | (10,368 )   |
| Total net assets   | \$753,589   | \$717,134   |
| Total liabilities and net assets   | \$1,419,424 | \$1,323,984 |
| Shares of common stock outstanding (\$0.001 par value, 200,000,000 and 100,000,000 authorized, respectively) | 76,400      | 72,118      |
| Net asset value per share  | \$9.86      | \$9.94      |

- (1) The Company's SBA Debentures, 2019 Notes, 2024 Notes, 2021 Asset-Backed Notes, and Convertible Senior Notes, as each term is defined herein, are presented net of the associated debt issuance costs for each instrument. See "Note 2 – Summary of Significant Accounting Policies" and "Note 4 – Borrowings".
- (2) Amounts include \$1.2 million in net unrealized depreciation on other assets and accrued liabilities, including escrow receivables, estimated taxes payable and Citigroup warrant participation agreement liabilities as of September 30, 2016 and December 31, 2015.

See notes to consolidated financial statements.



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

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

(1) The Company’s 2021 Asset-Backed Notes are presented net of the associated debt issuance costs for each instrument. See “Note 2 – Summary of Significant Accounting Policies” and “Note 4 – Borrowings”. See notes to consolidated financial statements.

## HERCULES CAPITAL, INC.

## CONSOLIDATED STATEMENT OF OPERATIONS

(unaudited)

(in thousands, except per share data)

|  | Three Months    |                 | Nine Months Ended |               |
|--|-----------------|-----------------|-------------------|---------------|
|  | Ended September | Ended September | September 30,     | September 30, |
|  | 30,             | 30,             | 2016              | 2015          |
|  | 2016            | 2015            | 2016              | 2015          |
| Investment income:   |                 |                 |                   |               |
| Interest income  |                 |                 |                   |               |
| Non-control/Non-affiliate investments  | \$39,907        | \$40,256        | \$115,887         | \$105,861     |
| Control investments  | 15              | —               | 15                | —             |
| Affiliate investments  | 30              | 83              | 145               | 278           |
| Total interest income  | 39,952          | 40,339          | 116,047           | 106,139       |
| Fees   |                 |                 |                   |               |
| Non-control/Non-affiliate investments  | 5,149           | 6,793           | 11,531            | 11,611        |
| Control investments  | 1               | —               | 1                 | —             |
| Affiliate investments  | —               | —               | —                 | 1             |
| Total fees   | 5,150           | 6,793           | 11,532            | 11,612        |
| Total investment income  | 45,102          | 47,132          | 127,579           | 117,751       |
| Operating expenses:  |                 |                 |                   |               |
| Interest   | 8,717           | 7,818           | 23,306            | 23,243        |
| Loan fees  | 1,432           | 1,072           | 3,698             | 4,166         |
| General and administrative   | 4,114           | 4,504           | 12,095            | 12,190        |
| Employee compensation:   |                 |                 |                   |               |
| Compensation and benefits  | 5,621           | 7,969           | 15,637            | 17,621        |
| Stock-based compensation   | 1,442           | 2,179           | 5,616             | 7,166         |
| Total employee compensation  | 7,063           | 10,148          | 21,253            | 24,787        |
| Total operating expenses   | 21,326          | 23,542          | 60,352            | 64,386        |
| Loss on debt extinguishment (Long-Term Liabilities - Convertible Senior Notes) | —               | —               | —                 | (1 )          |
| Net investment income  | 23,776          | 23,590          | 67,227            | 53,364        |
| Net realized gain on investments   |                 |                 |                   |               |
| Non-control/Non-affiliate investments  | 7,870           | 6,366           | 3,427             | 8,424         |
| Total net realized gain on investments   | 7,870           | 6,366           | 3,427             | 8,424         |
| Net change in unrealized appreciation (depreciation) on investments            |                 |                 |                   |               |
| Non-control/Non-affiliate investments  | (1,387 )        | (25,032 )       | (11,005 )         | (34,585 )     |
| Control investments  | —               | —               | (3,421 )          | —             |
| Affiliate investments  | 553             | (849 )          | (1,646 )          | 1,543         |
| Total net unrealized depreciation on investments                               | (834 )          | (25,881 )       | (16,072 )         | (33,042 )     |
| Total net realized and unrealized gain (loss)                                  | 7,036           | (19,515)        | (12,645 )         | (24,618 )     |
| Net increase in net assets resulting from operations                           | \$30,812        | \$4,075         | \$54,582          | \$28,746      |

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

See notes to consolidated financial statements.

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## HERCULES CAPITAL, INC.

## CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

(unaudited)

(dollars and shares in thousands)

|   | Common<br>Shares | Stock<br>Par Value | Capital in<br>excess<br>of par value | Unrealized<br>Appreciation<br>(Depreciation<br>on Investments) | Accumulated<br>Realized<br>Gains (Losses)<br>on Investments | Undistributed<br>Net Investment<br>Income/<br>(Distributions<br>in Excess<br>of<br>Investment<br>Income) | Provision<br>for<br>Income<br>Taxes<br>on<br>Investment<br>Gains | Net<br>Assets |
|---|------------------|--------------------|--------------------------------------|--|---|--|--|---------------|
| Balance at December 31,<br>2014                                       | 64,715           | \$ 65              | \$ 657,233                           | \$ (17,076 )   | \$ 14,079   | \$ 4,905   | \$ (342 )  | \$ 658,864    |
| Net increase (decrease)<br>in net assets resulting<br>from operations | —                | —                  | —                                    | (33,042 )  | 8,424   | 53,364   | —  | 28,746        |
| Public offering, net of<br>offering expenses                          | 7,591            | 8                  | 100,084                              | —  | —   | —  | —  | 100,092       |
| Issuance of common<br>stock due to stock option<br>exercises          | 51               | —                  | 428                                  | —  | —   | —  | —  | 428           |
| Retired shares from net<br>issuance                                   | (29 )            | —                  | (423 )                               | —  | —   | —  | —  | (423 )        |
| Issuance of common<br>stock under restricted<br>stock plan            | 676              | 1                  | (1 )                                 | —  | —   | —  | —  | —             |
| Retired shares for<br>restricted stock vesting                        | (595 )           | (1 )               | (3,997 )                             | —  | —   | —  | —  | (3,998 )      |
| Issuance of common<br>stock as stock dividend                         | 123              | —                  | 1,589                                | —  | —   | —  | —  | 1,589         |
| Dividend distributions  | —                | —                  | —                                    | —  | —   | (65,238 )  | —  | (65,238 )     |
| Stock-based<br>compensation <sup>(1)</sup>                            | —                | —                  | 7,231                                | —  | —   | —  | —  | 7,231         |
| Balance at September<br>30, 2015                                      | 72,109           | \$ 73              | \$ 757,646                           | \$ (50,118 )   | \$ 22,503   | \$ (6,969 )  | \$ (342 )  | \$ 722,793    |
| Balance at December 31,<br>2015                                       | 72,118           | \$ 73              | \$ 752,244                           | \$ (52,808 )   | \$ 27,993   | \$ (10,026 )   | \$ (342 )  | \$ 717,134    |
| Net increase (decrease)<br>in net assets resulting<br>from operations | —                | —                  | —                                    | (16,072 )  | 3,427   | 67,227   | —  | 54,582        |

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|  |        |       |            |              |           |              |           |            |
|--|--------|-------|------------|--------------|-----------|--------------|-----------|------------|
| Public offering, net of offering expenses              | 4,273  | 4     | 50,173     | —            | —         | —            | —         | 50,177     |
| Acquisition of common stock under repurchase plan      | (450 ) | (1 )  | (4,789 )   | —            | —         | —            | —         | (4,790 )   |
| Issuance of common stock due to stock option exercises | 42     | —     | 426        | —            | —         | —            | —         | 426        |
| Retired shares from net issuance                       | (6 )   | —     | —          | —            | —         | —            | —         | —          |
| Issuance of common stock under restricted stock plan   | 552    | 1     | (1 )       | —            | —         | —            | —         | —          |
| Retired shares for restricted stock vesting            | (240 ) | —     | (2,560 )   | —            | —         | —            | —         | (2,560 )   |
| Issuance of common stock as stock dividend             | 111    | —     | 1,343      | —            | —         | —            | —         | 1,343      |
| Dividend distributions                                 | —      | —     | —          | —            | —         | (68,408 )    | —         | (68,408 )  |
| Stock-based compensation <sup>(1)</sup>                | —      | —     | 5,685      | —            | —         | —            | —         | 5,685      |
| Balance at September 30, 2016                          | 76,400 | \$ 77 | \$ 802,521 | \$ (68,880 ) | \$ 31,420 | \$ (11,207 ) | \$ (342 ) | \$ 753,589 |

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

See notes to consolidated financial statements.

## HERCULES CAPITAL, INC.

## CONSOLIDATED STATEMENT OF CASH FLOWS

(unaudited)

(dollars in thousands)

|   | For the Nine Months<br>Ended September 30, |           |
|---|--|-----------|
|   | 2016                                       | 2015      |
| <b>Cash flows from operating activities:</b>  |  |           |
| Net increase in net assets resulting from operations  | \$54,582                                   | \$28,746  |
| Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by (used in) operating activities: |  |           |
| Purchase of investments   | (461,772)                                  | (532,048) |
| Principal and fee payments received on investments  | 340,584                                    | 379,247   |
| Proceeds from the sale of investments   | 16,701                                     | 16,523    |
| Net unrealized depreciation on investments  | 16,072                                     | 33,042    |
| Net realized loss (gain) on investments   | (3,427 )                                   | (8,424 )  |
| Accretion of paid-in-kind principal   | (5,317 )                                   | (2,796 )  |
| Accretion of loan discounts   | (5,524 )                                   | (6,369 )  |
| Accretion of loan discount on Convertible Senior Notes  | 82   | 185       |
| Loss on debt extinguishment (Long-Term Liabilities - Convertible Senior Notes)  | —  | 1         |
| Payment of loan discount on Convertible Senior Notes  | —  | (5 )      |
| Accretion of loan exit fees   | (16,679 )                                  | (10,493 ) |
| Change in deferred loan origination revenue   | (253 )                                     | 1,275     |
| Unearned fees related to unfunded commitments   | (308 )                                     | (271 )    |
| Amortization of debt fees and issuance costs  | 2,987                                      | 3,498     |
| Depreciation  | 152  | 152       |
| Stock-based compensation and amortization of restricted stock grants <sup>(1)</sup>   | 5,685                                      | 7,231     |
| Change in operating assets and liabilities:   |  |           |
| Interest and fees receivable  | (1,622 )                                   | 925       |
| Prepaid expenses and other assets   | 228  | 4,833     |
| Accounts payable  | 56   | 171       |
| Accrued liabilities   | (729 )                                     | 6,065     |
| Net cash used in operating activities   | (58,502 )                                  | (78,512 ) |
| <b>Cash flows from investing activities:</b>  |  |           |
| Purchases of capital equipment  | (227 )                                     | (158 )    |
| Reduction of restricted cash  | 211  | 7,302     |
| Net cash (used in) provided by investing activities   | (16 )                                      | 7,144     |
| <b>Cash flows from financing activities:</b>  |  |           |
| Issuance of common stock, net   | 50,177                                     | 100,092   |
| Repurchase of common stock, net   | (4,790 )                                   | (4,498 )  |

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|  |           |           |
|--|-----------|-----------|
| Retirement of employee shares                                    | (2,134 )  | (3,993 )  |
| Dividend distributions paid                                      | (67,065 ) | (63,649 ) |
| Issuance of 2024 Notes Payable                                   | 141,945   | —         |
| Repayments of 2019 Notes Payable                                 | —         | (20,000 ) |
| Repayments of 2017 Asset-Backed Notes                            | —         | (16,049 ) |
| Repayments of 2021 Asset-Backed Notes                            | (12,296 ) | —         |
| Borrowings of credit facilities                                  | 193,276   | 53,365    |
| Repayments of credit facilities                                  | (243,276) | (53,365 ) |
| Cash paid for debt issuance costs                                | (4,858 )  | —         |
| Cash paid for redemption of Convertible Senior Notes             | (17,604 ) | (65 )     |
| Fees paid for credit facilities and debentures                   | (1,041 )  | (282 )    |
| Net cash provided by (used in) financing activities              | 32,334    | (8,444 )  |
| Net decrease in cash and cash equivalents                        | (26,184 ) | (79,812 ) |
| Cash and cash equivalents at beginning of period                 | 95,196    | 227,116   |
| Cash and cash equivalents at end of period                       | \$69,012  | \$147,304 |
| <b>Supplemental non-cash investing and financing activities:</b> |           |           |
| Dividend distributions reinvested                                | \$1,343   | \$1,589   |

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

See notes to consolidated financial statements.

## HERCULES CAPITAL, INC.

## CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 2016

(unaudited)

(dollars in thousands)

| Portfolio Company   | Sub-Industry                | Type of Investment <sup>(1)</sup> | Maturity Date  | Interest Rate and Floor                                | Principal Amount | Cost <sup>(2)</sup> | Value   |
|---|-----------------------------|-----------------------------------|----------------|--|------------------|---------------------|---------|
| <b>Technology Tools</b>                                       |                             |                                   |                |  |                  |                     |         |
| <b>Under 1 Year Maturity</b>                                  |                             |                                   |                |  |                  |                     |         |
| ...ure, Inc. <sup>(11)(14A)</sup>                             | Biotechnology Tools         | Senior Secured                    | September 2019 | Interest rate PRIME + 6.45%<br>or Floor rate of 9.95%  | \$6,000          | \$5,935             | \$5,935 |
| <b>Total: 1-5 Years Maturity</b>                              |                             |                                   |                |  |                  | 5,935               | 5,935   |
| <b>Total: Biotechnology Tools (0.80%)*</b>                    |                             |                                   |                |  |                  | 5,935               | 5,935   |
| <b>Communications &amp; Networking</b>                        |                             |                                   |                |  |                  |                     |         |
| <b>Under 1 Year Maturity</b>                                  |                             |                                   |                |  |                  |                     |         |
| ...nti Communications Corp <sup>(4)(9)</sup>                  | Communications & Networking | Senior Secured                    | October 2019   | Interest rate FIXED 10.00%                             | \$7,500          | 6,787               | 5,935   |
| ...illes Technology Management Co II, <sup>(6)(13)(14B)</sup> | Communications & Networking | Senior Secured                    | August 2017    | PIK Interest 10.50%                                    | \$1,001          | 991                 | 991     |
| ...nPeak, Inc. <sup>(7)</sup>                                 | Communications & Networking | Senior Secured                    | April 2017     | Interest rate PRIME + 8.75%<br>or Floor rate of 12.00% | \$12,211         | 8,975               | —       |
| <b>Total: Under 1 Year Maturity</b>                           |                             |                                   |                |  |                  | 16,753              | 6,926   |
| <b>1-5 Years Maturity</b>                                     |                             |                                   |                |  |                  |                     |         |
| ...Cross, <sup>(6)(7)(13)(14B)(15)</sup>                      | Communications & Networking | Senior Secured                    | January 2018   | Interest rate FIXED 10.95%,<br>PIK Interest 5.00%      | \$16,758         | 16,900              | —       |
| ...ng Mobile Solutions, <sup>(12)(14B)</sup>                  | Communications & Networking | Senior Secured                    | January 2019   | Interest rate PRIME + 6.70%<br>or Floor rate of 9.95%  | \$3,000          | 3,010               | 3,010   |
| <b>Total: 1-5 Years Maturity</b>                              |                             |                                   |                |  |                  | 19,910              | 3,010   |
| <b>Total: Communications &amp; Networking (2.2%)*</b>         |                             |                                   |                |  |                  | 36,663              | 9,936   |
| <b>Consumer &amp; Business Products</b>                       |                             |                                   |                |  |                  |                     |         |



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| Under 1 Year Maturity  |                              |                  |               |   |          |        |        |
|--|------------------------------|------------------|---------------|---|----------|--------|--------|
| Antenna79 (p.k.a. Pong Research Corporation) <sup>(13)(14B)(14D)(15)</sup> | Consumer & Business Products | Senior Secured   | November 2016 | Interest rate PRIME + 6.75%<br>or Floor rate of 10.00%,<br>PIK Interest 2.50% | \$4,302  | 4,628  | 4,000  |
| Antenna79 (p.k.a. Pong Research Corporation)                               | Consumer & Business Products | Senior Secured   | November 2016 | Interest rate PRIME + 8.75%<br>or Floor rate of 12.00%                        | \$156    | 156    | 137    |
| Antenna79 (p.k.a. Pong Research Corporation)                               | Consumer & Business Products | Senior Secured   | November 2016 | Interest rate PRIME + 8.75%<br>or Floor rate of 12.00%                        | \$4,458  | 4,784  | 4,200  |
| Fluc, Inc. (p.k.a. Fluc, <sup>(8)</sup>                                    | Consumer & Business Products | Convertible Debt | March 2017    | Interest rate FIXED 4.00%   | \$100    | 100    | —      |
| Total: Under 1 Year Maturity   |                              |                  |               |   |          | 4,884  | 4,200  |
| 1-5 Years Maturity   |                              |                  |               |   |          |        |        |
| Gal <sup>(14B)(15)</sup>   | Consumer & Business Products | Senior Secured   | May 2019      | Interest rate PRIME + 5.45%<br>or Floor rate of 8.95%                         | \$15,000 | 15,249 | 5,000  |
| Time Around Amplify Holdings, <sup>(14A)(15)</sup>                         | Consumer & Business Products | Senior Secured   | February 2019 | Interest rate PRIME + 7.25%<br>or Floor rate of 10.75%                        | \$2,428  | 2,430  | 2,400  |
| Total: 1-5 Years Maturity  |                              |                  |               |   |          | 17,679 | 7,400  |
| Total: Consumer & Business Products  |                              |                  |               |   |          | 22,563 | 11,600 |

See notes to consolidated financial statements.

## HERCULES CAPITAL, INC.

## CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 2016

(unaudited)

(dollars in thousands)

| Portfolio Company                                    | Sub-Industry  | Type of Investment <sup>(1)</sup> | Maturity Date | Interest Rate and Floor     | Principal Amount | Cost <sup>(2)</sup> | Value   |
|--|---------------|-----------------------------------|---------------|-----------------------------|------------------|---------------------|---------|
| g Delivery   |               |                                   |               |                             |                  |                     |         |
| er 1 Year Maturity                                   |               |                                   |               |                             |                  |                     |         |
| ion Corporation <sup>(10)(14A)</sup>                 | Drug Delivery | Senior Secured                    | June 2017     | Interest rate PRIME + 8.00% |                  |                     |         |
|  |               |                                   |               | or Floor rate of 11.25%     | \$3,316          | \$3,617             | \$3,617 |
| Total: Under 1 Year Maturity                         |               |                                   |               |                             |                  | 3,617               | 3,617   |
| Years Maturity                                       |               |                                   |               |                             |                  |                     |         |
| Rx Pharmaceuticals,<br><sup>(9)(10)(14A)(15)</sup>   | Drug Delivery | Senior Secured                    | October 2017  | Interest rate PRIME + 3.85% |                  |                     |         |
|  |               |                                   |               | or Floor rate of 9.10%      | \$20,466         | 21,005              | 20,940  |
| e Therapeutics, Inc. <sup>(10)(14A)</sup>            | Drug Delivery | Senior Secured                    | December 2018 | Interest rate PRIME + 4.75% |                  |                     |         |
|  |               |                                   |               | or Floor rate of 9.00%      | \$16,500         | 16,413              | 16,390  |
| ecia Pharmaceuticals<br>pany <sup>(14A)</sup>        | Drug Delivery | Senior Secured                    | January 2020  | Interest rate PRIME + 5.75% |                  |                     |         |
|  |               |                                   |               | or Floor rate of 9.25%      | \$20,000         | 19,555              | 19,550  |
| Q Pharma<br>rporated <sup>(10)(14A)(14B)</sup>       | Drug Delivery | Senior Secured                    | May 2018      | Interest rate PRIME + 8.00% |                  |                     |         |
|  |               |                                   |               | or Floor rate of 11.25%     | \$9,130          | 9,484               | 9,400   |
|  | Drug Delivery | Senior Secured                    | May 2018      | Interest rate PRIME + 7.00% |                  |                     |         |
|  |               |                                   |               | or Floor rate of 10.25%     | \$2,736          | 2,763               | 2,750   |
| l BioQ Pharma Incorporated                           |               |                                   |               |                             | \$11,866         | 12,247              | 12,100  |
| ce Biopharm, Inc. <sup>(7)(14A)(15)</sup>            | Drug Delivery | Senior Secured                    | November 2017 | Interest rate PRIME + 7.40% |                  |                     |         |
|  |               |                                   |               | or Floor rate of 10.65%     | \$2,145          | 2,255               | 2,250   |
| e Therapeutics, Inc. <sup>(14A)(17)</sup>            | Drug Delivery | Senior Secured                    | February 2020 | Interest rate PRIME + 4.65% |                  |                     |         |
|  |               |                                   |               | or Floor rate of 9.15%      | \$15,000         | 14,927              | 15,000  |
| matrix Inc. <sup>(8)(10)(14A)</sup>                  | Drug Delivery | Senior Secured                    | July 2018     | Interest rate PRIME + 6.25% |                  |                     |         |
|  |               |                                   |               | or Floor rate of 9.50%      | \$6,588          | 6,611               | 6,620   |
| Opco, Inc (p.k.a. Zosano<br>ma) <sup>(10)(14A)</sup> | Drug Delivery | Senior Secured                    | December 2018 | Interest rate PRIME + 2.70% |                  |                     |         |
|  |               |                                   |               | or Floor rate of 7.95%      | \$13,636         | 13,774              | 13,770  |

|                                |         |         |
|--------------------------------|---------|---------|
| total: 1-5 Years Maturity      | 106,787 | 106,787 |
| total: Drug Delivery (14.63%)* | 110,404 | 110,404 |

See notes to consolidated financial statements.

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## HERCULES CAPITAL, INC.

## CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 2016

(unaudited)

(dollars in thousands)

| Portfolio Company   | Sub-Industry                 | Type of Investment <sup>(1)</sup> | Maturity Date  | Interest Rate and Floor                                | Principal Amount | Cost <sup>(2)</sup> | Value        |
|---|------------------------------|-----------------------------------|----------------|--|------------------|---------------------|--------------|
| <b>Under 1 Year Maturity</b>  |                              |                                   |                |  |                  |                     |              |
| Cor, Inc. <sup>(11)(14A)</sup>                                      | Drug Discovery & Development | Senior Secured                    | August 2017    | Interest rate PRIME + 4.70%<br>or Floor rate of 7.95%  | \$3,229          | \$3,324             | \$3,324      |
| alstem, Inc. <sup>(14A)(15)</sup>                                   | Drug Discovery & Development | Senior Secured                    | April 2017     | Interest rate PRIME + 6.75%<br>or Floor rate of 10.00% | \$4,953          | 5,156               | 5,156        |
| <b>Total: Under 1 Year Maturity</b>                                 |                              |                                   |                |  |                  | <b>8,480</b>        | <b>8,480</b> |
| <b>1 to 2 Years Maturity</b>  |                              |                                   |                |  |                  |                     |              |
| Medical Holding,<br>(9)(14B)  | Drug Discovery & Development | Senior Secured                    | January 2020   | Interest rate PRIME + 6.05%<br>or Floor rate of 9.55%  | \$12,500         | 12,206              | 12,206       |
| Pharmaceuticals,<br>(14A)(14B)                                      | Drug Discovery & Development | Senior Secured                    | December 2019  | Interest rate PRIME + 6.90%<br>or Floor rate of 11.90% | \$10,000         | 10,235              | 10,235       |
|   | Drug Discovery & Development | Senior Secured                    | December 2019  | Interest rate PRIME + 6.90%<br>or Floor rate of 11.90% | \$5,000          | 4,898               | 4,898        |
| Aveo Pharmaceuticals, Inc.  |                              |                                   |                |  | \$15,000         | 15,133              | 15,133       |
| icum Pharmaceuticals,<br>(14A)(14B)(15)                             | Drug Discovery & Development | Senior Secured                    | March 2020     | Interest rate PRIME + 5.85%<br>or Floor rate of 9.35%  | \$15,000         | 15,101              | 15,101       |
|   | Drug Discovery & Development | Senior Secured                    | March 2020     | Interest rate PRIME + 5.85%<br>or Floor rate of 9.35%  | \$5,000          | 4,960               | 4,960        |
| Bellicum Pharmaceuticals, Inc.                                      |                              |                                   |                |  | \$20,000         | 20,061              | 20,061       |
| ell Biotech, Inc. <sup>(11)(14A)</sup>                              | Drug Discovery & Development | Senior Secured                    | September 2019 | Interest rate PRIME + 5.70%<br>or Floor rate of 9.20%  | \$7,500          | 7,452               | 7,452        |
| ean Pharma, Inc. <sup>(12)(14B)</sup>                               | Drug Discovery & Development | Senior Secured                    | July 2018      | Interest rate PRIME + 1.55%<br>or Floor rate of 7.30%  | \$15,115         | 15,858              | 15,858       |
| BioPharma Corp. (p.k.a.<br>Therapeutics, Inc.) <sup>(10)(14A)</sup> | Drug Discovery & Development | Senior Secured                    | December 2018  | Interest rate PRIME + 7.70%                            | \$21,421         | 22,218              | 22,218       |

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|   |                                    |                   |                |                             |          |         |      |  |
|---|------------------------------------|-------------------|----------------|-----------------------------|----------|---------|------|--|
|   | Development                        |                   |                | or Floor rate of 10.95%     |          |         |      |  |
| x Corporation <sup>(10)(14B)(15)</sup>  | Drug<br>Discovery &<br>Development | Senior<br>Secured | February 2020  | Interest rate PRIME + 6.00% |          |         |      |  |
|   |                                    |                   |                | or Floor rate of 9.50%      | \$25,000 | 24,860  | 24,9 |  |
| s Biopharmaceuticals,<br>(14A)          | Drug<br>Discovery &<br>Development | Senior<br>Secured | April 2018     | Interest rate PRIME + 4.70% |          |         |      |  |
|   |                                    |                   |                | or Floor rate of 7.95%      | \$3,111  | 3,394   | —    |  |
| cea Biosciences,<br>(10)(14A)(17)       | Drug<br>Discovery &<br>Development | Senior<br>Secured | January 2019   | Interest rate PRIME + 2.25% |          |         |      |  |
|   |                                    |                   |                | or Floor rate of 7.25%      | \$17,000 | 17,234  | 17,3 |  |
| ne Pharmaceuticals <sup>(10)(14B)</sup> | Drug<br>Discovery &<br>Development | Senior<br>Secured | September 2018 | Interest rate PRIME + 4.75% |          |         |      |  |
|   |                                    |                   |                | or Floor rate of 10.00%     | \$3,692  | 3,725   | 2,22 |  |
| ed, Incorporated <sup>(10)(14A)</sup>   | Drug<br>Discovery &<br>Development | Senior<br>Secured | October 2020   | Interest rate PRIME + 4.75% |          |         |      |  |
|   |                                    |                   |                | or Floor rate of 9.25%      | \$35,000 | 34,681  | 34,6 |  |
| Therapeutics, Inc. <sup>(14A)(15)</sup> | Drug<br>Discovery &<br>Development | Senior<br>Secured | January 2019   | Interest rate PRIME + 5.70% |          |         |      |  |
|   |                                    |                   |                | or Floor rate of 8.95%      | \$13,706 | 13,766  | 13,8 |  |
| ata Therapeutics <sup>(12)(14A)</sup>   | Drug<br>Discovery &<br>Development | Senior<br>Secured | June 2018      | Interest rate PRIME + 3.75% |          |         |      |  |
|   |                                    |                   |                | or Floor rate of 8.25%      | \$27,283 | 27,630  | 27,5 |  |
| imack Pharmaceuticals,<br>)             | Drug<br>Discovery &<br>Development | Senior<br>Secured | December 2022  | Interest rate FIXED 11.50%  |          |         |      |  |
|   |                                    |                   |                |                             | \$25,000 | 25,000  | 25,2 |  |
| chen Pharmaceuticals<br>(13)(14A)       | Drug<br>Discovery &<br>Development | Senior<br>Secured | October 2020   | Interest rate PRIME + 7.25% |          |         |      |  |
|   |                                    |                   |                | or Floor rate of 10.75%,    |          |         |      |  |
|   |                                    |                   |                | PIK Interest 1.35%          | \$35,000 | 34,339  | 34,3 |  |
| ek Pharmaceuticals,<br>(14A)(15)(17)    | Drug<br>Discovery &<br>Development | Senior<br>Secured | September 2020 | Interest rate PRIME + 2.75% |          |         |      |  |
|   |                                    |                   |                | or Floor rate of 8.50%      | \$20,000 | 20,028  | 20,1 |  |
| ERx, Inc. <sup>(14B)(15)</sup>          | Drug<br>Discovery &<br>Development | Senior<br>Secured | December 2019  | Interest rate PRIME + 5.75% |          |         |      |  |
|   |                                    |                   |                | or Floor rate of 9.25%      | \$6,000  | 5,866   | 5,86 |  |
| ure B.V. <sup>(4)(9)(10)(14B)</sup>     | Drug<br>Discovery &<br>Development | Senior<br>Secured | May 2020       | Interest rate PRIME + 3.00% |          |         |      |  |
|   |                                    |                   |                | or Floor rate of 8.25%      | \$20,000 | 20,024  | 20,0 |  |
| IA Corporation <sup>(9)(14B)(15)</sup>  | Drug<br>Discovery &<br>Development | Senior<br>Secured | September 2018 | Interest rate PRIME + 2.15% |          |         |      |  |
|   |                                    |                   |                | or Floor rate of 9.40%      | \$18,214 | 18,660  | 18,5 |  |
| Total: 1-5 Years Maturity               |                                    |                   |                |                             |          | 342,135 | 337  |  |
| Total: Drug Discovery & Development     |                                    |                   |                |                             |          |         |      |  |
| 5%)*                                    |                                    |                   |                |                             |          | 350,615 | 346  |  |

See notes to consolidated financial statements.



## HERCULES CAPITAL, INC.

## CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 2016

(unaudited)

(dollars in thousands)

| Portfolio Company                                  | Sub-Industry                          | Type of Investment <sup>(1)</sup> | Maturity Date  | Interest Rate and Floor  | Principal Amount | Cost <sup>(2)</sup> | Value <sup>(3)</sup> |
|--|---------------------------------------|-----------------------------------|----------------|--|------------------|---------------------|----------------------|
| <b>Electronics &amp; Computer Hardware</b>         |                                       |                                   |                |  |                  |                     |                      |
| <b>1-5 Years Maturity</b>                          |                                       |                                   |                |  |                  |                     |                      |
| Perisimmon Technologies <sup>(11)(14B)</sup>       | Electronics & Computer Hardware       | Senior Secured                    | June 2019      | Interest rate PRIME + 7.50%<br>or Floor rate of 11.00%                       | \$7,000          | \$7,047             | \$7,047              |
| Subtotal: 1-5 Years Maturity                       |                                       |                                   |                |  |                  | 7,047               | 7,047                |
| Subtotal: Electronics & Computer Hardware (0.94%)* |                                       |                                   |                |  |                  | 7,047               | 7,047                |
| <b>Healthcare Services, Other</b>                  |                                       |                                   |                |  |                  |                     |                      |
| <b>1-5 Years Maturity</b>                          |                                       |                                   |                |  |                  |                     |                      |
| InstaMed Communications, LC <sup>(14B)(15)</sup>   | Healthcare Services, Other            | Senior Secured                    | February 2019  | Interest rate PRIME + 6.75%<br>or Floor rate of 10.00%                       | \$10,000         | 10,276              | 10,300               |
| PH Group Holdings                                  | Healthcare Services, Other            | Senior Secured                    | September 2020 | Interest rate PRIME + 7.45%<br>or Floor rate of 10.95%                       | \$20,000         | 19,783              | 19,783               |
| Subtotal: 1-5 Years Maturity                       |                                       |                                   |                |  |                  | 30,059              | 30,083               |
| Subtotal: Healthcare Services, Other (3.99%)*      |                                       |                                   |                |  |                  | 30,059              | 30,083               |
| <b>Internet Consumer &amp; Business Services</b>   |                                       |                                   |                |  |                  |                     |                      |
| <b>1-5 Years Maturity</b>                          |                                       |                                   |                |  |                  |                     |                      |
| Avira Systems, Inc. <sup>(10)(13)</sup>            | Internet Consumer & Business Services | Senior Secured                    | June 2019      | Interest rate PRIME + 3.20%<br>or Floor rate of 6.95%,<br>PIK Interest 1.95% | \$2,051          | 2,033               | 1,717                |
|  | Internet Consumer & Business Services | Senior Secured                    | June 2019      | Interest rate PRIME + 5.20%<br>or Floor rate of 8.95%,<br>PIK Interest 1.95% | \$18,373         | 18,191              | 15,363               |

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|  |                                       |                |              |  |           |         |         |
|--|---------------------------------------|----------------|--------------|--|-----------|---------|---------|
| total Aria Systems, Inc.                                     |                                       |                |              |  | \$20,424  | 20,224  | 17,080  |
| CloudOne, Inc. <sup>(10)(14B)</sup>                          | Internet Consumer & Business Services | Senior Secured | April 2019   | Interest rate PRIME + 6.35%<br>or Floor rate of 9.85%                        | \$5,000   | 5,034   | 5,060   |
| LogicSource <sup>(14B)(15)</sup>                             | Internet Consumer & Business Services | Senior Secured | October 2019 | Interest rate PRIME + 6.25%<br>or Floor rate of 9.75%                        | \$8,500   | 8,477   | 8,538   |
| One Planet Ops Inc. (d.k.a. Reply! Inc.)                     | Internet Consumer & Business Services | Senior Secured | March 2019   | Interest rate PRIME + 4.25%<br>or Floor rate of 7.50%                        | \$4,895   | 4,599   | 4,599   |
| magajob.com, Inc. <sup>(12)(13)(14A)</sup>                   | Internet Consumer & Business Services | Senior Secured | July 2020    | Interest rate PRIME + 5.15%<br>or Floor rate of 9.15%,<br>PIK Interest 1.95% | \$35,120  | 34,219  | 34,218  |
| Tectura Corporation <sup>(7)(8)(13)</sup>                    | Internet Consumer & Business Services | Senior Secured | June 2021    | Interest rate FIXED 6.00%,<br>PIK Interest 3.00%                             | \$19,542  | 19,542  | 19,542  |
|  | Internet Consumer & Business Services | Senior Secured | June 2021    | PIK Interest 8.00%   | \$11,015  | 240     | —       |
| total Tectura Corporation                                    |                                       |                |              |  | \$30,557  | 19,782  | 19,542  |
| Subtotal: 1-5 Years Maturity                                 |                                       |                |              |  |           | 92,335  | 89,037  |
| Subtotal: Internet Consumer & Business Services (11.82%)*    |                                       |                |              |  |           | 92,335  | 89,037  |
| Media/Content/Info 1-5 Years Maturity                        |                                       |                |              |  |           |         |         |
| Machine Zone, Inc. <sup>(13)(16)</sup>                       | Media/Content/Info                    | Senior Secured | May 2018     | Interest rate PRIME + 2.50%<br>or Floor rate of 6.75%,<br>PIK Interest 3.00% | \$103,002 | 101,422 | 101,654 |
| VP Technology, Inc. Wattpad, Inc. <sup>(4)(9)(11)(14B)</sup> | Media/Content/Info                    | Senior Secured | April 2020   | Interest rate PRIME + 4.75%<br>or Floor rate of 8.25%                        | \$5,000   | 5,000   | 5,043   |
| Subtotal: 1-5 Years Maturity                                 |                                       |                |              |  |           | 106,422 | 106,697 |
| Subtotal: Media/Content/Info (14.16%)*                       |                                       |                |              |  |           | 106,422 | 106,697 |

See notes to consolidated financial statements.



## HERCULES CAPITAL, INC.

## CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 2016

(unaudited)

(dollars in thousands)

| Portfolio Company                                    | Sub-Industry                | Type of Investment <sup>(1)</sup> | Maturity Date | Interest Rate and Floor                                | Principal Amount | Cost <sup>(2)</sup> | Value   |
|--|-----------------------------|-----------------------------------|---------------|--|------------------|---------------------|---------|
| <b>Medical Devices &amp; Equipment</b>               |                             |                                   |               |  |                  |                     |         |
| <b>Under 1 Year Maturity</b>                         |                             |                                   |               |  |                  |                     |         |
| EMD, Inc. <sup>(4)(9)(14B)</sup>                     | Medical Devices & Equipment | Senior Secured                    | June 2017     | Interest rate PRIME + 5.00%<br>or Floor rate of 10.50% | \$3,301          | \$3,786             | \$3,301 |
| <b>1 to 2 Years Maturity</b>                         |                             |                                   |               |  |                  |                     |         |
| Medica Corporation <sup>(8)(14B)(15)</sup>           | Medical Devices & Equipment | Senior Secured                    | January 2018  | Interest rate PRIME + 9.20%<br>or Floor rate of 12.45% | \$8,981          | 10,257              | 10,257  |
| Obalon Bariatrics, Inc. <sup>(14B)(15)</sup>         | Medical Devices & Equipment | Senior Secured                    | October 2018  | Interest rate PRIME + 4.00%<br>or Floor rate of 9.25%  | \$5,947          | 5,978               | 5,947   |
| Medtronic, Inc. <sup>(14A)(15)</sup>                 | Medical Devices & Equipment | Senior Secured                    | June 2018     | Interest rate PRIME + 6.00%<br>or Floor rate of 9.25%  | \$11,272         | 11,386              | 11,272  |
| Fluonix Medical Incorporated <sup>(12)(14B)</sup>    | Medical Devices & Equipment | Senior Secured                    | May 2018      | Interest rate PRIME + 4.75%<br>or Floor rate of 10.00% | \$12,307         | 12,651              | 12,307  |
| Fluonix Medical Incorporated                         | Medical Devices & Equipment | Senior Secured                    | March 2019    | Interest rate PRIME + 6.50%<br>or Floor rate of 10.00% | \$4,707          | 4,617               | 4,707   |
| Meda Medica, Inc. <sup>(10)(14B)</sup>               | Medical Devices & Equipment | Senior Secured                    | January 2018  | Interest rate PRIME + 6.50%<br>or Floor rate of 9.75%  | \$2,500          | 2,621               | 2,500   |
| Medtronic, Inc. <sup>(14B)(15)</sup>                 | Medical Devices & Equipment | Senior Secured                    | June 2019     | Interest rate PRIME + 6.05%<br>or Floor rate of 10.05% | \$12,500         | 12,464              | 12,500  |
| Medtronic Technologies, Inc. <sup>(11)(14B)</sup>    | Medical Devices & Equipment | Senior Secured                    | August 2019   | Interest rate PRIME + 7.25%<br>or Floor rate of 10.50% | \$8,500          | 8,400               | 8,500   |
| Medtronic Fluid Solutions <sup>(4)(9)(10)(14B)</sup> | Medical Devices & Equipment | Senior Secured                    | April 2020    | Interest rate PRIME + 8.05%<br>or Floor rate of 11.55% | \$12,500         | 12,479              | 12,500  |

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|  |                                   |                   |               |  |           |        |        |
|--|-----------------------------------|-------------------|---------------|--|-----------|--------|--------|
| erix Corporation <sup>(10)(14A)</sup>          | Medical<br>Devices &<br>Equipment | Senior<br>Secured | February 2018 | Interest rate PRIME + 2.75%<br><br>or Floor rate of 8.00%  | \$ 11,327 | 11,566 | 1      |
| gEyes, Inc. <sup>(14B)(15)</sup>               | Medical<br>Devices &<br>Equipment | Senior<br>Secured | January 2018  | Interest rate PRIME + 7.75%<br><br>or Floor rate of 11.00% | \$2,847   | 3,228  | 3      |
| Total: 1-5 Years Maturity                      |                                   |                   |               |  |           | 95,647 | 99,433 |
| Total: Medical Devices & Equipment (13.19%)*   |                                   |                   |               |  |           | 99,433 | 99,433 |
| Semiconductors                                 |                                   |                   |               |  |           |        |        |
| 1-5 Years Maturity                             |                                   |                   |               |  |           |        |        |
| ix Semiconductor<br>ation <sup>(14B)(15)</sup> | Semiconductors                    | Senior<br>Secured | July 2018     | Interest rate PRIME + 8.25%<br><br>or Floor rate of 11.50% | \$3,812   | 3,978  | 3      |
| a Corporation <sup>(10)(14A)</sup>             | Semiconductors                    | Senior<br>Secured | April 2018    | Interest rate PRIME + 5.25%<br><br>or Floor rate of 8.50%  | \$6,550   | 6,637  | 6      |
| Total: 1-5 Years Maturity                      |                                   |                   |               |  |           | 10,615 | 10,615 |
| Total: Semiconductors (1.42%)*                 |                                   |                   |               |  |           | 10,615 | 10,615 |

See notes to consolidated financial statements.

## HERCULES CAPITAL, INC.

## CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 2016

(unaudited)

(dollars in thousands)

| Portfolio Company  | Sub-Industry | Type of Investment <sup>(1)</sup> | Maturity Date | Interest Rate and Floor  | Principal Amount | Cost <sup>(2)</sup> | Value <sup>(3)</sup> |
|--|--------------|-----------------------------------|---------------|--|------------------|---------------------|----------------------|
| <b>Software</b>  |              |                                   |               |  |                  |                     |                      |
| <b>Under 1 Year Maturity</b>   |              |                                   |               |  |                  |                     |                      |
| JumpStart Games, Inc. (p.k.a. Knowledge Adventure, Inc.) <sup>(7)(13)(14C)(15)</sup> | Software     | Senior Secured                    | November 2016 | Interest rate FIXED 5.75%,<br>PIK Interest 10.75%                            | \$1,566          | \$1,698             | \$826                |
| RedSeal Inc. <sup>(15)(17)</sup>   | Software     | Senior Secured                    | June 2017     | Interest rate PRIME + 3.25%<br>or Floor rate of 6.50%                        | \$2,635          | 2,635               | 2,635                |
| <b>Subtotal: Under 1 Year Maturity</b>   |              |                                   |               |  |                  | <b>4,333</b>        | <b>3,461</b>         |
| <b>1-5 Years Maturity</b>  |              |                                   |               |  |                  |                     |                      |
| Actifio, Inc. <sup>(13)(14A)</sup>   | Software     | Senior Secured                    | January 2019  | Interest rate PRIME + 4.25%<br>or Floor rate of 8.25%,<br>PIK Interest 2.25% | \$30,786         | 30,625              | 30,598               |
|  | Software     | Senior Secured                    | January 2019  | Interest rate PRIME + 4.75%<br>or Floor rate of 8.75%,<br>PIK Interest 2.50% | \$10,107         | 9,787               | 9,870                |
| <b>Total Actifio, Inc.</b>   |              |                                   |               |  |                  | <b>\$40,893</b>     | <b>40,412</b>        |
| Clickfox, Inc. <sup>(14C)</sup>  | Software     | Senior Secured                    | May 2018      | Interest rate PRIME + 8.00%<br>or Floor rate of 11.50%                       | \$12,000         | 11,979              | 11,979               |
| Druva, Inc. <sup>(10)(12)(14B)(17)</sup>   | Software     | Senior Secured                    | March 2018    | Interest rate PRIME + 4.60%<br>or Floor rate of 7.85%                        | \$10,877         | 11,241              | 11,228               |
|  | Software     | Senior Secured                    | May 2018      | Interest rate PRIME + 4.60%<br>or Floor rate of 7.85%                        | \$5,000          | 5,029               | 5,029                |
| <b>Total Druva, Inc.</b>   |              |                                   |               |  |                  | <b>\$15,877</b>     | <b>16,270</b>        |
|  | Software     |                                   | October 2020  | Interest rate PRIME + 5.45%  | \$6,000          | 5,958               | 5,958                |

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|  |                           |                |               |  |           |         |         |
|--|---------------------------|----------------|---------------|--|-----------|---------|---------|
| Evernote Corporation <sup>(15)(17)</sup>   |                           | Senior Secured |               | or Floor rate of 8.95%   |           |         |         |
| JumpStart Games, Inc. (p.k.a. Knowledge Adventure, Inc.) <sup>(7)(13)(14A)(15)</sup> | Software                  | Senior Secured | March 2018    | Interest rate FIXED 5.75%,<br>PIK Interest 10.75%                            | \$ 13,000 | 12,747  | 6,198   |
| Mattersight Corporation <sup>(13)</sup>  | Software                  | Senior Secured | February 2020 | Interest rate PRIME + 6.25%<br>or Floor rate of 9.75%,<br>PIK Interest 2.15% | \$ 22,542 | 21,835  | 21,835  |
| Message Systems, Inc. <sup>(14A)(15)</sup>   | Software                  | Senior Secured | February 2019 | Interest rate PRIME + 7.25%<br>or Floor rate of 10.50%                       | \$ 17,500 | 17,101  | 17,129  |
| OneLogin, Inc. <sup>(13)(15)</sup>   | Software                  | Senior Secured | August 2019   | Interest rate PRIME + 6.45%<br>or Floor rate of 9.95%,<br>PIK Interest 3.25% | \$ 13,251 | 13,119  | 13,257  |
| Quid, Inc. <sup>(13)(14A)(15)</sup>  | Software                  | Senior Secured | October 2019  | Interest rate PRIME + 4.75%<br>or Floor rate of 8.25%,<br>PIK Interest 2.25% | \$ 8,070  | 8,044   | 8,044   |
| RedSeal Inc. <sup>(14A)(15)(17)</sup>  | Software                  | Senior Secured | June 2018     | Interest rate PRIME + 7.75%<br>or Floor rate of 11.00%                       | \$ 5,000  | 5,095   | 5,058   |
| Signpost, Inc. <sup>(13)(14A)(15)</sup>  | Software                  | Senior Secured | February 2020 | Interest rate PRIME + 4.15%<br>or Floor rate of 8.15%,<br>PIK Interest 1.75% | \$ 15,170 | 14,882  | 14,961  |
| Subtotal: 1-5 Years Maturity   |                           |                |               |  |           | 167,442 | 161,144 |
| Subtotal: Software (21.84%)*   |                           |                |               |  |           | 171,775 | 164,605 |
| Specialty Pharmaceuticals  |                           |                |               |  |           |         |         |
| 1-5 Years Maturity   |                           |                |               |  |           |         |         |
| Alimera Sciences, Inc. <sup>(10)(14A)</sup>  | Specialty Pharmaceuticals | Senior Secured | May 2018      | Interest rate PRIME + 7.65%<br>or Floor rate of 10.90%                       | \$ 35,000 | 34,667  | 34,714  |
| Jaguar Animal Health, Inc. <sup>(10)(14B)</sup>                                      | Specialty Pharmaceuticals | Senior Secured | August 2018   | Interest rate PRIME + 5.65%<br>or Floor rate of 9.90%                        | \$ 3,989  | 4,242   | 4,166   |
| Subtotal: 1-5 Years Maturity   |                           |                |               |  |           | 38,909  | 38,880  |
| Subtotal: Specialty Pharmaceuticals (5.16%)*   |                           |                |               |  |           | 38,909  | 38,880  |
| Surgical Devices   |                           |                |               |  |           |         |         |

| 1-5 Years Maturity                     |                  |                |               |                             |         |       |       |       |  |  |
|--|------------------|----------------|---------------|-----------------------------|---------|-------|-------|-------|--|--|
| Transmedics, Inc. <sup>(12)(14B)</sup> | Surgical Devices | Senior Secured | February 2020 | Interest rate PRIME + 5.30% |         |       |       |       |  |  |
|  |                  |                |               | or Floor rate of 9.55%      | \$8,500 | 8,437 | 8,461 |       |  |  |
| Subtotal: 1-5 Years Maturity           |                  |                |               |                             |         |       | 8,437 | 8,461 |  |  |
| Subtotal: Surgical Devices (1.12%)*    |                  |                |               |                             |         |       | 8,437 | 8,461 |  |  |

See notes to consolidated financial statements.

## HERCULES CAPITAL, INC.

## CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 2016

(unaudited)

(dollars in thousands)

| Portfolio Company  | Sub-Industry                         | Type of Investment <sup>(1)</sup> | Maturity Date | Interest Rate and Floor                                | Principal Amount | Cost <sup>(2)</sup> | Value <sup>(3)</sup> |
|--|--------------------------------------|-----------------------------------|---------------|--|------------------|---------------------|----------------------|
| Sustainable and Renewable Technology                     |                                      |                                   |               |  |                  |                     |                      |
| Under 1 Year Maturity                                    |                                      |                                   |               |  |                  |                     |                      |
| Agrivida, Inc. <sup>(14B)(15)</sup>                      | Sustainable and Renewable Technology | Senior Secured                    | December 2016 | Interest rate PRIME + 6.75%<br>or Floor rate of 10.00% | \$2,592          | \$2,881             | \$2,881              |
| American Superconductor Corporation <sup>(10)(14B)</sup> | Sustainable and Renewable Technology | Senior Secured                    | November 2016 | Interest rate PRIME + 7.25%<br>or Floor rate of 11.00% | \$667            | 1,166               | 1,166                |
|  | Sustainable and Renewable Technology | Senior Secured                    | June 2017     | Interest rate PRIME + 7.25%<br>or Floor rate of 11.00% | \$1,500          | 1,536               | 1,536                |
| Total American Superconductor Corporation                |                                      |                                   |               |  | \$2,167          | 2,702               | 2,702                |
| Modumetal, Inc. <sup>(11)(14D)</sup>                     | Sustainable and Renewable Technology | Senior Secured                    | March 2017    | Interest rate PRIME + 8.70%<br>or Floor rate of 11.95% | \$738            | 1,217               | 1,217                |
| Stion Corporation <sup>(5)(14A)</sup>                    | Sustainable and Renewable Technology | Senior Secured                    | February 2017 | Interest rate PRIME + 8.75%<br>or Floor rate of 12.00% | \$821            | 821                 | 821                  |
| Subtotal: Under 1 Year Maturity                          |                                      |                                   |               |  |                  | 7,621               | 7,621                |
| 1-5 Years Maturity                                       |                                      |                                   |               |  |                  |                     |                      |
| FuelCell Energy, Inc. <sup>(11)(14B)</sup>               | Sustainable and Renewable Technology | Senior Secured                    | October 2018  | Interest rate PRIME + 5.50%<br>or Floor rate of 9.50%  | \$20,000         | 20,278              | 20,434               |
| Modumetal, Inc. <sup>(11)(14C)</sup>                     | Sustainable and Renewable Technology | Senior Secured                    | October 2017  | Interest rate PRIME + 6.00%<br>or Floor rate of 9.25%  | \$4,326          | 4,933               | 4,870                |

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|  |                                      |                |               |  |          |           |           |
|--|--------------------------------------|----------------|---------------|--|----------|-----------|-----------|
| Plug Power, Inc. <sup>(9)(12)(14B)</sup>                 | Sustainable and Renewable Technology | Senior Secured | June 2019     | Interest rate PRIME + 6.45%<br>or Floor rate of 10.45% | \$25,000 | 24,916    | 24,916    |
| Proterra, Inc. <sup>(10)(14B)</sup>                      | Sustainable and Renewable Technology | Senior Secured | December 2018 | Interest rate PRIME + 6.95%<br>or Floor rate of 10.20% | \$30,000 | 30,470    | 30,714    |
| Rive Technology, Inc. <sup>(14A)(15)</sup>               | Sustainable and Renewable Technology | Senior Secured | January 2019  | Interest rate PRIME + 6.20%<br>or Floor rate of 9.45%  | \$7,500  | 7,539     | 7,562     |
| Sungevity, Inc. <sup>(12)(14D)</sup>                     | Sustainable and Renewable Technology | Senior Secured | October 2017  | Interest rate PRIME + 3.70%<br>or Floor rate of 6.95%  | \$35,000 | 38,743    | 38,811    |
|  | Sustainable and Renewable Technology | Senior Secured | October 2017  | Interest rate PRIME + 3.70%<br>or Floor rate of 6.95%  | \$20,000 | 20,000    | 20,118    |
| Total Sungevity, Inc.                                    |                                      |                |               |  | \$55,000 | 58,743    | 58,929    |
| Tendril Networks <sup>(11)(14B)</sup>                    | Sustainable and Renewable Technology | Senior Secured | June 2019     | Interest rate FIXED 7.25%                              | \$15,000 | 15,241    | 15,134    |
| Verdezyne, Inc. <sup>(14B)(15)</sup>                     | Sustainable and Renewable Technology | Senior Secured | April 2019    | Interest rate PRIME + 8.25%<br>or Floor rate of 11.75% | \$15,000 | 14,928    | 14,877    |
| Subtotal: 1-5 Years Maturity                             |                                      |                |               |  |          | 177,048   | 177,436   |
| Subtotal: Sustainable and Renewable Technology (24.56%)* |                                      |                |               |  |          | 184,669   | 185,057   |
| Total Debt Investments (162.44%)*                        |                                      |                |               |  |          | 1,275,881 | 1,224,121 |

See notes to consolidated financial statements.

## HERCULES CAPITAL, INC.

## CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 2016

(unaudited)

(dollars in thousands)

| Portfolio Company   | Sub-Industry                 | Type of Investment <sup>(1)</sup> | Series               | Shares    | Cost <sup>(2)</sup> | Value <sup>(3)</sup> |
|---|------------------------------|-----------------------------------|----------------------|-----------|---------------------|----------------------|
| <b>Equity Investments</b>                                     |                              |                                   |                      |           |                     |                      |
| <b>Biotechnology Tools</b>                                    |                              |                                   |                      |           |                     |                      |
| NuGEN Technologies, Inc. <sup>(15)</sup>                      | Biotechnology Tools          | Equity                            | Preferred Series C   | 189,394   | \$ 500              | \$ 606               |
| Subtotal: Biotechnology Tools (0.08%)*                        |                              |                                   |                      |           | 500                 | 606                  |
| <b>Communications &amp; Networking</b>                        |                              |                                   |                      |           |                     |                      |
| Achilles Technology Management Co II, Inc. <sup>(6)(15)</sup> | Communications & Networking  | Equity                            | Common Stock         | 10,000    | 4,000               | 4,000                |
| GlowPoint, Inc. <sup>(3)</sup>                                | Communications & Networking  | Equity                            | Common Stock         | 114,192   | 102                 | 32                   |
| Peerless Network, Inc.  | Communications & Networking  | Equity                            | Preferred Series A   | 1,000,000 | 1,000               | 4,584                |
| Subtotal: Communications & Networking (1.14%)*                |                              |                                   |                      |           | 5,102               | 8,616                |
| <b>Consumer &amp; Business Products</b>                       |                              |                                   |                      |           |                     |                      |
| Market Force Information, Inc.                                | Consumer & Business Products | Equity                            | Common Stock         | 480,261   | —                   | 252                  |
|   | Consumer & Business Products | Equity                            | Preferred Series B-1 | 187,970   | 500                 | 263                  |
| Total Market Force Information, Inc.                          |                              |                                   |                      | 668,231   | 500                 | 515                  |
| Subtotal: Consumer & Business Products (0.07%)*               |                              |                                   |                      |           | 500                 | 515                  |
| <b>Diagnostic</b>   |                              |                                   |                      |           |                     |                      |
| Singulex, Inc.  | Diagnostic                   | Equity                            | Common Stock         | 937,998   | 750                 | 551                  |
| Subtotal: Diagnostic (0.07%)*                                 |                              |                                   |                      |           | 750                 | 551                  |
| <b>Drug Delivery</b>  |                              |                                   |                      |           |                     |                      |



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|   |               |        |                    |         |       |       |
|---|---------------|--------|--------------------|---------|-------|-------|
| AcelRx Pharmaceuticals, Inc. <sup>(3)(9)</sup>    | Drug Delivery | Equity | Common Stock       | 54,240  | 108   | 211   |
| BioQ Pharma Incorporated <sup>(15)</sup>          | Drug Delivery | Equity | Preferred Series D | 165,000 | 500   | 740   |
| Edge Therapeutics, Inc. <sup>(3)</sup>            | Drug Delivery | Equity | Common Stock       | 161,856 | 1,000 | 1,685 |
| Merrion Pharmaceuticals, Plc <sup>(3)(4)(9)</sup> | Drug Delivery | Equity | Common Stock       | 20,000  | 9     | —     |
| Neos Therapeutics, Inc. <sup>(3)(15)</sup>        | Drug Delivery | Equity | Common Stock       | 125,000 | 1,500 | 823   |
| Revance Therapeutics, Inc. <sup>(3)</sup>         | Drug Delivery | Equity | Common Stock       | 22,765  | 557   | 369   |
| Subtotal: Drug Delivery (0.51%)*                  |               |        |                    |         | 3,674 | 3,828 |

Drug Discovery & Development

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

Electronics & Computer Hardware

|  |                                 |        |              |       |    |    |
|--|---------------------------------|--------|--------------|-------|----|----|
| Identiv, Inc. <sup>(3)</sup>                       | Electronics & Computer Hardware | Equity | Common Stock | 6,700 | 34 | 14 |
| Subtotal: Electronics & Computer Hardware (0.00%)* |                                 |        |              |       | 34 | 14 |

Internet Consumer & Business Services

|                             |                                       |        |                    |         |     |     |
|-----------------------------|---------------------------------------|--------|--------------------|---------|-----|-----|
| Blurb, Inc. <sup>(15)</sup> | Internet Consumer & Business Services | Equity | Preferred Series B | 220,653 | 175 | 199 |
|-----------------------------|---------------------------------------|--------|--------------------|---------|-----|-----|

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|  |                                       |        |                     |           |       |       |
|--|---------------------------------------|--------|---------------------|-----------|-------|-------|
| Lightspeed POS, Inc. <sup>(4)(9)</sup>                   | Internet Consumer & Business Services | Equity | Preferred Series C  | 230,030   | 250   | 278   |
|  | Internet Consumer & Business Services | Equity | Preferred Series D  | 198,677   | 250   | 264   |
| Total Lightspeed POS, Inc.                               |                                       |        |                     | 428,707   | 500   | 542   |
| Oportun (p.k.a. Progress Financial)                      | Internet Consumer & Business Services | Equity | Preferred Series G  | 218,351   | 250   | 373   |
|  | Internet Consumer & Business Services | Equity | Preferred Series H  | 87,802    | 250   | 244   |
| Total Oportun (p.k.a. Progress Financial)                |                                       |        |                     | 306,153   | 500   | 617   |
| Philotic, Inc.   | Internet Consumer & Business Services | Equity | Common Stock        | 9,023     | 93    | —     |
| RazorGator Interactive Group, Inc.                       | Internet Consumer & Business Services | Equity | Preferred Series AA | 34,783    | 15    | 41    |
| Tectura Corporation                                      | Internet Consumer & Business Services | Equity | Preferred Series BB | 1,000,000 | —     | —     |
| Subtotal: Internet Consumer & Business Services (0.19%)* |                                       |        |                     |           | 1,283 | 1,399 |

See notes to consolidated financial statements.

## HERCULES CAPITAL, INC.

## CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 2016

(unaudited)

(dollars in thousands)

| Portfolio Company                                      | Sub-Industry                | Type of Investment <sup>(1)</sup> | Series               | Shares            | Cost <sup>(2)</sup> | Value <sup>(3)</sup> |
|--|-----------------------------|-----------------------------------|----------------------|-------------------|---------------------|----------------------|
| <b>Medical Devices &amp; Equipment</b>                 |                             |                                   |                      |                   |                     |                      |
| AtriCure, Inc. <sup>(3)(15)</sup>                      | Medical Devices & Equipment | Equity                            | Common Stock         | 7,536             | \$266               | \$119                |
| Flowonix Medical Incorporated                          | Medical Devices & Equipment | Equity                            | Preferred Series E   | 221,893           | 1,500               | 1,618                |
| Gelesis, Inc. <sup>(15)</sup>                          | Medical Devices & Equipment | Equity                            | Common Stock         | 198,202           | —                   | 894                  |
|  | Medical Devices & Equipment | Equity                            | Preferred Series A-1 | 191,210           | 425                 | 954                  |
|  | Medical Devices & Equipment | Equity                            | Preferred Series A-2 | 191,626           | 500                 | 909                  |
| <b>Total Gelesis, Inc.</b>                             |                             |                                   |                      | <b>581,038</b>    | <b>925</b>          | <b>2,757</b>         |
| Medrobotics Corporation <sup>(15)</sup>                | Medical Devices & Equipment | Equity                            | Preferred Series E   | 136,798           | 250                 | 245                  |
|  | Medical Devices & Equipment | Equity                            | Preferred Series F   | 73,971            | 155                 | 198                  |
|  | Medical Devices & Equipment | Equity                            | Preferred Series G   | 163,934           | 500                 | 536                  |
| <b>Total Medrobotics Corporation</b>                   |                             |                                   |                      | <b>374,703</b>    | <b>905</b>          | <b>979</b>           |
| Optiscan Biomedical, Corp. <sup>(5)(15)</sup>          | Medical Devices & Equipment | Equity                            | Preferred Series B   | 6,185,567         | 3,000               | 320                  |
|  | Medical Devices & Equipment | Equity                            | Preferred Series C   | 1,927,309         | 655                 | 93                   |
|  | Medical Devices & Equipment | Equity                            | Preferred Series D   | 55,103,923        | 5,257               | 3,465                |
|  | Medical Devices & Equipment | Equity                            | Preferred Series E   | 11,508,204        | 963                 | 1,056                |
| <b>Total Optiscan Biomedical, Corp.</b>                |                             |                                   |                      | <b>74,725,003</b> | <b>9,875</b>        | <b>4,934</b>         |
| Outset Medical, Inc. (p.k.a. Home Dialysis Plus, Inc.) | Medical Devices & Equipment | Equity                            | Preferred Series B   | 232,061           | 527                 | 610                  |
| Quanterix Corporation                                  | Medical Devices & Equipment | Equity                            | Preferred Series D   | 272,479           | 1,000               | 1,106                |

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|  |                           |        |                      |           |        |        |
|--|---------------------------|--------|----------------------|-----------|--------|--------|
| Subtotal: Medical Devices & Equipment (1.61%)* |                           |        |                      | 14,998    | 12,123 |        |
| Software                                       |                           |        |                      |           |        |        |
| Box, Inc. <sup>(3)(15)</sup>                   | Software                  | Equity | Common Stock         | 647,200   | 4,775  | 9,980  |
| CapLinked, Inc.                                | Software                  | Equity | Preferred Series A-3 | 53,614    | 51     | 87     |
| Druva, Inc.                                    | Software                  | Equity | Preferred Series 2   | 458,841   | 1,001  | 1,338  |
| ForeScout Technologies, Inc.                   | Software                  | Equity | Preferred Series D   | 319,099   | 398    | 1,590  |
|  | Software                  | Equity | Preferred Series E   | 80,587    | 131    | 405    |
| Total ForeScout Technologies, Inc.             |                           |        |                      | 399,686   | 529    | 1,995  |
| HighRoads, Inc.                                | Software                  | Equity | Preferred Series B   | 190,170   | 307    | —      |
| NewVoiceMedia Limited <sup>(4)(9)</sup>        | Software                  | Equity | Preferred Series E   | 669,173   | 963    | 1,124  |
| Nuance Communications, Inc. <sup>(3)(15)</sup> | Software                  | Equity | Common Stock         | 91,027    | 546    | 1,068  |
| Palantir Technologies                          | Software                  | Equity | Preferred Series E   | 727,696   | 5,431  | 5,431  |
| WildTangent, Inc. <sup>(15)</sup>              | Software                  | Equity | Preferred Series 3   | 100,000   | 402    | 169    |
| Subtotal: Software (2.81%)*                    |                           |        |                      |           | 14,005 | 21,192 |
| Specialty Pharmaceuticals                      |                           |        |                      |           |        |        |
| QuatRx Pharmaceuticals Company                 | Specialty Pharmaceuticals | Equity | Preferred Series E   | 241,829   | 750    | —      |
|  | Specialty Pharmaceuticals | Equity | Preferred Series E-1 | 26,955    | —      | —      |
|  | Specialty Pharmaceuticals | Equity | Preferred Series G   | 4,667,636 | —      | —      |
| Total QuatRx Pharmaceuticals Company           |                           |        |                      | 4,936,420 | 750    | —      |
| Subtotal: Specialty Pharmaceuticals (0.00%)*   |                           |        |                      |           | 750    | —      |
| Surgical Devices                               |                           |        |                      |           |        |        |
| Gynesonics, Inc. <sup>(15)</sup>               | Surgical Devices          | Equity | Preferred Series B   | 219,298   | 250    | 45     |
|  | Surgical Devices          | Equity | Preferred Series C   | 656,538   | 282    | 66     |
|  | Surgical Devices          | Equity | Preferred Series D   | 1,991,157 | 712    | 694    |
|  | Surgical Devices          | Equity | Preferred Series E   | 2,786,367 | 429    | 483    |
| Total Gynesonics, Inc.                         |                           |        |                      | 5,653,360 | 1,673  | 1,288  |

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|   |                                      |        |                    |            |        |        |
|---|--------------------------------------|--------|--------------------|------------|--------|--------|
| Transmedics, Inc.   | Surgical Devices                     | Equity | Preferred Series B | 88,961     | 1,100  | 405    |
|   | Surgical Devices                     | Equity | Preferred Series C | 119,999    | 300    | 309    |
|   | Surgical Devices                     | Equity | Preferred Series D | 260,000    | 650    | 1,018  |
|   | Surgical Devices                     | Equity | Preferred Series F | 100,200    | 500    | 550    |
| Total Transmedics, Inc.                                       |                                      |        |                    | 569,160    | 2,550  | 2,282  |
| Subtotal: Surgical Devices (0.47%)*                           |                                      |        |                    |            | 4,223  | 3,570  |
| <b>Sustainable and Renewable Technology</b>                   |                                      |        |                    |            |        |        |
| Glori Energy, Inc. <sup>(3)</sup>                             | Sustainable and Renewable Technology | Equity | Common Stock       | 18,208     | 165    | 2      |
| Modumetal, Inc.   | Sustainable and Renewable Technology | Equity | Preferred Series C | 3,107,520  | 500    | 498    |
| Flywheel Building Intelligence, Inc. (p.k.a. SCIEnergy, Inc.) | Sustainable and Renewable Technology | Equity | Common Stock       | 19,250     | 761    | —      |
| Sungevity, Inc. <sup>(15)</sup>                               | Sustainable and Renewable Technology | Equity | Preferred Series D | 68,807,339 | 6,750  | 6,750  |
| TPI Composites, Inc. <sup>(3)</sup>                           | Sustainable and Renewable Technology | Equity | Common Stock       | 78,018     | 273    | 1,659  |
| Subtotal: Sustainable and Renewable Technology (1.18%)*       |                                      |        |                    |            | 8,449  | 8,909  |
| Subtotal: Equity  |                                      |        |                    |            | 69,121 | 68,751 |

See notes to consolidated financial statements.

## HERCULES CAPITAL, INC.

## CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 2016

(unaudited)

(dollars in thousands)

| Portfolio Company  | Sub-Industry                 | Type of Investment <sup>(1)</sup> | Series             | Shares    | Cost <sup>(2)</sup> | Value <sup>(3)</sup> |
|--|------------------------------|-----------------------------------|--------------------|-----------|---------------------|----------------------|
| <b>Warrant Investments</b>                                   |                              |                                   |                    |           |                     |                      |
| <b>Biotechnology Tools</b>                                   |                              |                                   |                    |           |                     |                      |
| Exicure, Inc.  | Biotechnology Tools          | Warrant                           | Preferred Series C | 104,348   | \$107               | \$176                |
| Labcyte, Inc. <sup>(15)</sup>                                | Biotechnology Tools          | Warrant                           | Preferred Series C | 1,127,624 | 323                 | 450                  |
| Subtotal: Biotechnology Tools (0.08%)*                       |                              |                                   |                    |           | 430                 | 626                  |
| <b>Communications &amp; Networking</b>                       |                              |                                   |                    |           |                     |                      |
| Intelepeer, Inc. <sup>(15)</sup>                             | Communications & Networking  | Warrant                           | Common Stock       | 117,958   | 102                 | —                    |
| OpenPeak, Inc.   | Communications & Networking  | Warrant                           | Common Stock       | 108,982   | 149                 | —                    |
| PeerApp, Inc.  | Communications & Networking  | Warrant                           | Preferred Series B | 298,779   | 61                  | 13                   |
| Peerless Network, Inc.                                       | Communications & Networking  | Warrant                           | Preferred Series A | 135,000   | 95                  | 367                  |
| SkyCross, Inc. <sup>(6)(15)</sup>                            | Communications & Networking  | Warrant                           | Preferred Series F | 9,762,777 | 394                 | —                    |
| Spring Mobile Solutions, Inc.                                | Communications & Networking  | Warrant                           | Preferred Series D | 2,834,375 | 418                 | 15                   |
| Subtotal: Communications & Networking (0.05%)*               |                              |                                   |                    |           | 1,219               | 395                  |
| <b>Consumer &amp; Business Products</b>                      |                              |                                   |                    |           |                     |                      |
| Antenna79 (p.k.a. Pong Research Corporation) <sup>(15)</sup> | Consumer & Business Products | Warrant                           | Preferred Series A | 1,662,441 | 228                 | —                    |
| Intelligent Beauty, Inc. <sup>(15)</sup>                     | Consumer & Business Products | Warrant                           | Preferred Series B | 190,234   | 230                 | 378                  |
| IronPlanet, Inc.   | Consumer & Business Products | Warrant                           | Preferred Series D | 1,155,821 | 1,076               | 6,220                |
| Nasty Gal <sup>(15)</sup>                                    | Consumer & Business Products | Warrant                           | Preferred Series C | 845,194   | 23                  | —                    |

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|   |                              |         |                      |         |       |       |
|---|------------------------------|---------|----------------------|---------|-------|-------|
| The Neat Company <sup>(15)</sup>                                      | Consumer & Business Products | Warrant | Preferred Series C-1 | 540,540 | 365   | —     |
| Subtotal: Consumer & Business Products (0.88%)*                       |                              |         |                      |         | 1,922 | 6,598 |
| Diagnostic  |                              |         |                      |         |       |       |
| Navidea Biopharmaceuticals, Inc. (p.k.a. Neoprobe) <sup>(3)(15)</sup> | Diagnostic                   | Warrant | Common Stock         | 333,333 | 244   | 30    |
| Subtotal: Diagnostic (0.00%)*   |                              |         |                      |         | 244   | 30    |
| Drug Delivery   |                              |         |                      |         |       |       |
| AcelRx Pharmaceuticals, Inc. <sup>(3)(9)(15)</sup>                    | Drug Delivery                | Warrant | Common Stock         | 176,730 | 785   | 219   |
| Agile Therapeutics, Inc. <sup>(3)</sup>                               | Drug Delivery                | Warrant | Common Stock         | 180,274 | 730   | 419   |
| Aprecia Pharmaceuticals Company                                       | Drug Delivery                | Warrant | Preferred Series A-1 | 735,981 | 366   | 301   |
| BIND Therapeutics, Inc. <sup>(3)(15)</sup>                            | Drug Delivery                | Warrant | Common Stock         | 152,586 | 488   | —     |
| BioQ Pharma Incorporated  | Drug Delivery                | Warrant | Common Stock         | 459,183 | 1     | 668   |
| Celsion Corporation <sup>(3)</sup>                                    | Drug Delivery                | Warrant | Common Stock         | 194,986 | 428   | 2     |
| Dance Biopharm, Inc. <sup>(15)</sup>                                  | Drug Delivery                | Warrant | Common Stock         | 110,882 | 74    | —     |
| Edge Therapeutics, Inc. <sup>(3)</sup>                                | Drug Delivery                | Warrant | Common Stock         | 78,595  | 390   | 292   |
| Kaleo, Inc. (p.k.a. Intelliject, Inc.)                                | Drug Delivery                | Warrant | Preferred Series B   | 82,500  | 594   | 413   |
| Neos Therapeutics, Inc. <sup>(3)(15)</sup>                            | Drug Delivery                | Warrant | Common Stock         | 70,833  | 285   | 27    |
| Pulmatrix Inc. <sup>(3)</sup>   | Drug Delivery                | Warrant | Common Stock         | 25,150  | 116   | 2     |
| ZP Opco, Inc (p.k.a. Zosano Pharma) <sup>(3)</sup>                    | Drug Delivery                | Warrant | Common Stock         | 72,379  | 266   | —     |
| Subtotal: Drug Delivery (0.31%)*                                      |                              |         |                      |         | 4,523 | 2,343 |

See notes to consolidated financial statements.

## HERCULES CAPITAL, INC.

## CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 2016

(unaudited)

(dollars in thousands)

| Portfolio Company   | Sub-Industry                 | Type of Investment <sup>(1)</sup> | Series             | Shares    | Cost <sup>(2)</sup> | Value <sup>(3)</sup> |
|---|------------------------------|-----------------------------------|--------------------|-----------|---------------------|----------------------|
| <b>Drug Discovery &amp; Development</b>                             |                              |                                   |                    |           |                     |                      |
| ADMA Biologics, Inc. <sup>(3)</sup>                                 | Drug Discovery & Development | Warrant                           | Common Stock       | 89,750    | \$295               | \$107                |
| Anthera Pharmaceuticals, Inc. <sup>(3)(15)</sup>                    | Drug Discovery & Development | Warrant                           | Common Stock       | 40,178    | 984                 | —                    |
| Auris Medical Holding, AG <sup>(3)(4)(9)</sup>                      | Drug Discovery & Development | Warrant                           | Common Stock       | 156,726   | 249                 | 99                   |
| Aveo Pharmaceuticals, Inc. <sup>(3)(9)</sup>                        | Drug Discovery & Development | Warrant                           | Common Stock       | 2,069,880 | 396                 | 418                  |
| Brickell Biotech, Inc.  | Drug Discovery & Development | Warrant                           | Preferred Series C | 26,086    | 119                 | 72                   |
| Cerecor, Inc. <sup>(3)</sup>  | Drug Discovery & Development | Warrant                           | Common Stock       | 22,328    | 70                  | 12                   |
| Cerulean Pharma, Inc. <sup>(3)</sup>                                | Drug Discovery & Development | Warrant                           | Common Stock       | 171,901   | 369                 | 33                   |
| Chroma Therapeutics, Ltd. <sup>(4)(9)</sup>                         | Drug Discovery & Development | Warrant                           | Preferred Series D | 325,261   | 490                 | —                    |
| Cleveland BioLabs, Inc. <sup>(3)(15)</sup>                          | Drug Discovery & Development | Warrant                           | Common Stock       | 7,813     | 105                 | —                    |
| Concert Pharmaceuticals, Inc. <sup>(3)</sup>                        | Drug Discovery & Development | Warrant                           | Common Stock       | 70,796    | 367                 | 48                   |
| CTI BioPharma Corp. (p.k.a. Cell Therapeutics, Inc.) <sup>(3)</sup> | Drug Discovery & Development | Warrant                           | Common Stock       | 292,398   | 165                 | 6                    |



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|   |                              |         |                    |           |       |       |
|---|------------------------------|---------|--------------------|-----------|-------|-------|
| CytRx Corporation <sup>(3)(15)</sup>  | Drug Discovery & Development | Warrant | Common Stock       | 634,146   | 416   | 149   |
| Dicerna Pharmaceuticals, Inc. <sup>(3)(15)</sup>  | Drug Discovery & Development | Warrant | Common Stock       | 200       | 28    | —     |
| Epirus Biopharmaceuticals, Inc. <sup>(3)</sup>  | Drug Discovery & Development | Warrant | Common Stock       | 64,194    | 276   | —     |
| Fortress Biotech, Inc. (p.k.a. Coronado Biosciences, Inc.) <sup>(3)</sup>                 | Drug Discovery & Development | Warrant | Common Stock       | 73,009    | 142   | 13    |
| Genocea Biosciences, Inc. <sup>(3)</sup>  | Drug Discovery & Development | Warrant | Common Stock       | 73,725    | 266   | 108   |
| Immune Pharmaceuticals <sup>(3)</sup>   | Drug Discovery & Development | Warrant | Common Stock       | 214,853   | 164   | —     |
| Mast Therapeutics, Inc. <sup>(3)(15)</sup>  | Drug Discovery & Development | Warrant | Common Stock       | 2,272,724 | 203   | 114   |
| Melinta Therapeutics  | Drug Discovery & Development | Warrant | Preferred Series 3 | 1,382,323 | 626   | 211   |
| Nanotherapeutics, Inc. <sup>(15)</sup>  | Drug Discovery & Development | Warrant | Common Stock       | 171,389   | 838   | 949   |
| Neothetics, Inc. (p.k.a. Lithera, Inc) <sup>(3)(15)</sup>                                 | Drug Discovery & Development | Warrant | Common Stock       | 46,838    | 266   | 22    |
| Neuralstem, Inc. <sup>(3)(15)</sup>   | Drug Discovery & Development | Warrant | Common Stock       | 75,187    | 77    | 2     |
| Paratek Pharmaceuticals, Inc. (p.k.a. Transcept Pharmaceuticals, Inc.) <sup>(3)(15)</sup> | Drug Discovery & Development | Warrant | Common Stock       | 16,346    | 42    | 14    |
| PhaseRx, Inc. <sup>(3)(15)</sup>  | Drug Discovery & Development | Warrant | Common Stock       | 63,000    | 125   | 39    |
| uniQure B.V. <sup>(3)(4)(9)</sup>   | Drug Discovery & Development | Warrant | Common Stock       | 37,174    | 218   | 24    |
| XOMA Corporation <sup>(3)(9)(15)</sup>  | Drug Discovery & Development | Warrant | Common Stock       | 181,268   | 279   | 22    |
| Subtotal: Drug Discovery & Development (0.33%)  |                              |         |                    |           | 7,575 | 2,462 |
| Electronics & Computer Hardware   |                              |         |                    |           |       |       |
| Clustrix, Inc.  | Electronics & Computer       | Warrant | Common Stock       | 50,000    | 12    | —     |

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

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HERCULES CAPITAL, INC.

## CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 2016

(unaudited)

(dollars in thousands)

| Portfolio Company                           | Sub-Industry                          | Type of Investment <sup>(1)</sup> | Series               | Shares    | Cost <sup>(2)</sup> | Value <sup>(3)</sup> |
|---|---------------------------------------|-----------------------------------|----------------------|-----------|---------------------|----------------------|
| Aria Systems, Inc.                          | Internet Consumer & Business Services | Warrant                           | Preferred Series E   | 239,692   | \$73                | \$—                  |
| Blurb, Inc. <sup>(15)</sup>                 | Internet Consumer & Business Services | Warrant                           | Preferred Series C   | 234,280   | 636                 | 95                   |
| CashStar, Inc. <sup>(15)</sup>              | Internet Consumer & Business Services | Warrant                           | Preferred Series C-2 | 727,272   | 130                 | 19                   |
| CloudOne, Inc.                              | Internet Consumer & Business Services | Warrant                           | Preferred Series E   | 968,992   | 19                  | 30                   |
| Just Fabulous, Inc.                         | Internet Consumer & Business Services | Warrant                           | Preferred Series B   | 206,184   | 1,102               | 1,166                |
| Lightspeed POS, Inc. <sup>(4)(9)</sup>      | Internet Consumer & Business Services | Warrant                           | Preferred Series C   | 245,610   | 20                  | 75                   |
| LogicSource <sup>(15)</sup>                 | Internet Consumer & Business Services | Warrant                           | Preferred Series C   | 79,625    | 30                  | 65                   |
| Oportun (p.k.a. Progress Financial)         | Internet Consumer & Business Services | Warrant                           | Preferred Series G   | 174,562   | 78                  | 135                  |
| Prism Education Group, Inc. <sup>(15)</sup> | Internet Consumer & Business Services | Warrant                           | Preferred Series B   | 200,000   | 43                  | —                    |
| ShareThis, Inc. <sup>(15)</sup>             | Internet Consumer & Business Services | Warrant                           | Preferred Series C   | 493,502   | 547                 | 1                    |
| Snagajob.com, Inc.                          | Internet Consumer & Business Services | Warrant                           | Preferred Series A   | 1,575,000 | 640                 | 716                  |

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|  |                                       |         |                      |            |       |       |
|--|---------------------------------------|---------|----------------------|------------|-------|-------|
| Tapjoy, Inc.   | Internet Consumer & Business Services | Warrant | Preferred Series D   | 748,670    | 316   | 177   |
| Tectura Corporation                                      | Internet Consumer & Business Services | Warrant | Preferred Series B-1 | 253,378    | 51    | —     |
| Subtotal: Internet Consumer & Business Services (0.33%)* |                                       |         |                      |            | 3,685 | 2,479 |
| Media/Content/Info                                       |                                       |         |                      |            |       |       |
| Machine Zone, Inc. <sup>(16)</sup>                       | Media/Content/Info                    | Warrant | Common Stock         | 1,552,710  | 1,958 | 2,793 |
| Rhapsody International, Inc. <sup>(15)</sup>             | Media/Content/Info                    | Warrant | Common Stock         | 715,755    | 385   | 101   |
| WP Technology, Inc. (Wattpad, Inc.) <sup>(4)(9)</sup>    | Media/Content/Info                    | Warrant | Common Stock         | 127,909    | 1     | 1     |
| Zoom Media Group, Inc.                                   | Media/Content/Info                    | Warrant | Preferred Series A   | 1,204      | 348   | 11    |
| Subtotal: Media/Content/Info (0.39%)*                    |                                       |         |                      |            | 2,692 | 2,906 |
| Medical Devices & Equipment                              |                                       |         |                      |            |       |       |
| Amedica Corporation <sup>(3)(15)</sup>                   | Medical Devices & Equipment           | Warrant | Common Stock         | 103,225    | 459   | 32    |
| Aspire Bariatrics, Inc. <sup>(15)</sup>                  | Medical Devices & Equipment           | Warrant | Preferred Series D   | 395,000    | 455   | 262   |
| Avedro, Inc. <sup>(15)</sup>                             | Medical Devices & Equipment           | Warrant | Preferred Series AA  | 300,000    | 401   | 241   |
| Flowonix Medical Incorporated                            | Medical Devices & Equipment           | Warrant | Preferred Series E   | 155,325    | 362   | 430   |
| Gamma Medica, Inc.                                       | Medical Devices & Equipment           | Warrant | Preferred Series A   | 450,956    | 170   | 239   |
| Gelesis, Inc. <sup>(15)</sup>                            | Medical Devices & Equipment           | Warrant | Preferred Series A-1 | 74,784     | 78    | 219   |
| InspireMD, Inc. <sup>(3)(4)(9)</sup>                     | Medical Devices & Equipment           | Warrant | Common Stock         | 984,111    | 242   | 14    |
| IntegenX, Inc. <sup>(15)</sup>                           | Medical Devices & Equipment           | Warrant | Preferred Series C   | 547,752    | 15    | 29    |
| Medrobotics Corporation <sup>(15)</sup>                  | Medical Devices & Equipment           | Warrant | Preferred Series E   | 455,539    | 370   | 375   |
| Micell Technologies, Inc.                                | Medical Devices & Equipment           | Warrant | Preferred Series D-2 | 84,955     | 262   | 371   |
| NetBio, Inc.   | Medical Devices & Equipment           | Warrant | Common Stock         | 2,568      | 408   | 39    |
| NinePoint Medical, Inc. <sup>(15)</sup>                  | Medical Devices & Equipment           | Warrant | Preferred Series A-1 | 587,840    | 170   | 82    |
| Optiscan Biomedical, Corp. <sup>(5)(15)</sup>            |                                       | Warrant |                      | 10,535,275 | 1,252 | 168   |

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|  |                             |         |                      |         |       |       |
|--|-----------------------------|---------|----------------------|---------|-------|-------|
|  | Medical Devices & Equipment |         | Preferred Series D   |         |       |       |
| Outset Medical, Inc. (p.k.a. Home Dialysis Plus, Inc.)                 | Medical Devices & Equipment | Warrant | Preferred Series A   | 500,000 | 402   | 429   |
| Quanterix Corporation  | Medical Devices & Equipment | Warrant | Preferred Series C   | 173,428 | 180   | 135   |
| SonaCare Medical, LLC (p.k.a. US HIFU, LLC)                            | Medical Devices & Equipment | Warrant | Preferred Series A   | 6,464   | 188   | —     |
| Strata Skin Sciences, Inc. (p.k.a. MELA Sciences, Inc.) <sup>(3)</sup> | Medical Devices & Equipment | Warrant | Common Stock         | 69,320  | 402   | —     |
| ViewRay, Inc. <sup>(3)(15)</sup>                                       | Medical Devices & Equipment | Warrant | Common Stock         | 128,231 | 333   | 31    |
| Subtotal: Medical Devices & Equipment (0.41%)*                         |                             |         |                      |         | 6,149 | 3,096 |
| Semiconductors   |                             |         |                      |         |       |       |
| Achronix Semiconductor Corporation <sup>(15)</sup>                     | Semiconductors              | Warrant | Preferred Series C   | 360,000 | 160   | 62    |
|  | Semiconductors              | Warrant | Preferred Series D-1 | 500,000 | 7     | 17    |
| Total Achronix Semiconductor Corporation                               |                             |         |                      | 860,000 | 167   | 79    |
| Aquantia Corp.   | Semiconductors              | Warrant | Preferred Series G   | 196,831 | 4     | 70    |
| Avnera Corporation   | Semiconductors              | Warrant | Preferred Series E   | 141,567 | 46    | 82    |
| Subtotal: Semiconductors (0.03%)*                                      |                             |         |                      |         | 217   | 231   |

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## HERCULES CAPITAL, INC.

## CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 2016

(unaudited)

(dollars in thousands)

| Portfolio Company  | Sub-Industry | Type of Investment <sup>(1)</sup> | Series               | Shares    | Cost <sup>(2)</sup> | Value <sup>(3)</sup> |
|--|--------------|-----------------------------------|----------------------|-----------|---------------------|----------------------|
| Software   |              |                                   |                      |           |                     |                      |
| Actifio, Inc.  | Software     | Warrant                           | Common Stock         | 73,584    | \$249               | \$137                |
|  | Software     | Warrant                           | Preferred Series F   | 31,673    | 343                 | 76                   |
| Total Actifio, Inc.  |              |                                   |                      | 105,257   | 592                 | 213                  |
| Braxton Technologies, LLC  | Software     | Warrant                           | Preferred Series A   | 168,750   | 188                 | —                    |
| CareCloud Corporation <sup>(15)</sup>                                  | Software     | Warrant                           | Preferred Series B   | 413,433   | 258                 | 524                  |
| Clickfox, Inc. <sup>(15)</sup>   | Software     | Warrant                           | Preferred Series B   | 1,038,563 | 330                 | 67                   |
|  | Software     | Warrant                           | Preferred Series C   | 592,019   | 730                 | 81                   |
|  | Software     | Warrant                           | Preferred Series C-A | 2,218,214 | 230                 | 144                  |
| Total Clickfox, Inc.   |              |                                   |                      | 3,848,796 | 1,290               | 292                  |
| Evernote Corporation <sup>(15)</sup>                                   | Software     | Warrant                           | Common Stock         | 62,500    | 106                 | 106                  |
| Hillcrest Laboratories, Inc. <sup>(15)</sup>                           | Software     | Warrant                           | Preferred Series E   | 1,865,650 | 55                  | 136                  |
| JumpStart Games, Inc. (p.k.a Knowledge Holdings, Inc.) <sup>(15)</sup> | Software     | Warrant                           | Preferred Series E   | 614,333   | 16                  | —                    |
| Mattersight Corporation <sup>(3)</sup>                                 | Software     | Warrant                           | Common Stock         | 357,143   | 538                 | 490                  |
| Message Systems, Inc. <sup>(15)</sup>                                  | Software     | Warrant                           | Preferred Series C   | 503,718   | 334                 | 245                  |
| Mobile Posse, Inc. <sup>(15)</sup>                                     | Software     | Warrant                           | Preferred Series C   | 396,430   | 130                 | 91                   |
| Neos, Inc. <sup>(15)</sup>   | Software     | Warrant                           | Common Stock         | 221,150   | 22                  | 100                  |
| NewVoiceMedia Limited <sup>(4)(9)</sup>                                | Software     | Warrant                           | Preferred Series E   | 225,586   | 33                  | 79                   |

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|  |                           |         |                    |           |           |       |     |
|--|---------------------------|---------|--------------------|-----------|-----------|-------|-----|
| OneLogin, Inc. <sup>(15)</sup>               | Software                  | Warrant | Common Stock       | 228,972   | 150       | 241   |     |
| Poplicus, Inc. <sup>(15)</sup>               | Software                  | Warrant | Preferred Series C | 2,595,230 | —         | 81    |     |
| Quid, Inc. <sup>(15)</sup>                   | Software                  | Warrant | Preferred Series D | 71,576    | 1         | 4     |     |
| Signpost, Inc. <sup>(15)</sup>               | Software                  | Warrant | Preferred Series C | 324,005   | 314       | 276   |     |
| Soasta, Inc. <sup>(15)</sup>                 | Software                  | Warrant | Preferred Series E | 410,800   | 691       | 250   |     |
| Sonian, Inc. <sup>(15)</sup>                 | Software                  | Warrant | Preferred Series C | 185,949   | 106       | 61    |     |
| Subtotal: Software (0.42%)*                  |                           |         |                    |           | 4,824     | 3,189 |     |
| Specialty Pharmaceuticals                    |                           |         |                    |           |           |       |     |
| Alimera Sciences, Inc. <sup>(3)</sup>        | Specialty Pharmaceuticals | Warrant | Common Stock       | 1,258,993 | 728       | 586   |     |
| QuatRx Pharmaceuticals Company               | Specialty Pharmaceuticals | Warrant | Preferred Series E | 155,324   | 308       | —     |     |
| Subtotal: Specialty Pharmaceuticals (0.08%)* |                           |         |                    |           | 1,036     | 586   |     |
| Surgical Devices                             |                           |         |                    |           |           |       |     |
| Gynesonics, Inc. <sup>(15)</sup>             | Surgical Devices          | Warrant | Preferred Series C | 180,480   | 75        | 16    |     |
|  | Surgical Devices          | Warrant | Preferred Series D | 1,575,965 | 320       | 268   |     |
| Total Gynesonics, Inc.                       |                           |         |                    |           | 1,756,445 | 395   | 284 |
| Transmedics, Inc.                            | Surgical Devices          | Warrant | Preferred Series B | 40,436    | 225       | 10    |     |
|  | Surgical Devices          | Warrant | Preferred Series D | 175,000   | 100       | 439   |     |
|  | Surgical Devices          | Warrant | Preferred Series F | 50,544    | 38        | 52    |     |
| Total Transmedics, Inc.                      |                           |         |                    |           | 265,980   | 363   | 501 |
| Subtotal: Surgical Devices (0.10%)*          |                           |         |                    |           | 758       | 785   |     |

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## HERCULES CAPITAL, INC.

## CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 2016

(unaudited)

(dollars in thousands)

| Portfolio Company                                  | Sub-Industry                         | Type of Investment <sup>(1)</sup> | Series               | Shares  | Cost <sup>(2)</sup> | Value <sup>(3)</sup> |
|--|--------------------------------------|-----------------------------------|----------------------|---------|---------------------|----------------------|
| Sustainable and Renewable Technology               |                                      |                                   |                      |         |                     |                      |
| Agrivida, Inc. <sup>(15)</sup>                     | Sustainable and Renewable Technology | Warrant                           | Preferred Series D   | 471,327 | \$ 120              | \$ 124               |
| Alphabet Energy, Inc. <sup>(15)</sup>              | Sustainable and Renewable Technology | Warrant                           | Preferred Series A   | 86,329  | 82                  | —                    |
| American Superconductor Corporation <sup>(3)</sup> | Sustainable and Renewable Technology | Warrant                           | Common Stock         | 58,823  | 39                  | 85                   |
| Brightsource Energy, Inc.                          | Sustainable and Renewable Technology | Warrant                           | Preferred Series 1   | 116,667 | 104                 | —                    |
| Calera, Inc. <sup>(15)</sup>                       | Sustainable and Renewable Technology | Warrant                           | Preferred Series C   | 44,529  | 513                 | —                    |
| EcoMotors, Inc. <sup>(15)</sup>                    | Sustainable and Renewable Technology | Warrant                           | Preferred Series B   | 437,500 | 308                 | 74                   |
| Fluidic, Inc.                                      | Sustainable and Renewable Technology | Warrant                           | Preferred Series D   | 61,804  | 102                 | 47                   |
| Fulcrum Bioenergy, Inc.                            | Sustainable and Renewable Technology | Warrant                           | Preferred Series C-1 | 280,897 | 275                 | 213                  |
| GreatPoint Energy, Inc. <sup>(15)</sup>            | Sustainable and Renewable Technology | Warrant                           | Preferred Series D-1 | 393,212 | 548                 | —                    |
| Polyera Corporation <sup>(15)</sup>                | Sustainable and Renewable Technology | Warrant                           | Preferred Series C   | 311,609 | 338                 | —                    |
| Proterra, Inc.                                     | Sustainable and Renewable Technology | Warrant                           | Preferred Series 4   | 477,517 | 41                  | 307                  |



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|   |                                      |         |                       |            |             |             |
|---|--------------------------------------|---------|-----------------------|------------|-------------|-------------|
| Rive Technology, Inc. <sup>(15)</sup>                         | Sustainable and Renewable Technology | Warrant | Preferred Series E    | 234,477    | 12          | 4           |
| Flywheel Building Intelligence, Inc. (p.k.a. SCIEnergy, Inc.) | Sustainable and Renewable Technology | Warrant | Common Stock          | 530,811    | 181         | —           |
|   | Sustainable and Renewable Technology | Warrant | Preferred Series 2-A  | 6,229      | 50          | —           |
| Total SCIEnergy, Inc.   |                                      |         |                       | 537,040    | 231         | —           |
| Beamreach Solar (p.k.a. Solexel, Inc.) <sup>(15)</sup>        | Sustainable and Renewable Technology | Warrant | Preferred Series C    | 1,171,625  | 1,162       | 704         |
| Stion Corporation <sup>(5)</sup>                              | Sustainable and Renewable Technology | Warrant | Preferred Series Seed | 2,154      | 1,378       | —           |
| Sungevity, Inc.   | Sustainable and Renewable Technology | Warrant | Common Stock          | 20,000,000 | 543         | 5           |
|   | Sustainable and Renewable Technology | Warrant | Preferred Series C    | 32,472,222 | 902         | —           |
| Total Sungevity, Inc.   |                                      |         |                       | 52,472,222 | 1,445       | 5           |
| TAS Energy, Inc.  | Sustainable and Renewable Technology | Warrant | Preferred Series AA   | 428,571    | 299         | —           |
| Tendril Networks  | Sustainable and Renewable Technology | Warrant | Preferred Series 3-A  | 1,019,793  | 189         | 230         |
| Trilliant, Inc. <sup>(15)</sup>                               | Sustainable and Renewable Technology | Warrant | Preferred Series A    | 320,000    | 162         | 102         |
| Subtotal: Sustainable and Renewable Technology (0.25%)*       |                                      |         |                       |            | 7,348       | 1,895       |
| Total: Warrant Investments (3.68%)*                           |                                      |         |                       |            | 43,241      | 27,738      |
| Total Investments (175.24%)*                                  |                                      |         |                       |            | \$1,388,244 | \$1,320,610 |

\* Value as a percent of net assets

- (1) Preferred and common stock, warrants, and equity interests are generally non-income producing.
- (2) Gross unrealized appreciation, gross unrealized depreciation, and net depreciation for federal income tax purposes totaled \$28.1 million, \$96.1 million and \$68.0 million respectively. The tax cost of investments is \$1.4 billion.
- (3) Except for warrants in 39 publicly traded companies and common stock in 22 publicly traded companies, all investments are restricted at September 30, 2016 and were valued at fair value as determined in good faith by the Company's board of directors (the "Board of Directors"). No unrestricted securities of the same issuer are outstanding. The Company uses the Standard Industrial Code for classifying the industry grouping of its portfolio companies.
- (4) Non-U.S. company or the company's principal place of business is outside the United States.
- (5) Affiliate investment as defined under the Investment Company Act of 1940, as amended, (the "1940 Act") in which Hercules owns at least 5% but generally less than 25% of the company's voting securities.
- (6)

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

- (7) Debt is on non-accrual status at September 30, 2016, and is therefore considered non-income producing. Note that at September 30, 2016, only the \$11.0 million PIK loan is on non-accrual for the Company's debt investment in Tectura Corporation.
- (8) Denotes that all or a portion of the debt investment is convertible debt.
- (9) Indicates assets that the Company deems not "qualifying assets" under section 55(a) of the 1940 Act. Qualifying assets must represent at least 70% of the Company's total assets at the time of acquisition of any additional non-qualifying assets.
- (10) Denotes that all or a portion of the debt investment secures the notes offered in the Debt Securitization (as defined in Note 4).
- (11) Denotes that all or a portion of the debt investment is pledged as collateral under the Wells Facility (as defined in Note 4).
- (12) Denotes that all or a portion of the debt investment is pledged as collateral under the Union Facility (as defined in Note 4).
- (13) Denotes that all or a portion of the debt investment principal includes accumulated PIK, or payment-in-kind, interest and is net of repayments.
- (14) Denotes that all or a portion of the debt investment includes an exit fee receivable.
- A. This fee ranges from 1.0% to 5.0% of the total debt commitment based on the contractual terms of our loan servicing agreements.
- B. This fee ranges from 5.0% to 10.0% of the total debt commitment based on the contractual terms of our loan servicing agreements.
- C. This fee ranges from 10.0% to 15.0% of the total debt commitment based on the contractual terms of our loan servicing agreements.
- D. This fee is greater than 15.0% of the total debt commitment based on the contractual terms of our loan servicing agreements.
- (15) Denotes that all or a portion of the investment in this portfolio company is held by Hercules Technology II, L.P., or HT II, or Hercules Technology III, L.P., or HT III, the Company's wholly owned SBIC subsidiaries.
- (16) Denotes that the fair value of the Company's total investments in this portfolio company represent greater than 5% of the Company's total assets at September 30, 2016.
- (17) Denotes that there is an unfunded contractual commitment available at the request of this portfolio company at September 30, 2016. Refer to Note 10.

See notes to consolidated financial statements.



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|   |                              |                  |                | PIK Interest 2.50%          |           |        |        |        |
|---|------------------------------|------------------|----------------|-----------------------------|-----------|--------|--------|--------|
| Files, Inc. (p.k.a. Fluc, Inc.) (8)             | Consumer & Business Products | Convertible Debt | March 2017     | Interest rate FIXED 4.00%   |           |        |        |        |
|   |                              |                  |                |                             | \$ 100    | 100    | —      |        |
| asty Gal (13)(14)                               | Consumer & Business Products | Senior Secured   | May 2019       | Interest rate PRIME + 5.45% |           |        |        |        |
|   |                              |                  |                | or Floor rate of 8.95%      | \$ 15,000 | 14,876 | 14,876 |        |
| he Neat Company (7)(12)(13)(14)                 | Consumer & Business Products | Senior Secured   | September 2017 | Interest rate PRIME + 7.75% |           |        |        |        |
|   |                              |                  |                | or Floor rate of 11.00%,    |           |        |        |        |
|   |                              |                  |                | PIK Interest 1.00%          | \$ 15,936 | 15,545 | 5,527  |        |
| Subtotal: 1-5 Years Maturity                    |                              |                  |                |                             |           |        | 35,306 | 25,186 |
| Subtotal: Consumer & Business Products (3.55%)* |                              |                  |                |                             |           |        | 35,614 | 25,494 |

See notes to consolidated financial statements.

HERCULES CAPITAL, INC.

## CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2015

(unaudited)

(dollars in thousands)

| Portfolio Company                                       | Sub-Industry  | Type of Investment <sup>(1)</sup> | Maturity Date | Interest Rate and Floor                                | Principal Amount | Cost <sup>(2)</sup> | Value <sup>(3)</sup> |
|---|---------------|-----------------------------------|---------------|--|------------------|---------------------|----------------------|
| <b>Drug Delivery</b>                                    |               |                                   |               |  |                  |                     |                      |
| <b>1-5 Years Maturity</b>                               |               |                                   |               |  |                  |                     |                      |
| AcelRx Pharmaceuticals, Inc. <sup>(9)(10)(13)(14)</sup> | Drug Delivery | Senior Secured                    | October 2017  | Interest rate PRIME + 3.85%<br>or Floor rate of 9.10%  | \$20,466         | \$20,772            | \$20,678             |
| Agile Therapeutics, Inc. <sup>(10)(13)</sup>            | Drug Delivery | Senior Secured                    | December 2018 | Interest rate PRIME + 4.75%<br>or Floor rate of 9.00%  | \$16,500         | 16,231              | 16,107               |
| BIND Therapeutics, Inc. <sup>(13)(14)</sup>             | Drug Delivery | Senior Secured                    | July 2018     | Interest rate PRIME + 5.10%<br>or Floor rate of 8.35%  | \$15,000         | 15,119              | 15,044               |
| BioQ Pharma Incorporated <sup>(10)(13)</sup>            | Drug Delivery | Senior Secured                    | May 2018      | Interest rate PRIME + 8.00%<br>or Floor rate of 11.25% | \$10,000         | 10,180              | 10,066               |
|   | Drug Delivery | Senior Secured                    | May 2018      | Interest rate PRIME + 7.00%<br>or Floor rate of 10.50% | \$3,000          | 2,962               | 2,962                |
| Total BioQ Pharma Incorporated                          |               |                                   |               |  | \$13,000         | 13,142              | 13,028               |
| Celator Pharmaceuticals, Inc. <sup>(10)(13)</sup>       | Drug Delivery | Senior Secured                    | June 2018     | Interest rate PRIME + 6.50%<br>or Floor rate of 9.75%  | \$14,573         | 14,594              | 14,609               |
| Celsion Corporation <sup>(10)(13)</sup>                 | Drug Delivery | Senior Secured                    | June 2017     | Interest rate PRIME + 8.00%<br>or Floor rate of 11.25% | \$6,346          | 6,501               | 6,544                |
| Dance Biopharm, Inc. <sup>(13)(14)</sup>                | Drug Delivery | Senior Secured                    | November 2017 | Interest rate PRIME + 7.40%<br>or Floor rate of 10.65% | \$2,705          | 2,776               | 2,757                |
| Edge Therapeutics, Inc. <sup>(10)(13)</sup>             | Drug Delivery | Senior Secured                    | March 2018    | Interest rate PRIME + 6.45%<br>or Floor rate of 9.95%  | \$5,466          | 5,431               | 5,455                |
| Egalet Corporation <sup>(11)(13)</sup>                  | Drug Delivery | Senior Secured                    | July 2018     | Interest rate PRIME + 6.15%<br>or Floor rate of 9.40%  | \$15,000         | 14,967              | 15,036               |
|   |               | Senior Secured                    | October 2017  | Interest rate PRIME + 5.75%                            | \$10,000         | 10,000              | 10,007               |

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|   |               |                |               |                             |          |         |         |
|---|---------------|----------------|---------------|-----------------------------|----------|---------|---------|
| Neos Therapeutics, Inc. (10)(13)(14)          | Drug Delivery |                |               | or Floor rate of 9.00%      |          |         |         |
|   | Drug Delivery | Senior Secured | October 2017  | Interest rate PRIME + 7.25% |          |         |         |
|   |               |                |               | or Floor rate of 10.50%     | \$10,000 | 10,043  | 9,998   |
|   | Drug Delivery | Senior Secured | October 2017  | Interest rate PRIME + 5.75% |          |         |         |
|   |               |                |               | or Floor rate of 9.00%      | \$5,000  | 4,977   | 4,957   |
| Total Neos Therapeutics, Inc.                 |               |                |               |                             | \$25,000 | 25,020  | 24,962  |
| Pulmatrix Inc. (8)(10)(13)                    | Drug Delivery | Senior Secured | July 2018     | Interest rate PRIME + 6.25% |          |         |         |
|   |               |                |               | or Floor rate of 9.50%      | \$7,000  | 6,877   | 6,856   |
| ZP Opco, Inc. (p.k.a. Zosano Pharma) (10)(13) | Drug Delivery | Senior Secured | December 2018 | Interest rate PRIME + 2.70% |          |         |         |
|   |               |                |               | or Floor rate of 7.95%      | \$15,000 | 14,925  | 14,781  |
| Subtotal: 1-5 Years Maturity                  |               |                |               |                             |          | 156,355 | 155,857 |
| Subtotal: Drug Delivery (21.73%)*             |               |                |               |                             |          | 156,355 | 155,857 |

See notes to consolidated financial statements.

## HERCULES CAPITAL, INC.

## CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2015

(unaudited)

(dollars in thousands)

| Portfolio Company   | Sub-Industry                 | Type of Investment <sup>(1)</sup> | Maturity Date  | Interest Rate and Floor                                | Principal Amount | Cost <sup>(2)</sup> | Value <sup>(3)</sup> |
|---|------------------------------|-----------------------------------|----------------|--|------------------|---------------------|----------------------|
| Drug Discovery & Development  |                              |                                   |                |  |                  |                     |                      |
| 1-5 Years Maturity  |                              |                                   |                |  |                  |                     |                      |
| Aveo Pharmaceuticals, Inc. <sup>(9)(13)</sup>                           | Drug Discovery & Development | Senior Secured                    | January 2018   | Interest rate PRIME + 6.65%<br>or Floor rate of 11.90% | \$10,000         | \$10,076            | \$9,944              |
| Cerecor, Inc. <sup>(13)</sup>   | Drug Discovery & Development | Senior Secured                    | August 2017    | Interest rate PRIME + 4.70%<br>or Floor rate of 7.95%  | \$5,688          | 5,705               | 5,740                |
| Cerulean Pharma, Inc. <sup>(11)(13)</sup>                               | Drug Discovery & Development | Senior Secured                    | July 2018      | Interest rate PRIME + 1.55%<br>or Floor rate of 7.30%  | \$21,000         | 21,132              | 21,109               |
| CTI BioPharma Corp. p.k.a. Cell Therapeutics, Inc.) <sup>(10)(13)</sup> | Drug Discovery & Development | Senior Secured                    | December 2018  | Interest rate PRIME + 7.70%<br>or Floor rate of 10.95% | \$25,000         | 25,507              | 25,550               |
| Epirus Biopharmaceuticals, Inc. <sup>(11)(13)</sup>                     | Drug Discovery & Development | Senior Secured                    | April 2018     | Interest rate PRIME + 4.70%<br>or Floor rate of 7.95%  | \$15,000         | 14,852              | 14,924               |
| Genocea Biosciences, Inc. <sup>(10)(13)</sup>                           | Drug Discovery & Development | Senior Secured                    | January 2019   | Interest rate PRIME + 3.75%<br>or Floor rate of 7.25%  | \$17,000         | 17,008              | 16,948               |
| Immune Pharmaceuticals <sup>(10)(13)</sup>                              | Drug Discovery & Development | Senior Secured                    | September 2018 | Interest rate PRIME + 6.50%<br>or Floor rate of 10.00% | \$4,500          | 4,374               | 4,374                |
| Insmed, Incorporated <sup>(10)(13)</sup>                                | Drug Discovery & Development | Senior Secured                    | January 2018   | Interest rate PRIME + 4.75%<br>or Floor rate of 9.25%  | \$25,000         | 25,128              | 24,991               |
| Mast Therapeutics, Inc. <sup>(13)(14)</sup>                             | Drug Discovery & Development | Senior Secured                    | January 2019   | Interest rate PRIME + 5.70%<br>or Floor rate of 8.95%  | \$15,000         | 14,808              | 14,808               |
| Melinta Therapeutics <sup>(11)(13)</sup>                                | Drug Discovery & Development | Senior Secured                    | June 2018      | Interest rate PRIME + 3.75%<br>or Floor rate of 8.25%  | \$30,000         | 29,843              | 29,703               |
|   |                              | Senior Secured                    | December 2022  | Interest rate FIXED 11.50%                             | \$25,000         | 25,000              | 25,000               |

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|  |                              |                |                |                             |          |         |         |         |
|--|------------------------------|----------------|----------------|-----------------------------|----------|---------|---------|---------|
| Merrimack Pharmaceuticals, Inc. <sup>(9)</sup>   | Drug Discovery & Development |                |                |                             |          |         |         |         |
| Neothermics, Inc. (p.k.a. Lithera, Inc.) <sup>(13)(14)</sup>                               | Drug Discovery & Development | Senior Secured | January 2018   | Interest rate PRIME + 5.75% |          |         |         |         |
|  |                              |                |                | or Floor rate of 9.00%      | \$10,000 | 9,966   | 9,940   |         |
| Neuralstem, Inc. <sup>(13)(14)</sup>   | Drug Discovery & Development | Senior Secured | April 2017     | Interest rate PRIME + 6.75% |          |         |         |         |
|  |                              |                |                | or Floor rate of 10.00%     | \$8,335  | 8,418   | 8,397   |         |
| Paratek Pharmaceuticals, Inc. (p.k.a. Transcept Pharmaceuticals, Inc.) <sup>(13)(14)</sup> | Drug Discovery & Development | Senior Secured | September 2020 | Interest rate PRIME + 2.75% |          |         |         |         |
|  |                              |                |                | or Floor rate of 8.50%      |          |         |         |         |
|  |                              |                |                |                             | \$20,000 | 19,828  | 19,828  |         |
| uniQure B.V. <sup>(4)(9)(10)(13)</sup>   | Drug Discovery & Development | Senior Secured | June 2018      | Interest rate PRIME + 5.00% |          |         |         |         |
|  |                              |                |                | or Floor rate of 10.25%     | \$20,000 | 19,956  | 19,929  |         |
| KOMA Corporation <sup>(9)(13)(14)</sup>  | Drug Discovery & Development | Senior Secured | September 2018 | Interest rate PRIME + 2.15% |          |         |         |         |
|  |                              |                |                | or Floor rate of 9.40%      | \$20,000 | 19,974  | 19,815  |         |
| Subtotal: 1-5 Years Maturity   |                              |                |                |                             |          | 271,575 | 271,000 |         |
| Subtotal: Drug Discovery & Development (37.79%)*   |                              |                |                |                             |          |         | 271,575 | 271,000 |

See notes to consolidated financial statements.



## HERCULES CAPITAL, INC.

## CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2015

(unaudited)

(dollars in thousands)

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

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|   |                                      |                |               |  |          |         |         |
|---|--------------------------------------|----------------|---------------|--|----------|---------|---------|
| Sungevity, Inc. <sup>(11)</sup>                         | Sustainable and Renewable Technology | Senior Secured | April 2016    | Interest rate PRIME + 3.70%<br>or Floor rate of 6.95%  | \$20,000 | 20,000  | 20,000  |
| Subtotal: Under 1 Year Maturity                         |                                      |                |               |  |          | 32,714  | 31,527  |
| 1-5 Years Maturity                                      |                                      |                |               |  |          |         |         |
| American Superconductor Corporation <sup>(10)(13)</sup> | Sustainable and Renewable Technology | Senior Secured | June 2017     | Interest rate PRIME + 7.25%<br>or Floor rate of 11.00% | \$1,500  | 1,496   | 1,484   |
| Amyris, Inc. <sup>(9)(11)(13)</sup>                     | Sustainable and Renewable Technology | Senior Secured | February 2017 | Interest rate PRIME + 6.25%<br>or Floor rate of 9.50%  | \$17,543 | 17,543  | 17,499  |
|   | Sustainable and Renewable Technology | Senior Secured | February 2017 | Interest rate PRIME + 5.25%<br>or Floor rate of 8.50%  | \$3,497  | 3,497   | 3,488   |
|   | Sustainable and Renewable Technology | Senior Secured | February 2017 | Interest rate PRIME + 6.25%<br>or Floor rate of 9.50%  | \$10,960 | 11,045  | 11,045  |
| Total Amyris, Inc.                                      |                                      |                |               |  | \$32,000 | 32,085  | 32,032  |
| Modumetal, Inc. <sup>(13)</sup>                         | Sustainable and Renewable Technology | Senior Secured | March 2017    | Interest rate PRIME + 8.70%<br>or Floor rate of 11.95% | \$1,759  | 2,062   | 2,032   |
|   | Sustainable and Renewable Technology | Senior Secured | October 2017  | Interest rate PRIME + 6.00%<br>or Floor rate of 9.25%  | \$7,061  | 7,101   | 7,080   |
| Total Modumetal, Inc.                                   |                                      |                |               |  | \$8,820  | 9,163   | 9,112   |
| Polyera Corporation <sup>(13)</sup>                     | Sustainable and Renewable Technology | Senior Secured | January 2017  | Interest rate PRIME + 6.70%<br>or Floor rate of 9.95%  | \$1,254  | 1,455   | 1,455   |
| Proterra, Inc. <sup>(10)(13)</sup>                      | Sustainable and Renewable Technology | Senior Secured | December 2018 | Interest rate PRIME + 6.95%<br>or Floor rate of 10.20% | \$25,000 | 24,995  | 24,550  |
| Sungevity, Inc. <sup>(11)(13)</sup>                     | Sustainable and Renewable Technology | Senior Secured | October 2017  | Interest rate PRIME + 3.70%<br>or Floor rate of 6.95%  | \$35,000 | 34,733  | 34,773  |
| Tendril Networks <sup>(13)</sup>                        | Sustainable and Renewable Technology | Senior Secured | June 2019     | Interest rate FIXED 7.25%                              | \$15,000 | 14,735  | 14,477  |
| Subtotal: 1-5 Years Maturity                            |                                      |                |               |  |          | 118,662 | 117,883 |
|   |                                      |                |               |  |          | 151,376 | 149,410 |

Subtotal: Sustainable and  
Renewable Technology  
(20.83%)\*

Healthcare Services, Other

1-5 Years Maturity

|  |                            |                |               |  |          |        |        |
|--|----------------------------|----------------|---------------|--|----------|--------|--------|
| Chromadex Corporation <sup>(13)(14)</sup>        | Healthcare Services, Other | Senior Secured | April 2018    | Interest rate PRIME + 6.10%<br>or Floor rate of 9.35%  | \$5,000  | 4,907  | 4,918  |
| InstaMed Communications, LLC <sup>(13)(14)</sup> | Healthcare Services, Other | Senior Secured | February 2019 | Interest rate PRIME + 6.75%<br>or Floor rate of 10.00% | \$10,000 | 10,048 | 10,049 |
| Subtotal: 1-5 Years Maturity                     |                            |                |               |  |          | 14,955 | 14,967 |
| Subtotal: Healthcare Services, Other (2.09%)*    |                            |                |               |  |          | 14,955 | 14,967 |

See notes to consolidated financial statements.

## HERCULES CAPITAL, INC.

## CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2015

(unaudited)

(dollars in thousands)

| Portfolio Company                                | Sub-Industry                          | Type of Investment <sup>(1)</sup> | Maturity Date  | Interest Rate and Floor     | Principal Amount | Cost <sup>(2)</sup> | Value  |
|--|---------------------------------------|-----------------------------------|----------------|-----------------------------|------------------|---------------------|--------|
| <b>Information Services</b>                      |                                       |                                   |                |                             |                  |                     |        |
| <b>Under 1 Year Maturity</b>                     |                                       |                                   |                |                             |                  |                     |        |
| Centex Corporation <sup>(13)(16)</sup>           | Information Services                  | Senior Secured                    | May 2015       | Interest rate PRIME + 7.00% |                  |                     |        |
|  |                                       |                                   |                | or Floor rate of 10.25%     | \$ 13            | \$ 28               | \$ 28  |
| Pro, Inc. <sup>(13)(14)</sup>                    | Information Services                  | Senior Secured                    | October 2016   | Interest rate PRIME + 7.50% |                  |                     |        |
|  |                                       |                                   |                | or Floor rate of 10.75%     | \$ 1,589         | 1,624               | 1,624  |
| <b>total: Under 1 Year Maturity</b>              |                                       |                                   |                |                             |                  | 1,652               | 1,652  |
| <b>total: Information Services (0.23%)*</b>      |                                       |                                   |                |                             |                  | 1,652               | 1,652  |
| <b>Internet Consumer &amp; Business Services</b> |                                       |                                   |                |                             |                  |                     |        |
| <b>Under 1 Year Maturity</b>                     |                                       |                                   |                |                             |                  |                     |        |
| NetPlenish <sup>(7)(8)(14)</sup>                 | Internet Consumer & Business Services | Convertible Debt                  | September 2016 | Interest rate FIXED 10.00%  |                  |                     |        |
|  |                                       |                                   |                |                             | \$ 381           | 373                 | —      |
|  | Internet Consumer & Business Services | Senior Secured                    | April 2016     | Interest rate FIXED 10.00%  |                  |                     |        |
|  |                                       |                                   |                |                             | \$ 45            | 45                  | —      |
| <b>total NetPlenish</b>                          |                                       |                                   |                |                             | \$ 426           | 418                 | —      |
| <b>total: Under 1 Year Maturity</b>              |                                       |                                   |                |                             |                  | 418                 | —      |
| <b>2-5 Years Maturity</b>                        |                                       |                                   |                |                             |                  |                     |        |
| Pro Systems, <sup>(10)(12)</sup>                 | Internet Consumer & Business Services | Senior Secured                    | June 2019      | Interest rate PRIME + 5.20% |                  |                     |        |
|  |                                       |                                   |                | or Floor rate of 8.95%,     |                  |                     |        |
|  |                                       |                                   |                | PIK Interest 1.95%          | \$ 18,101        | 17,850              | 17,600 |
|  | Internet Consumer & Business Services | Senior Secured                    | June 2019      | Interest rate PRIME + 3.20% |                  |                     |        |
|  |                                       |                                   |                | or Floor rate of 6.95%,     |                  |                     |        |
|  |                                       |                                   |                | PIK Interest 1.95%          | \$ 2,021         | 1,995               | 1,970  |
|  |                                       |                                   |                |                             | \$ 20,122        | 19,845              | 19,600 |

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al Aria Systems,

|  |                                       |                |              |   |          |        |       |
|--|---------------------------------------|----------------|--------------|---|----------|--------|-------|
| Planet Ops Inc. (p.k.a. Reply!) (7)(12)                | Internet Consumer & Business Services | Senior Secured | March 2019   | Interest rate PRIME + 4.25%<br>or Floor rate of 7.50%                         | \$6,321  | 5,811  | 5,811 |
|  | Internet Consumer & Business Services | Senior Secured | March 2019   | PIK Interest 2.00%  |          |        |       |
|  |                                       |                |              |   | \$2,129  | 2,129  | 55    |
| One Planet Ops Inc. (p.k.a. Reply! Inc.)               |                                       |                |              |   | \$8,450  | 7,940  | 5,86  |
| chLocal (13)   | Internet Consumer & Business Services | Senior Secured | April 2018   | Interest rate PRIME + 8.50%<br>or Floor rate of 11.75%                        | \$25,000 | 24,868 | 24,7  |
| joy, Inc. (11)(13)                                     | Internet Consumer & Business Services | Senior Secured | July 2018    | Interest rate PRIME + 6.50%<br>or Floor rate of 9.75%                         | \$20,000 | 19,598 | 19,5  |
| tura Corporation (7)(12)(15)                           | Internet Consumer & Business Services | Senior Secured | May 2014     | Interest rate LIBOR + 10.00%<br>or Floor rate of 13.00%                       | \$6,468  | 6,468  | 4,85  |
|  | Internet Consumer & Business Services | Senior Secured | May 2014     | Interest rate LIBOR + 8.00%<br>or Floor rate of 11.00%,<br>PIK Interest 1.00% | \$8,170  | 8,170  | 6,12  |
|  | Internet Consumer & Business Services | Senior Secured | May 2014     | Interest rate LIBOR + 10.00%<br>or Floor rate of 13.00%                       | \$563    | 563    | 422   |
|  | Internet Consumer & Business Services | Senior Secured | May 2014     | Interest rate LIBOR + 10.00%<br>or Floor rate of 13.00%                       | \$5,000  | 5,000  | 3,75  |
| al Tectura Corporation                                 |                                       |                |              |   | \$20,201 | 20,201 | 15,1  |
| total: 1-5 Years Maturity                              |                                       |                |              |   |          | 92,452 | 84,9  |
| total: Internet Consumer & Business Services (11.85%)* |                                       |                |              |   |          | 92,870 | 84,9  |
| edia/Content/Info Under 1 Year Maturity                |                                       |                |              |   |          |        |       |
| m Media Group,   | Media/Content/Info                    | Senior Secured | January 2016 | Interest rate PRIME + 5.25%<br>or Floor rate of 8.50%                         | \$5,060  | 5,060  | 5,06  |
| total: Under 1 Year Maturity                           |                                       |                |              |   |          | 5,060  | 5,06  |
| Years Maturity   |                                       |                |              |   |          |        |       |
| chine Zone, (12)                                       | Media/Content/Info                    | Senior Secured | May 2018     | Interest rate PRIME + 2.50%<br>or Floor rate of 6.75%,<br>PIK Interest 3.00%  | \$90,729 | 88,730 | 88,1  |
| total: 1-5 Years Maturity                              |                                       |                |              |   |          | 88,730 | 88,1  |
| total: Media/Content/Info (12.99%)*                    |                                       |                |              |   |          | 93,790 | 93,1  |

See notes to consolidated financial statements.

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## HERCULES CAPITAL, INC.

## CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2015

(unaudited)

(dollars in thousands)

| Portfolio Company   | Sub-Industry                | Type of Investment <sup>(1)</sup> | Maturity Date | Interest Rate and Floor                                | Principal Amount | Cost <sup>(2)</sup> | Value <sup>(3)</sup> |
|---|-----------------------------|-----------------------------------|---------------|--|------------------|---------------------|----------------------|
| <b>Medical Devices &amp; Equipment</b>                      |                             |                                   |               |  |                  |                     |                      |
| <b>Under 1 Year Maturity</b>                                |                             |                                   |               |  |                  |                     |                      |
| Medrobotics Corporation <sup>(13)(14)</sup>                 | Medical Devices & Equipment | Senior Secured                    | March 2016    | Interest rate PRIME + 7.85%<br>or Floor rate of 11.10% | \$576            | \$735               | \$735                |
| SonaCare Medical, LLC (p.k.a. US HIFU, LLC) <sup>(13)</sup> | Medical Devices & Equipment | Senior Secured                    | April 2016    | Interest rate PRIME + 7.75%<br>or Floor rate of 11.00% | \$292            | 700                 | 700                  |
| <b>Subtotal: Under 1 Year Maturity</b>                      |                             |                                   |               |  |                  | <b>1,435</b>        | <b>1,435</b>         |
| <b>1-5 Years Maturity</b>                                   |                             |                                   |               |  |                  |                     |                      |
| Amedica Corporation <sup>(8)(13)(14)</sup>                  | Medical Devices & Equipment | Senior Secured                    | January 2018  | Interest rate PRIME + 9.20%<br>or Floor rate of 12.45% | \$17,051         | 17,642              | 17,350               |
| Aspire Bariatrics, Inc. <sup>(13)(14)</sup>                 | Medical Devices & Equipment | Senior Secured                    | October 2018  | Interest rate PRIME + 4.00%<br>or Floor rate of 9.25%  | \$7,000          | 6,771               | 6,739                |
| Avedro, Inc. <sup>(13)(14)</sup>                            | Medical Devices & Equipment | Senior Secured                    | June 2018     | Interest rate PRIME + 6.00%<br>or Floor rate of 9.25%  | \$12,500         | 12,391              | 12,201               |
| Flowonix Medical Incorporated <sup>(11)(13)</sup>           | Medical Devices & Equipment | Senior Secured                    | May 2018      | Interest rate PRIME + 6.50%<br>or Floor rate of 10.00% | \$15,000         | 15,071              | 14,974               |
| Gamma Medica, Inc. <sup>(10)(13)</sup>                      | Medical Devices & Equipment | Senior Secured                    | January 2018  | Interest rate PRIME + 6.50%<br>or Floor rate of 9.75%  | \$4,000          | 4,009               | 3,989                |
| InspireMD, Inc. <sup>(4)(9)(13)</sup>                       | Medical Devices & Equipment | Senior Secured                    | February 2017 | Interest rate PRIME + 5.00%<br>or Floor rate of 10.50% | \$5,009          | 5,380               | 3,764                |
| Quanterix Corporation <sup>(10)(13)</sup>                   | Medical Devices & Equipment | Senior Secured                    | February 2018 | Interest rate PRIME + 2.75%<br>or Floor rate of 8.00%  | \$9,661          | 9,718               | 9,659                |
| SynergEyes, Inc. <sup>(13)(14)</sup>                        | Medical Devices & Equipment | Senior Secured                    | January 2018  | Interest rate PRIME + 7.75%<br>or Floor rate of 11.00% | \$4,263          | 4,516               | 4,464                |

|  |                |                |               |                             |         |
|--|----------------|----------------|---------------|-----------------------------|---------|
| Subtotal: 1-5 Years Maturity                           |                |                |               | 75,498                      | 73,140  |
| Subtotal: Medical Devices & Equipment (10.40%)*        |                |                |               | 76,933                      | 74,575  |
| Semiconductors   |                |                |               |                             |         |
| Under 1 Year Maturity                                  |                |                |               |                             |         |
| Achronix Semiconductor Corporation <sup>(14)</sup>     | Semiconductors | Senior Secured | July 2016     | Interest rate PRIME + 4.75% |         |
|  |                |                |               | or Floor rate of 8.00%      | \$5,000 |
|  |                |                |               |                             | 5,000   |
|  |                |                |               |                             | 5,000   |
| Subtotal: Under 1 Year Maturity                        |                |                |               | 5,000                       | 5,000   |
| 1-5 Years Maturity                                     |                |                |               |                             |         |
| Achronix Semiconductor Corporation <sup>(13)(14)</sup> | Semiconductors | Senior Secured | July 2018     | Interest rate PRIME + 8.25% |         |
|  |                |                |               | or Floor rate of 11.50%     | \$5,000 |
|  |                |                |               |                             | 5,027   |
|  |                |                |               |                             | 4,999   |
| Aquantia Corp.   | Semiconductors | Senior Secured | February 2017 | Interest rate PRIME + 2.95% |         |
|  |                |                |               | or Floor rate of 6.20%      | \$5,001 |
|  |                |                |               |                             | 5,001   |
|  |                |                |               |                             | 5,001   |
| Avnera Corporation <sup>(10)(13)</sup>                 | Semiconductors | Senior Secured | April 2018    | Interest rate PRIME + 5.25% |         |
|  |                |                |               | or Floor rate of 8.50%      | \$7,500 |
|  |                |                |               |                             | 7,498   |
|  |                |                |               |                             | 7,568   |
| Subtotal: 1-5 Years Maturity                           |                |                |               | 17,526                      | 17,568  |
| Subtotal: Semiconductors (3.15%)*                      |                |                |               | 22,526                      | 22,568  |

See notes to consolidated financial statements.



## HERCULES CAPITAL, INC.

## CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2015

(unaudited)

(dollars in thousands)

| Portfolio Company   | Type of Sub-Industry | Investment (1) | Maturity Date | Interest Rate and Floor  | Principal Amount | Cost (2) | Value (3) |
|---|----------------------|----------------|---------------|--|------------------|----------|-----------|
| Software  |                      |                |               |  |                  |          |           |
| Under 1 Year Maturity   |                      |                |               |  |                  |          |           |
| Clickfox, Inc. (13)(14)(16)   | Software             | Senior Secured | December 2015 | Interest rate PRIME + 8.75%<br>or Floor rate of 12.00%                       | \$3,300          | \$3,465  | \$3,465   |
| JumpStart Games, Inc. (p.k.a. Knowledge Adventure, Inc.) (12)(13)(14) | Software             | Senior Secured | October 2016  | Interest rate FIXED 5.75%,<br>PIK Interest 10.75%                            | \$1,335          | 1,350    | 875       |
| Neos, Inc. (13)(14)   | Software             | Senior Secured | May 2016      | Interest rate PRIME + 6.75%<br>or Floor rate of 10.50%                       | \$729            | 895      | 895       |
| Touchcommerce, Inc. (14)  | Software             | Senior Secured | August 2016   | Interest rate PRIME + 2.25%<br>or Floor rate of 6.50%                        | \$5,511          | 5,511    | 5,511     |
| Subtotal: Under 1 Year Maturity                                       |                      |                |               |  |                  | 11,221   | 10,746    |
| 1-5 Years Maturity  |                      |                |               |  |                  |          |           |
| Actifio, Inc. (12)  | Software             | Senior Secured | January 2019  | Interest rate PRIME + 4.25%<br>or Floor rate of 8.25%,<br>PIK Interest 2.25% | \$30,263         | 30,019   | 29,712    |
| Clickfox, Inc. (13)(14)   | Software             | Senior Secured | March 2018    | Interest rate PRIME + 8.25%<br>or Floor rate of 11.50%                       | \$5,475          | 5,490    | 5,490     |
| Druva, Inc. (10)(13)  | Software             | Senior Secured | March 2018    | Interest rate PRIME + 4.60%<br>or Floor rate of 7.85%                        | \$12,000         | 12,080   | 12,034    |
| JumpStart Games, Inc.   | Software             | Senior Secured | March 2018    | Interest rate FIXED 5.75%,   | \$11,082         | 11,174   | 7,245     |

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(p.k.a.  
Knowledge  
Adventure,  
Inc.) (12)(13)(14)

PIK Interest 10.75%

|                              |          |                |               |                             |          |         |         |
|------------------------------|----------|----------------|---------------|-----------------------------|----------|---------|---------|
| Message Systems, Inc. (14)   | Software | Senior Secured | February 2019 | Interest rate PRIME + 7.25% |          |         |         |
|                              |          |                |               | or Floor rate of 10.50%     | \$17,500 | 17,103  | 17,013  |
|                              | Software | Senior Secured | February 2017 | Interest rate PRIME + 2.75% |          |         |         |
|                              |          |                |               | or Floor rate of 6.00%      | \$1,618  | 1,618   | 1,616   |
| Total Message Systems, Inc.  |          |                |               |                             | \$19,118 | 18,721  | 18,629  |
| RedSeal Inc. (13)(14)        | Software | Senior Secured | June 2017     | Interest rate PRIME + 3.25% |          |         |         |
|                              |          |                |               | or Floor rate of 6.50%      | \$3,000  | 3,000   | 2,987   |
|                              | Software | Senior Secured | June 2018     | Interest rate PRIME + 7.75% |          |         |         |
|                              |          |                |               | or Floor rate of 11.00%     | \$5,000  | 5,006   | 4,979   |
| Total RedSeal Inc.           |          |                |               |                             | \$8,000  | 8,006   | 7,966   |
| Soasta, Inc. (13)(14)        | Software | Senior Secured | February 2018 | Interest rate PRIME + 2.25% |          |         |         |
|                              |          |                |               | or Floor rate of 5.50%      | \$3,500  | 3,432   | 3,419   |
|                              | Software | Senior Secured | February 2018 | Interest rate PRIME + 4.75% |          |         |         |
|                              |          |                |               | or Floor rate of 8.00%      | \$15,000 | 14,699  | 14,646  |
| Total Soasta, Inc.           |          |                |               |                             | \$18,500 | 18,131  | 18,065  |
| Touchcommerce, Inc. (13)(14) | Software | Senior Secured | February 2018 | Interest rate PRIME + 6.00% |          |         |         |
|                              |          |                |               | or Floor rate of 10.25%     | \$12,000 | 11,853  | 11,721  |
| Subtotal: 1-5 Years Maturity |          |                |               |                             |          | 115,474 | 110,862 |
| Subtotal: Software (16.96%)* |          |                |               |                             |          | 126,695 | 121,608 |

See notes to consolidated financial statements.

## HERCULES CAPITAL, INC.

## CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2015

(unaudited)

(dollars in thousands)

| Portfolio Company   | Sub-Industry              | Type of Investment <sup>(1)</sup> | Maturity Date | Interest Rate and Floor   | Principal Amount | Cost <sup>(2)</sup> | Value <sup>(3)</sup> |
|---|---------------------------|-----------------------------------|---------------|---|------------------|---------------------|----------------------|
| Specialty Pharmaceuticals                                 |                           |                                   |               |   |                  |                     |                      |
| Under 1 Year Maturity                                     |                           |                                   |               |   |                  |                     |                      |
| Cranford Pharmaceuticals, LLC <sup>(10)(12)</sup>         | Specialty Pharmaceuticals | Senior Secured                    | August 2016   | Interest rate LIBOR + 8.25%<br>or Floor rate of 9.50%                         | \$1,100          | \$1,100             | \$1,100              |
| Subtotal: Under 1 Year Maturity                           |                           |                                   |               |   |                  | 1,100               | 1,100                |
| 1-5 Years Maturity  |                           |                                   |               |   |                  |                     |                      |
| Alimera Sciences, Inc. <sup>(10)(13)</sup>                | Specialty Pharmaceuticals | Senior Secured                    | May 2018      | Interest rate PRIME + 7.65%<br>or Floor rate of 10.90%                        | \$35,000         | 34,296              | 34,309               |
| Cranford Pharmaceuticals, LLC <sup>(10)(12)(13)(14)</sup> | Specialty Pharmaceuticals | Senior Secured                    | August 2017   | Interest rate LIBOR + 9.55%<br>or Floor rate of 10.80%,<br>PIK Interest 1.35% | \$10,041         | 10,164              | 10,235               |
| Jaguar Animal Health, Inc. <sup>(10)(13)</sup>            | Specialty Pharmaceuticals | Senior Secured                    | August 2018   | Interest rate PRIME + 5.65%<br>or Floor rate of 9.90%                         | \$6,000          | 6,009               | 6,009                |
| Subtotal: 1-5 Years Maturity                              |                           |                                   |               |   |                  | 50,469              | 50,553               |
| Subtotal: Specialty Pharmaceuticals (7.20%)*              |                           |                                   |               |   |                  | 51,569              | 51,653               |
| Surgical Devices  |                           |                                   |               |   |                  |                     |                      |
| 1-5 Years Maturity  |                           |                                   |               |   |                  |                     |                      |
| Transmedics, Inc. <sup>(13)</sup>                         | Surgical Devices          | Senior Secured                    | March 2019    | Interest rate PRIME + 5.30%<br>or Floor rate of 9.55%                         | \$8,500          | 8,471               | 8,396                |
| Subtotal: 1-5 Years Maturity                              |                           |                                   |               |   |                  | 8,471               | 8,396                |
| Subtotal: Surgical Devices (1.17%)*                       |                           |                                   |               |   |                  | 8,471               | 8,396                |
| Total Debt Investments (154.81%)*                         |                           |                                   |               |   |                  | 1,152,303           | 1,110,209            |

See notes to consolidated financial statements.

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## HERCULES CAPITAL, INC.

## CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2015

(unaudited)

(dollars in thousands)

| Portfolio Company                               | Sub-Industry                 | Type of Investment <sup>(1)</sup> | Series               | Shares    | Cost <sup>(2)</sup> | Value <sup>(3)</sup> |
|---|------------------------------|-----------------------------------|----------------------|-----------|---------------------|----------------------|
| <b>Equity Investments</b>                       |                              |                                   |                      |           |                     |                      |
| <b>Biotechnology Tools</b>                      |                              |                                   |                      |           |                     |                      |
| NuGEN Technologies, Inc. <sup>(14)</sup>        | Biotechnology Tools          | Equity                            | Preferred Series C   | 189,394   | \$ 500              | \$ 532               |
| Subtotal: Biotechnology Tools (0.07%)*          |                              |                                   |                      |           | 500                 | 532                  |
| <b>Communications &amp; Networking</b>          |                              |                                   |                      |           |                     |                      |
| GlowPoint, Inc. <sup>(3)</sup>                  | Communications & Networking  | Equity                            | Common Stock         | 114,192   | 102                 | 57                   |
| Peerless Network, Inc.                          | Communications & Networking  | Equity                            | Preferred Series A   | 1,000,000 | 1,000               | 4,380                |
| Subtotal: Communications & Networking (0.62%)*  |                              |                                   |                      |           | 1,102               | 4,437                |
| <b>Consumer &amp; Business Products</b>         |                              |                                   |                      |           |                     |                      |
| Market Force Information, Inc.                  | Consumer & Business Products | Equity                            | Common Stock         | 480,261   | —                   | 217                  |
|   | Consumer & Business Products | Equity                            | Preferred Series B-1 | 187,970   | 500                 | 3                    |
| Total Market Force Information, Inc.            |                              |                                   |                      | 668,231   | 500                 | 220                  |
| Subtotal: Consumer & Business Products (0.03%)* |                              |                                   |                      |           | 500                 | 220                  |
| <b>Diagnostic</b>                               |                              |                                   |                      |           |                     |                      |
| Singulex, Inc.                                  | Diagnostic                   | Equity                            | Common Stock         | 937,998   | 750                 | 304                  |
| Subtotal: Diagnostic (0.04%)*                   |                              |                                   |                      |           | 750                 | 304                  |
| <b>Drug Delivery</b>                            |                              |                                   |                      |           |                     |                      |
| AcelRx Pharmaceuticals, Inc. <sup>(3)(9)</sup>  | Drug Delivery                | Equity                            | Common Stock         | 54,240    | 108                 | 209                  |

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|   |                                 |        |                    |           |        |       |
|---|---------------------------------|--------|--------------------|-----------|--------|-------|
| BioQ Pharma Incorporated <sup>(14)</sup>  | Drug Delivery                   | Equity | Preferred Series D | 165,000   | 500    | 660   |
| Edge Therapeutics, Inc. <sup>(3)</sup>  | Drug Delivery                   | Equity | Common Stock       | 157,190   | 1,000  | 1,965 |
| Merrion Pharmaceuticals, Plc <sup>(3)(4)(9)</sup>                                     | Drug Delivery                   | Equity | Common Stock       | 20,000    | 9      | —     |
| Neos Therapeutics, Inc. <sup>(3)(14)</sup>  | Drug Delivery                   | Equity | Common Stock       | 125,000   | 1,500  | 1,790 |
| Revance Therapeutics, Inc. <sup>(3)</sup>   | Drug Delivery                   | Equity | Common Stock       | 22,765    | 557    | 778   |
| Subtotal: Drug Delivery (0.75%)*  |                                 |        |                    |           | 3,674  | 5,402 |
| <b>Drug Discovery &amp; Development</b>   |                                 |        |                    |           |        |       |
| Aveo Pharmaceuticals, Inc. <sup>(3)(9)(14)</sup>                                      | Drug Discovery & Development    | Equity | Common Stock       | 167,864   | 842    | 212   |
| Cerecor, Inc. <sup>(3)</sup>  | Drug Discovery & Development    | Equity | Common Stock       | 119,087   | 1,000  | 399   |
| Cerulean Pharma, Inc. <sup>(3)</sup>  | Drug Discovery & Development    | Equity | Common Stock       | 135,501   | 1,000  | 379   |
| Dicerna Pharmaceuticals, Inc. <sup>(3)(14)</sup>                                      | Drug Discovery & Development    | Equity | Common Stock       | 142,858   | 1,000  | 1,695 |
| Dynavax Technologies <sup>(3)(9)</sup>  | Drug Discovery & Development    | Equity | Common Stock       | 20,000    | 550    | 483   |
| Epirus Biopharmaceuticals, Inc. <sup>(3)</sup>  | Drug Discovery & Development    | Equity | Common Stock       | 200,000   | 1,000  | 618   |
| Genocea Biosciences, Inc. <sup>(3)</sup>  | Drug Discovery & Development    | Equity | Common Stock       | 223,463   | 2,000  | 1,178 |
| Inotek Pharmaceuticals Corporation <sup>(3)</sup>                                     | Drug Discovery & Development    | Equity | Common Stock       | 3,778     | 1,500  | 43    |
| Insmed, Incorporated <sup>(3)</sup>   | Drug Discovery & Development    | Equity | Common Stock       | 70,771    | 1,000  | 1,284 |
| Melinta Therapeutics  | Drug Discovery & Development    | Equity | Preferred Series 4 | 1,914,448 | 2,000  | 2,026 |
| Paratek Pharmaceuticals, Inc. (p.k.a. Transcept Pharmaceuticals, Inc.) <sup>(3)</sup> | Drug Discovery & Development    | Equity | Common Stock       | 76,362    | 2,743  | 1,450 |
| Subtotal: Drug Discovery & Development (1.36%)*                                       |                                 |        |                    |           | 14,635 | 9,767 |
| <b>Electronics &amp; Computer Hardware</b>  |                                 |        |                    |           |        |       |
| Identiv, Inc. <sup>(3)</sup>  | Electronics & Computer Hardware | Equity | Common Stock       | 6,700     | 34     | 13    |
| Subtotal: Electronics & Computer Hardware (0.00%)*                                    |                                 |        |                    |           | 34     | 13    |
| <b>Sustainable and Renewable Technology</b>   |                                 |        |                    |           |        |       |
| Glori Energy, Inc. <sup>(3)</sup>   | Sustainable and Renewable       | Equity | Common Stock       | 18,208    | 165    | 6     |

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|  |  |        |                       |            |       |       |
|--|--|--------|-----------------------|------------|-------|-------|
| Modumetal, Inc.  | Technology<br>Sustainable and<br>Renewable<br>Technology | Equity | Preferred<br>Series C | 3,107,520  | 500   | 455   |
| SCIEnergy, Inc.  | Sustainable and<br>Renewable<br>Technology               | Equity | Preferred<br>Series 1 | 385,000    | 761   | —     |
| Sungevity, Inc. <sup>(14)</sup>                            | Sustainable and<br>Renewable<br>Technology               | Equity | Preferred<br>Series D | 68,807,339 | 6,750 | 6,912 |
| Subtotal: Sustainable and Renewable Technology<br>(1.03%)* |  |        |                       |            | 8,176 | 7,373 |
| See notes to consolidated financial statements.            |  |        |                       |            |       |       |

## HERCULES CAPITAL, INC.

## CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2015

(unaudited)

(dollars in thousands)

| Portfolio Company   | Sub-Industry                          | Type of Investment <sup>(1)</sup> | Series               | Shares         | Cost <sup>(2)</sup> | Value <sup>(3)</sup> |
|---|---------------------------------------|-----------------------------------|----------------------|----------------|---------------------|----------------------|
| <b>Internet Consumer &amp; Business Services</b>                    |                                       |                                   |                      |                |                     |                      |
| Blurb, Inc. <sup>(14)</sup>   | Internet Consumer & Business Services | Equity                            | Preferred Series B   | 220,653        | \$175               | \$244                |
| Lightspeed POS, Inc. <sup>(4)(9)</sup>                              | Internet Consumer & Business Services | Equity                            | Preferred Series C   | 230,030        | 250                 | 264                  |
|   | Internet Consumer & Business Services | Equity                            | Preferred Series D   | 198,677        | 250                 | 249                  |
| <b>Total Lightspeed POS, Inc.</b>                                   |                                       |                                   |                      | <b>428,707</b> | <b>500</b>          | <b>513</b>           |
| Oportun (p.k.a. Progress Financial)                                 | Internet Consumer & Business Services | Equity                            | Preferred Series G   | 218,351        | 250                 | 349                  |
|   | Internet Consumer & Business Services | Equity                            | Preferred Series H   | 87,802         | 250                 | 248                  |
| <b>Total Oportun (p.k.a. Progress Financial)</b>                    |                                       |                                   |                      | <b>306,153</b> | <b>500</b>          | <b>597</b>           |
| Philotic, Inc.  | Internet Consumer & Business Services | Equity                            | Common Stock         | 9,023          | 93                  | —                    |
| RazorGator Interactive Group, Inc.                                  | Internet Consumer & Business Services | Equity                            | Preferred Series AA  | 34,783         | 15                  | 28                   |
| Taptera, Inc.   | Internet Consumer & Business Services | Equity                            | Preferred Series B   | 454,545        | 150                 | 99                   |
| <b>Subtotal: Internet Consumer &amp; Business Services (0.21%)*</b> |                                       |                                   |                      |                | <b>1,433</b>        | <b>1,481</b>         |
| <b>Medical Devices &amp; Equipment</b>                              |                                       |                                   |                      |                |                     |                      |
| AtriCure, Inc. <sup>(3)(14)</sup>                                   | Medical Devices & Equipment           | Equity                            | Common Stock         | 7,536          | 266                 | 155                  |
| Flowonix Medical Incorporated                                       | Medical Devices & Equipment           | Equity                            | Preferred Series E   | 221,893        | 1,500               | 1,953                |
| Gelesis, Inc. <sup>(14)</sup>                                       | Medical Devices & Equipment           | Equity                            | Common Stock         | 198,202        | —                   | 1,005                |
|   | Medical Devices & Equipment           | Equity                            | Preferred Series A-1 | 191,210        | 425                 | 1,051                |



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|  |                             |        |                      |            |        |        |
|--|-----------------------------|--------|----------------------|------------|--------|--------|
|  | Medical Devices & Equipment | Equity | Preferred Series A-2 | 191,626    | 500    | 1,012  |
| Total Gelesis, Inc.                                    |                             |        |                      | 581,038    | 925    | 3,068  |
| Medrobotics Corporation <sup>(14)</sup>                | Medical Devices & Equipment | Equity | Preferred Series E   | 136,798    | 250    | 208    |
|  | Medical Devices & Equipment | Equity | Preferred Series F   | 73,971     | 155    | 189    |
|  | Medical Devices & Equipment | Equity | Preferred Series G   | 163,934    | 500    | 500    |
| Total Medrobotics Corporation                          |                             |        |                      | 374,703    | 905    | 897    |
| Novasys Medical, Inc.                                  | Medical Devices & Equipment | Equity | Preferred Series D-1 | 4,118,444  | 1,000  | —      |
| Optiscan Biomedical, Corp. <sup>(5)(14)</sup>          | Medical Devices & Equipment | Equity | Preferred Series B   | 6,185,567  | 3,000  | 565    |
|  | Medical Devices & Equipment | Equity | Preferred Series C   | 1,927,309  | 655    | 169    |
|  | Medical Devices & Equipment | Equity | Preferred Series D   | 55,103,923 | 5,257  | 5,927  |
| Total Optiscan Biomedical, Corp.                       |                             |        |                      | 63,216,799 | 8,912  | 6,661  |
| Oraya Therapeutics, Inc.                               | Medical Devices & Equipment | Equity | Preferred Series 1   | 1,086,969  | 500    | 266    |
| Outset Medical, Inc. (p.k.a. Home Dialysis Plus, Inc.) | Medical Devices & Equipment | Equity | Preferred Series B   | 232,061    | 527    | 543    |
| Subtotal: Medical Devices & Equipment (1.89%)*         |                             |        |                      |            | 14,535 | 13,543 |
| Software   |                             |        |                      |            |        |        |
| Box, Inc. <sup>(3)(14)</sup>                           | Software                    | Equity | Common Stock         | 1,287,347  | 5,653  | 17,957 |
| CapLinked, Inc.  | Software                    | Equity | Preferred Series A-3 | 53,614     | 51     | 79     |
| Druva, Inc.  | Software                    | Equity | Preferred Series 2   | 458,841    | 1,000  | 1,031  |
| ForeScout Technologies, Inc.                           | Software                    | Equity | Preferred Series D   | 319,099    | 398    | 1,368  |
|  | Software                    | Equity | Preferred Series E   | 80,587     | 131    | 350    |
| Total ForeScout Technologies, Inc.                     |                             |        |                      | 399,686    | 529    | 1,718  |
| HighRoads, Inc.  | Software                    | Equity | Preferred Series B   | 190,170    | 307    | —      |
| NewVoiceMedia Limited <sup>(4)(9)</sup>                | Software                    | Equity | Preferred Series E   | 669,173    | 963    | 1,016  |
| WildTangent, Inc. <sup>(14)</sup>                      | Software                    | Equity | Preferred Series 3   | 100,000    | 402    | 190    |
| Subtotal: Software (3.07%)*                            |                             |        |                      |            | 8,905  | 21,991 |
| Specialty Pharmaceuticals                              |                             |        |                      |            |        |        |

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|  |                           |        |                      |           |        |        |
|--|---------------------------|--------|----------------------|-----------|--------|--------|
| QuatRx Pharmaceuticals Company               | Specialty Pharmaceuticals | Equity | Preferred Series E   | 241,829   | 750    | —      |
|  | Specialty Pharmaceuticals | Equity | Preferred Series E-1 | 26,955    | —      | —      |
|  | Specialty Pharmaceuticals | Equity | Preferred Series G   | 4,667,636 | —      | —      |
| Total QuatRx Pharmaceuticals Company         |                           |        |                      | 4,936,420 | 750    | —      |
| Subtotal: Specialty Pharmaceuticals (0.00%)* |                           |        |                      |           | 750    | —      |
| <b>Surgical Devices</b>                      |                           |        |                      |           |        |        |
| Gynesonics, Inc. <sup>(14)</sup>             | Surgical Devices          | Equity | Preferred Series B   | 219,298   | 250    | 32     |
|  | Surgical Devices          | Equity | Preferred Series C   | 656,538   | 282    | 46     |
|  | Surgical Devices          | Equity | Preferred Series D   | 1,991,157 | 712    | 637    |
|  | Surgical Devices          | Equity | Preferred Series E   | 2,785,402 | 429    | 422    |
| Total Gynesonics, Inc.                       |                           |        |                      | 5,652,395 | 1,673  | 1,137  |
| Transmedics, Inc.                            | Surgical Devices          | Equity | Preferred Series B   | 88,961    | 1,100  | 154    |
|  | Surgical Devices          | Equity | Preferred Series C   | 119,999   | 300    | 96     |
|  | Surgical Devices          | Equity | Preferred Series D   | 260,000   | 650    | 521    |
|  | Surgical Devices          | Equity | Preferred Series F   | 100,200   | 500    | 471    |
| Total Transmedics, Inc.                      |                           |        |                      | 569,160   | 2,550  | 1,242  |
| Subtotal: Surgical Devices (0.33%)*          |                           |        |                      |           | 4,223  | 2,379  |
| Total: Equity Investments (9.40%)*           |                           |        |                      |           | 59,217 | 67,442 |

See notes to consolidated financial statements.

## HERCULES CAPITAL, INC.

## CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2015

(unaudited)

(dollars in thousands)

| Portfolio Company  | Sub-Industry                 | Type of Investment <sup>(1)</sup> | Series               | Shares    | Cost <sup>(2)</sup> | Value <sup>(3)</sup> |
|--|------------------------------|-----------------------------------|----------------------|-----------|---------------------|----------------------|
| <b>Warrant Investments</b>                                   |                              |                                   |                      |           |                     |                      |
| <b>Biotechnology Tools</b>                                   |                              |                                   |                      |           |                     |                      |
| Labcyte, Inc. <sup>(14)</sup>                                | Biotechnology Tools          | Warrant                           | Preferred Series C   | 1,127,624 | \$ 323              | \$ 187               |
| Subtotal: Biotechnology Tools (0.03%)*                       |                              |                                   |                      |           | 323                 | 187                  |
| <b>Communications &amp; Networking</b>                       |                              |                                   |                      |           |                     |                      |
| Intelepeer, Inc. <sup>(14)</sup>                             | Communications & Networking  | Warrant                           | Common Stock         | 117,958   | 102                 | —                    |
| OpenPeak, Inc.   | Communications & Networking  | Warrant                           | Common Stock         | 108,982   | 149                 | —                    |
| PeerApp, Inc.  | Communications & Networking  | Warrant                           | Preferred Series B   | 298,779   | 61                  | 62                   |
| Peerless Network, Inc.                                       | Communications & Networking  | Warrant                           | Preferred Series A   | 135,000   | 95                  | 375                  |
| Ping Identity Corporation                                    | Communications & Networking  | Warrant                           | Preferred Series B   | 1,136,277 | 52                  | 236                  |
| SkyCross, Inc. <sup>(14)</sup>                               | Communications & Networking  | Warrant                           | Preferred Series F   | 9,762,777 | 394                 | —                    |
| Spring Mobile Solutions, Inc.                                | Communications & Networking  | Warrant                           | Preferred Series D   | 2,834,375 | 418                 | 53                   |
| Subtotal: Communications & Networking (0.10%)*               |                              |                                   |                      |           | 1,271               | 726                  |
| <b>Consumer &amp; Business Products</b>                      |                              |                                   |                      |           |                     |                      |
| Antenna79 (p.k.a. Pong Research Corporation) <sup>(14)</sup> | Consumer & Business Products | Warrant                           | Preferred Series A   | 1,662,441 | 228                 | 2                    |
| Intelligent Beauty, Inc. <sup>(14)</sup>                     | Consumer & Business Products | Warrant                           | Preferred Series B   | 190,234   | 230                 | 214                  |
| IronPlanet, Inc.   | Consumer & Business Products | Warrant                           | Preferred Series D   | 1,155,821 | 1,076               | 651                  |
| Market Force Information, Inc.                               | Consumer & Business Products | Warrant                           | Preferred Series A-1 | 150,212   | 24                  | 10                   |

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|   |                              |         |                      |         |       |     |
|---|------------------------------|---------|----------------------|---------|-------|-----|
| Nasty Gal <sup>(14)</sup>                       | Consumer & Business Products | Warrant | Preferred Series C   | 845,194 | 23    | 20  |
| The Neat Company <sup>(14)</sup>                | Consumer & Business Products | Warrant | Preferred Series C-1 | 540,540 | 365   | —   |
| Subtotal: Consumer & Business Products (0.13%)* |                              |         |                      |         | 1,946 | 897 |

Diagnostic

|   |            |         |              |         |     |    |
|---|------------|---------|--------------|---------|-----|----|
| Navidea Biopharmaceuticals, Inc. (p.k.a. Neoprobe) <sup>(3)(14)</sup> | Diagnostic | Warrant | Common Stock | 333,333 | 244 | 17 |
| Subtotal: Diagnostic (0.00%)*   |            |         |              |         | 244 | 17 |

Drug Delivery

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

See notes to consolidated financial statements.

## HERCULES CAPITAL, INC.

## CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2015

(unaudited)

(dollars in thousands)

| Portfolio Company   | Sub-Industry                 | Type of Investment <sup>(1)</sup> | Series             | Shares    | Cost <sup>(2)</sup> | Value <sup>(3)</sup> |
|---|------------------------------|-----------------------------------|--------------------|-----------|---------------------|----------------------|
| <b>Drug Discovery &amp; Development</b>                                   |                              |                                   |                    |           |                     |                      |
| ADMA Biologics, Inc. <sup>(3)</sup>                                       | Drug Discovery & Development | Warrant                           | Common Stock       | 89,750    | \$ 295              | \$ 98                |
| Anthera Pharmaceuticals, Inc. <sup>(3)(14)</sup>                          | Drug Discovery & Development | Warrant                           | Common Stock       | 40,178    | 984                 | —                    |
| Aveo Pharmaceuticals, Inc. <sup>(3)(9)</sup>                              | Drug Discovery & Development | Warrant                           | Common Stock       | 608,696   | 194                 | 216                  |
| Cerecor, Inc. <sup>(3)</sup>  | Drug Discovery & Development | Warrant                           | Common Stock       | 22,328    | 70                  | 10                   |
| Cerulean Pharma, Inc. <sup>(3)</sup>                                      | Drug Discovery & Development | Warrant                           | Common Stock       | 171,901   | 369                 | 90                   |
| Chroma Therapeutics, Ltd. <sup>(4)(9)</sup>                               | Drug Discovery & Development | Warrant                           | Preferred Series D | 325,261   | 490                 | —                    |
| Cleveland BioLabs, Inc. <sup>(3)(14)</sup>                                | Drug Discovery & Development | Warrant                           | Common Stock       | 7,813     | 105                 | 5                    |
| Concert Pharmaceuticals, Inc. <sup>(3)</sup>                              | Drug Discovery & Development | Warrant                           | Common Stock       | 70,796    | 367                 | 368                  |
| CTI BioPharma Corp. (p.k.a. Cell Therapeutics, Inc.) <sup>(3)</sup>       | Drug Discovery & Development | Warrant                           | Common Stock       | 292,398   | 165                 | 59                   |
| Dicerna Pharmaceuticals, Inc. <sup>(3)(14)</sup>                          | Drug Discovery & Development | Warrant                           | Common Stock       | 200       | 28                  | —                    |
| Epirus Biopharmaceuticals, Inc. <sup>(3)</sup>                            | Drug Discovery & Development | Warrant                           | Common Stock       | 64,194    | 276                 | 55                   |
| Fortress Biotech, Inc. (p.k.a. Coronado Biosciences, Inc.) <sup>(3)</sup> | Drug Discovery & Development | Warrant                           | Common Stock       | 73,009    | 142                 | 11                   |
| Genocea Biosciences, Inc. <sup>(3)</sup>                                  | Drug Discovery & Development | Warrant                           | Common Stock       | 73,725    | 266                 | 92                   |
| Immune Pharmaceuticals <sup>(3)</sup>                                     | Drug Discovery & Development | Warrant                           | Common Stock       | 214,853   | 164                 | 40                   |
| Mast Therapeutics, Inc. <sup>(3)(14)</sup>                                | Drug Discovery & Development | Warrant                           | Common Stock       | 1,524,389 | 203                 | 215                  |
| Melinta Therapeutics  | Drug Discovery & Development | Warrant                           | Preferred Series 3 | 1,382,323 | 626                 | 130                  |
| Nanotherapeutics, Inc. <sup>(14)</sup>                                    |                              | Warrant                           |                    | 171,389   | 838                 | 1,762                |

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|   |                                      |         |                      |         |       |       |
|---|--------------------------------------|---------|----------------------|---------|-------|-------|
|   | Drug Discovery & Development         |         | Common Stock         |         |       |       |
| Neotherics, Inc. (p.k.a. Lithera, Inc.) <sup>(3)(14)</sup>                                | Drug Discovery & Development         | Warrant | Common Stock         | 46,838  | 266   | 2     |
| Neuralstem, Inc. <sup>(3)(14)</sup>   | Drug Discovery & Development         | Warrant | Common Stock         | 75,187  | 77    | 12    |
| Paratek Pharmaceuticals, Inc. (p.k.a. Transcept Pharmaceuticals, Inc.) <sup>(3)(14)</sup> | Drug Discovery & Development         | Warrant | Common Stock         | 21,467  | 129   | 36    |
| uniQure B.V. <sup>(3)(4)(9)</sup>   | Drug Discovery & Development         | Warrant | Common Stock         | 37,174  | 218   | 183   |
| XOMA Corporation <sup>(3)(9)(14)</sup>  | Drug Discovery & Development         | Warrant | Common Stock         | 181,268 | 279   | 115   |
| Subtotal: Drug Discovery & Development (0.49%)*   |                                      |         |                      |         | 6,551 | 3,499 |
| Electronics & Computer Hardware   |                                      |         |                      |         |       |       |
| Clustrix, Inc.  | Electronics & Computer Hardware      | Warrant | Common Stock         | 50,000  | 12    | —     |
| Persimmon Technologies  | Electronics & Computer Hardware      | Warrant | Preferred Series C   | 43,076  | 40    | 42    |
| Subtotal: Electronics & Computer Hardware (0.01%)*  |                                      |         |                      |         | 52    | 42    |
| Sustainable and Renewable Technology  |                                      |         |                      |         |       |       |
| Agrivida, Inc. <sup>(14)</sup>  | Sustainable and Renewable Technology | Warrant | Preferred Series D   | 471,327 | 120   | 38    |
| Alphabet Energy, Inc. <sup>(14)</sup>   | Sustainable and Renewable Technology | Warrant | Preferred Series A   | 86,329  | 82    | 159   |
| American Superconductor Corporation <sup>(3)</sup>  | Sustainable and Renewable Technology | Warrant | Common Stock         | 58,823  | 39    | 82    |
| Brightsource Energy, Inc.   | Sustainable and Renewable Technology | Warrant | Preferred Series 1   | 116,667 | 104   | 6     |
| Calera, Inc. <sup>(14)</sup>  | Sustainable and Renewable Technology | Warrant | Preferred Series C   | 44,529  | 513   | —     |
| EcoMotors, Inc. <sup>(14)</sup>   | Sustainable and Renewable Technology | Warrant | Preferred Series B   | 437,500 | 308   | 176   |
| Fluidic, Inc.   | Sustainable and Renewable Technology | Warrant | Preferred Series D   | 61,804  | 102   | 43    |
| Fulcrum Bioenergy, Inc.   | Sustainable and Renewable Technology | Warrant | Preferred Series C-1 | 280,897 | 275   | 152   |

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|   |                                      |         |                       |            |       |       |
|---|--------------------------------------|---------|-----------------------|------------|-------|-------|
| GreatPoint Energy, Inc. <sup>(14)</sup>                           | Sustainable and Renewable Technology | Warrant | Preferred Series D-1  | 393,212    | 548   | —     |
| Polyera Corporation <sup>(14)</sup>                               | Sustainable and Renewable Technology | Warrant | Preferred Series C    | 311,609    | 338   | 10    |
| Proterra, Inc.  | Sustainable and Renewable Technology | Warrant | Preferred Series 4    | 397,931    | 37    | 50    |
| SCIEnergy, Inc.   | Sustainable and Renewable Technology | Warrant | Common Stock          | 530,811    | 181   | —     |
|   | Sustainable and Renewable Technology | Warrant | Preferred Series 1    | 145,811    | 50    | —     |
| Total SCIEnergy, Inc.   |                                      |         |                       | 676,622    | 231   | —     |
| Scifiniti (p.k.a. Integrated Photovoltaics, Inc.) <sup>(14)</sup> | Sustainable and Renewable Technology | Warrant | Preferred Series A-1  | 390,000    | 82    | 48    |
| Solexel, Inc. <sup>(14)</sup>                                     | Sustainable and Renewable Technology | Warrant | Preferred Series C    | 1,171,625  | 1,162 | 466   |
| Stion Corporation <sup>(5)</sup>                                  | Sustainable and Renewable Technology | Warrant | Preferred Series Seed | 2,154      | 1,378 | —     |
| Sungevity, Inc.   | Sustainable and Renewable Technology | Warrant | Common Stock          | 20,000,000 | 543   | 569   |
|   | Sustainable and Renewable Technology | Warrant | Preferred Series C    | 32,472,222 | 902   | 525   |
| Total Sungevity, Inc.   |                                      |         |                       | 52,472,222 | 1,445 | 1,094 |
| TAS Energy, Inc.  | Sustainable and Renewable Technology | Warrant | Preferred Series AA   | 428,571    | 299   | —     |
| Tendril Networks  | Sustainable and Renewable Technology | Warrant | Preferred Series 3-A  | 1,019,793  | 188   | 242   |
| TPI Composites, Inc.  | Sustainable and Renewable Technology | Warrant | Preferred Series B    | 160        | 273   | 85    |
| Trilliant, Inc. <sup>(14)</sup>                                   | Sustainable and Renewable Technology | Warrant | Preferred Series A    | 320,000    | 162   | 53    |
| Subtotal: Sustainable and Renewable Technology (0.38%)*           |                                      |         |                       |            | 7,686 | 2,704 |
| Healthcare Services, Other  |                                      |         |                       |            |       |       |
| Chromadex Corporation <sup>(3)(14)</sup>                          | Healthcare Services, Other           | Warrant | Common Stock          | 419,020    | 157   | 164   |

|   |     |     |
|---|-----|-----|
| Subtotal: Healthcare Services, Other (0.02%)*   | 157 | 164 |
| See notes to consolidated financial statements. |     |     |



## HERCULES CAPITAL, INC.

## CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2015

(unaudited)

(dollars in thousands)

| Portfolio Company                                | Sub-Industry                          | Type of Investment <sup>(1)</sup> | Series               | Shares    | Cost <sup>(2)</sup> | Value <sup>(3)</sup> |
|--|---------------------------------------|-----------------------------------|----------------------|-----------|---------------------|----------------------|
| <b>Information Services</b>                      |                                       |                                   |                      |           |                     |                      |
| Cha Cha Search, Inc. <sup>(14)</sup>             | Information Services                  | Warrant                           | Preferred Series G   | 48,232    | \$58                | \$ —                 |
| INMOBI Inc. <sup>(4)(9)</sup>                    | Information Services                  | Warrant                           | Common Stock         | 46,874    | 82                  | 3                    |
| InXpo, Inc. <sup>(14)</sup>                      | Information Services                  | Warrant                           | Preferred Series C   | 648,400   | 98                  | 2                    |
|  | Information Services                  | Warrant                           | Preferred Series C-1 | 1,032,416 | 74                  | —                    |
| Total InXpo, Inc.                                |                                       |                                   |                      | 1,680,816 | 172                 | 2                    |
| RichRelevance, Inc. <sup>(14)</sup>              | Information Services                  | Warrant                           | Preferred Series E   | 112,612   | 98                  | —                    |
| Subtotal: Information Services (0.00%)*          |                                       |                                   |                      |           | 410                 | 5                    |
| <b>Internet Consumer &amp; Business Services</b> |                                       |                                   |                      |           |                     |                      |
| Aria Systems, Inc.                               | Internet Consumer & Business Services | Warrant                           | Preferred Series E   | 239,692   | 73                  | 88                   |
| Blurb, Inc. <sup>(14)</sup>                      | Internet Consumer & Business Services | Warrant                           | Preferred Series C   | 234,280   | 636                 | 148                  |
| CashStar, Inc. <sup>(14)</sup>                   | Internet Consumer & Business Services | Warrant                           | Preferred Series C-2 | 727,272   | 130                 | 34                   |
| Just Fabulous, Inc.                              | Internet Consumer & Business Services | Warrant                           | Preferred Series B   | 206,184   | 1,102               | 1,104                |
| Lightspeed POS, Inc. <sup>(4)(9)</sup>           | Internet Consumer & Business Services | Warrant                           | Preferred Series C   | 245,610   | 20                  | 82                   |
| Oportun (p.k.a. Progress Financial)              | Internet Consumer & Business Services | Warrant                           | Preferred Series G   | 174,562   | 78                  | 104                  |
| Prism Education Group, Inc. <sup>(14)</sup>      | Internet Consumer & Business Services | Warrant                           | Preferred Series B   | 200,000   | 43                  | —                    |
| ReachLocal <sup>(3)</sup>                        | Internet Consumer & Business Services | Warrant                           | Common Stock         | 300,000   | 155                 | 290                  |
| ShareThis, Inc. <sup>(14)</sup>                  |                                       | Warrant                           |                      | 493,502   | 547                 | 93                   |

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|  |                                       |         |                      |         |       |       |
|--|---------------------------------------|---------|----------------------|---------|-------|-------|
|  | Internet Consumer & Business Services |         | Preferred Series C   |         |       |       |
| Tapjoy, Inc.   | Internet Consumer & Business Services | Warrant | Preferred Series D   | 748,670 | 316   | 8     |
| Tectura Corporation                                      | Internet Consumer & Business Services | Warrant | Preferred Series B-1 | 253,378 | 51    | —     |
| Subtotal: Internet Consumer & Business Services (0.27%)* |                                       |         |                      |         | 3,151 | 1,951 |

|  |                    |         |                    |         |       |       |
|--|--------------------|---------|--------------------|---------|-------|-------|
| Media/Content/Info                           |                    |         |                    |         |       |       |
| Machine Zone, Inc.                           | Media/Content/Info | Warrant | Common Stock       | 143,626 | 1,802 | 2,086 |
| Rhapsody International, Inc. <sup>(14)</sup> | Media/Content/Info | Warrant | Common Stock       | 715,755 | 384   | 218   |
| Zoom Media Group, Inc.                       | Media/Content/Info | Warrant | Preferred Series A | 1,204   | 348   | 23    |
| Subtotal: Media/Content/Info (0.32%)*        |                    |         |                    |         | 2,534 | 2,327 |

|   |                             |         |                      |            |       |     |
|---|-----------------------------|---------|----------------------|------------|-------|-----|
| Medical Devices & Equipment                   |                             |         |                      |            |       |     |
| Amedica Corporation <sup>(3)(14)</sup>        | Medical Devices & Equipment | Warrant | Common Stock         | 1,548,387  | 459   | 31  |
| Aspire Bariatrics, Inc. <sup>(14)</sup>       | Medical Devices & Equipment | Warrant | Preferred Series D   | 395,000    | 455   | 236 |
| Avedro, Inc. <sup>(14)</sup>                  | Medical Devices & Equipment | Warrant | Preferred Series AA  | 300,000    | 401   | 142 |
| Flowonix Medical Incorporated                 | Medical Devices & Equipment | Warrant | Preferred Series E   | 110,947    | 203   | 428 |
| Gamma Medica, Inc.                            | Medical Devices & Equipment | Warrant | Preferred Series A   | 357,500    | 170   | 144 |
| Gelesis, Inc. <sup>(14)</sup>                 | Medical Devices & Equipment | Warrant | Preferred Series A-1 | 74,784     | 78    | 262 |
| InspireMD, Inc. <sup>(3)(4)(9)</sup>          | Medical Devices & Equipment | Warrant | Common Stock         | 16,835     | 242   | —   |
| Medrobotics Corporation <sup>(14)</sup>       | Medical Devices & Equipment | Warrant | Preferred Series E   | 455,539    | 370   | 244 |
| NetBio, Inc.                                  | Medical Devices & Equipment | Warrant | Common Stock         | 2,568      | 408   | 19  |
| NinePoint Medical, Inc. <sup>(14)</sup>       | Medical Devices & Equipment | Warrant | Preferred Series A-1 | 587,840    | 170   | 119 |
| Novasys Medical, Inc.                         | Medical Devices & Equipment | Warrant | Common Stock         | 109,449    | 2     | —   |
|   | Medical Devices & Equipment | Warrant | Preferred Series D   | 526,840    | 125   | —   |
|   | Medical Devices & Equipment | Warrant | Preferred Series D-1 | 53,607     | 6     | —   |
| Total Novasys Medical, Inc.                   |                             |         |                      | 689,896    | 133   | —   |
| Optiscan Biomedical, Corp. <sup>(5)(14)</sup> | Medical Devices & Equipment | Warrant | Preferred Series D   | 10,535,275 | 1,252 | 312 |

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|  |                             |         |                    |           |       |       |
|--|-----------------------------|---------|--------------------|-----------|-------|-------|
| Oraya Therapeutics, Inc.   | Medical Devices & Equipment | Warrant | Common Stock       | 954       | 66    | —     |
|  | Medical Devices & Equipment | Warrant | Preferred Series 1 | 1,632,084 | 676   | 63    |
| Total Oraya Therapeutics, Inc.   |                             |         |                    | 1,633,038 | 742   | 63    |
| Outset Medical, Inc. (p.k.a. Home Dialysis Plus, Inc.)                 | Medical Devices & Equipment | Warrant | Preferred Series A | 500,000   | 402   | 298   |
| Quanterix Corporation  | Medical Devices & Equipment | Warrant | Preferred Series C | 115,618   | 156   | 60    |
| SonaCare Medical, LLC (p.k.a. US HIFU, LLC)                            | Medical Devices & Equipment | Warrant | Preferred Series A | 6,464     | 188   | —     |
| Strata Skin Sciences, Inc. (p.k.a. MELA Sciences, Inc.) <sup>(3)</sup> | Medical Devices & Equipment | Warrant | Common Stock       | 69,320    | 402   | —     |
| ViewRay, Inc. <sup>(3)(14)</sup>                                       | Medical Devices & Equipment | Warrant | Common Stock       | 128,231   | 333   | 84    |
| Subtotal: Medical Devices & Equipment (0.34%)*                         |                             |         |                    |           | 6,564 | 2,442 |

See notes to consolidated financial statements.

## HERCULES CAPITAL, INC.

## CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2015

(unaudited)

(dollars in thousands)

| Portfolio Company                                  | Sub-Industry   | Type of Investment           | Number of Shares | Cost <sup>(2)</sup> | Value <sup>(3)</sup> |    |
|--|----------------|------------------------------|------------------|---------------------|----------------------|----|
| <b>Semiconductors</b>                              |                |                              |                  |                     |                      |    |
| Achronix Semiconductor Corporation <sup>(14)</sup> | Semiconductors | Warrant Preferred Series C   | 360,000          | \$ 160              | \$ 27                |    |
|  | Semiconductors | Warrant Preferred Series D-1 | 500,000          | 6                   | 6                    |    |
| Total Achronix Semiconductor Corporation           |                |                              |                  | 860,000             | 166                  | 33 |
| Aquantia Corp.                                     | Semiconductors | Warrant Preferred Series G   | 196,831          | 4                   | 39                   |    |
| Avnera Corporation                                 | Semiconductors | Warrant Preferred Series E   | 141,567          | 47                  | 65                   |    |
| Subtotal: Semiconductors (0.02%)*                  |                |                              |                  | 217                 | 137                  |    |
| <b>Software</b>                                    |                |                              |                  |                     |                      |    |
| Actifio, Inc.                                      | Software       | Warrant Common Stock         | 73,584           | 249                 | 210                  |    |
| Braxton Technologies, LLC                          | Software       | Warrant Preferred Series A   | 168,750          | 188                 | —                    |    |
| CareCloud Corporation <sup>(14)</sup>              | Software       | Warrant Preferred Series B   | 413,433          | 258                 | 625                  |    |
| Clickfox, Inc. <sup>(14)</sup>                     | Software       | Warrant Preferred Series B   | 1,038,563        | 330                 | 362                  |    |
|  | Software       | Warrant Preferred Series C   | 592,019          | 730                 | 272                  |    |
|  | Software       | Warrant Preferred Series     | 46,109           | 13                  | 16                   |    |

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|  |                           |                            | C-A       |       |       |
|--|---------------------------|----------------------------|-----------|-------|-------|
| Total Clickfox, Inc.   |                           |                            | 1,676,691 | 1,073 | 650   |
| Hillcrest Laboratories, Inc. <sup>(14)</sup>                           | Software                  | Warrant Preferred Series E | 1,865,650 | 55    | 138   |
| JumpStart Games, Inc. (p.k.a Knowledge Holdings, Inc.) <sup>(14)</sup> | Software                  | Warrant Preferred Series E | 614,333   | 16    | —     |
| Message Systems, Inc. <sup>(14)</sup>                                  | Software                  | Warrant Preferred Series B | 408,011   | 334   | 497   |
| Mobile Posse, Inc. <sup>(14)</sup>                                     | Software                  | Warrant Preferred Series C | 396,430   | 130   | 59    |
| Neos, Inc. <sup>(14)</sup>   | Software                  | Warrant Common Stock       | 221,150   | 22    | 113   |
| NewVoiceMedia Limited <sup>(4)(9)</sup>                                | Software                  | Warrant Preferred Series E | 225,586   | 33    | 55    |
| Poplicus, Inc. <sup>(14)</sup>   | Software                  | Warrant Preferred Series C | 2,595,230 | —     | 110   |
| Soasta, Inc. <sup>(14)</sup>   | Software                  | Warrant Preferred Series E | 410,800   | 691   | 561   |
| Sonian, Inc. <sup>(14)</sup>   | Software                  | Warrant Preferred Series C | 185,949   | 106   | 39    |
| Touchcommerce, Inc. <sup>(14)</sup>                                    | Software                  | Warrant Preferred Series E | 2,282,968 | 446   | 581   |
| Subtotal: Software (0.51%)*  |                           |                            |           | 3,601 | 3,638 |
| Specialty Pharmaceuticals  |                           |                            |           |       |       |
| Alimera Sciences, Inc. <sup>(3)</sup>                                  | Specialty Pharmaceuticals | Warrant Common Stock       | 660,377   | 729   | 435   |
| QuatRx Pharmaceuticals Company   | Specialty Pharmaceuticals | Warrant Preferred Series E | 155,324   | 307   | —     |
| Subtotal: Specialty Pharmaceuticals (0.06%)*                           |                           |                            |           | 1,036 | 435   |

See notes to consolidated financial statements.

## HERCULES CAPITAL, INC.

## CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2015

(unaudited)

(dollars in thousands)

| Portfolio Company                   | Sub-Industry     | Type of Investment <sup>(1)</sup> | Series             | Shares    | Cost <sup>(2)</sup> | Value <sup>(3)</sup> |
|-------------------------------------|------------------|-----------------------------------|--------------------|-----------|---------------------|----------------------|
| Surgical Devices                    |                  |                                   |                    |           |                     |                      |
| Gynesonics, Inc. <sup>(14)</sup>    | Surgical Devices | Warrant                           | Preferred Series C | 180,480   | \$75                | \$12                 |
|                                     | Surgical Devices | Warrant                           | Preferred Series D | 1,575,965 | 320                 | 223                  |
| Total Gynesonics, Inc.              |                  |                                   |                    | 1,756,445 | 395                 | 235                  |
| Transmedics, Inc.                   | Surgical Devices | Warrant                           | Preferred Series B | 40,436    | 224                 | 2                    |
|                                     | Surgical Devices | Warrant                           | Preferred Series D | 175,000   | 100                 | 170                  |
|                                     | Surgical Devices | Warrant                           | Preferred Series F | 16,476    | 3                   | 3                    |
| Total Transmedics, Inc.             |                  |                                   |                    | 231,912   | 327                 | 175                  |
| Subtotal: Surgical Devices (0.06%)* |                  |                                   |                    |           | 722                 | 410                  |
| Total: Warrant Investments (3.21%)* |                  |                                   |                    |           | 40,761              | 22,987               |
| Total Investments (167.42%)*        |                  |                                   |                    |           | \$1,252,281         | \$1,200,638          |

\* Value as a percent of net assets

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

non-qualifying assets.

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

See notes to consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

### 1. Description of Business and Basis of Presentation

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

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

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

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



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

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

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

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

## 2. Summary of Significant Accounting Policies

### Principles of Consolidation

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

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

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

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

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

### Reclassification

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

### Change in Accounting Principle

As of January 1, 2016, the Company adopted FASB Accounting Standards Update ("ASU") 2015-03 "Simplifying the Presentation of Debt Issuance Costs" and ASU 2015-15 "Presentation and Subsequent Measurement of Debt Issuance

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

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

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

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

#### Valuation of Investments

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

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

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

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

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

- (1) the Company's quarterly valuation process begins with each portfolio company being initially valued by the investment professionals responsible for the portfolio investment;
- (2) preliminary valuation conclusions are then documented and business based assumptions are discussed with the Company's investment committee;
- (3) the Audit Committee of the Board of Directors reviews the preliminary valuation of the investments in the portfolio as provided by the investment committee, which incorporates the results of the independent valuation firm as appropriate; and
- (4) the Board of Directors, upon the recommendation of the Audit Committee, discusses valuations and determines the fair value of each investment in the Company's portfolio in good faith based on the input of, where applicable, the respective independent valuation firm and the investment committee.

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

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

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

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

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

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

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

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

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

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

| (in thousands)    | Balance<br>January 1,<br>2015 | Net<br>Change<br>in                         |  | Purchases<br>(5) (2) | Sales            | Repayments<br>(6)  | Gross<br>Transfers<br>into<br>Level 3 (4) | Gross<br>Transfers<br>out of<br>Level 3 (4) | Balance<br>December<br>31, 2015 |
|-------------------|-------------------------------|---|--|----------------------|------------------|--------------------|---|---|---------------------------------|
|                   |                               | Net<br>Realized<br>Gains<br>(Losses)<br>(1) | Unrealized<br>Appreciation<br>(Depreciation) |                      |                  |                    |   |   |                                 |
| 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>      | <b>\$1,008,362</b>            | <b>\$(3,773)</b>                            | <b>\$(18,475)</b>                            | <b>\$720,453</b>     | <b>\$(4,659)</b> | <b>\$(505,455)</b> | <b>\$685</b>                              | <b>\$(36,438)</b>                           | <b>\$1,160,700</b>              |

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

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

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



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

- (4) Transfers out of Level 3 during the year ended December 31, 2015 relate to the IPOs of Box, Inc., ZP Opco, Inc. (p.k.a. Zosano Pharma, Inc.), Neos Therapeutics, Edge Therapeutics Inc., ViewRay, Inc., and Cerecor, Inc. in addition to the exercise of warrants in both Forescout, Inc. and Atrenta, Inc. to preferred stock. Transfers into Level 3 during the year ended December 31, 2015 relate to the acquisition of preferred stock as a result of the exercise of warrants in both Forescout, Inc. and Atrenta, Inc. and the conversion of debt to equity in Home Dialysis Plus and Gynesonics.
- (5) Amounts listed above are inclusive of loan origination fees received at the inception of the loan which are deferred and amortized into fee income as well as the accretion of existing loan discounts and fees during the period. Escrow receivable purchases may include additions due to proceeds held in escrow from the liquidation of level 3 investments.
- (6) Amounts listed above include the acceleration and payment of loan discounts and loan fees due to early payoffs or restructures.

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

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

The following tables provide quantitative information about the Company's Level 3 fair value measurements as of September 30, 2016 and December 31, 2015. In addition to the techniques and inputs noted in the tables below, according to the Company's valuation policy the Company may also use other valuation techniques and methodologies when determining the Company's fair value measurements. The tables below are not intended to be all-inclusive, but rather provide information on the significant Level 3 inputs as they relate to the Company's fair value measurements.

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

| Investment Type - Level   | Fair Value | Valuation                   | Unobservable Input <sup>(a)</sup>             | Range            | Weighted               |
|---------------------------|------------|-----------------------------|---|------------------|------------------------|
|                           | at         |                             |   |                  |                        |
|                           | September  |                             |   |                  |                        |
|                           | 30, 2016   |                             |   |                  |                        |
|                           | (in        | Techniques/Methodologies    |   |                  | Average <sup>(b)</sup> |
| Three Debt Investments    | thousands) |                             |   |                  |                        |
| Pharmaceuticals           | \$96,647   | Originated Within 6 Months  | Origination Yield                             | 12.24% - 15.39%  | 13.70%                 |
|                           | 420,472    | Market Comparable Companies | Hypothetical Market Yield                     | 8.96% - 20.56%   | 12.61%                 |
|                           | 2,224      | Liquidation <sup>(c)</sup>  | Premium/(Discount)                            | 0.00% - 0.75%    |                        |
| Technology                | 87,063     | Originated Within 6 Months  | Probability weighting of alternative outcomes | 25.00% - 100.00% |                        |
|                           | 247,989    | Market Comparable Companies | Origination Yield                             | 9.75% - 21.90%   | 14.66%                 |
|                           | 36,349     | Liquidation <sup>(c)</sup>  | Hypothetical Market Yield                     | 10.49% - 16.60%  | 12.35%                 |
| Sustainable and Renewable | 24,916     | Originated Within 6 Months  | Premium/(Discount)                            | (0.50%) - 0.25%  |                        |
|                           | 152,520    | Market Comparable Companies | Origination Yield                             | 15.60%           | 15.60%                 |
| Medical Devices           | 17,082     | Originated Within 6 Months  | Hypothetical Market Yield                     | 6.81% - 22.75%   | 14.44%                 |
|                           | 74,506     | Market Comparable Companies | Premium/(Discount)                            | (0.25%) - 0.25%  |                        |
|                           | 2,255      | Liquidation <sup>(c)</sup>  | Origination Yield                             | 14.64% - 18.13%  | 15.58%                 |
|                           |            |                             | Hypothetical Market Yield                     | 10.35% - 16.44%  | 13.75%                 |
|                           |            |                             | Premium/(Discount)                            | (0.25%) - 0.50%  |                        |
|                           |            |                             | Probability weighting of alternative outcomes | 100.00%          |                        |

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|   |             |                             |   |                 |        |
|---|-------------|-----------------------------|---|-----------------|--------|
| Lower Middle Market                                 | 5,436       | Market Comparable Companies | Hypothetical Market Yield                       | 13.33% - 14.58% | 14.02% |
|   |             |                             | Premium/(Discount)                              | 0.25% - 0.50%   |        |
|   | 24,542      | Liquidation <sup>(c)</sup>  | Probability weighting of alternative outcomes   | 2.50% - 100.00% |        |
| Debt Investments Where Fair Value Approximates Cost |             |                             |   |                 |        |
|   | —           |                             | Imminent Payoffs <sup>(d)</sup>                 |                 |        |
|   | 26,139      |                             | Debt Investments Maturing in Less than One Year |                 |        |
|   | \$1,218,140 |                             | Total Level Three Debt Investments              |                 |        |

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

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

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

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

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

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

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

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

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

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

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

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

- Pharmaceuticals, above, is comprised of debt investments in the Specialty Pharmaceuticals, Drug Discovery and Development and Drug Delivery industries in the Consolidated Schedule of Investments.
- Technology, above, is comprised of debt investments in the Software, Semiconductors, Internet Consumer and Business Services, Consumer and Business Products, Information Services, and Communications and Networking industries in the Consolidated Schedule of Investments.
- Sustainable and Renewable Technology, above, aligns with the Sustainable and Renewable Technology Industry in the Consolidated Schedule of Investments.
- Medical Devices, above, is comprised of debt investments in the Surgical Devices and Medical Devices and Equipment industries in the Consolidated Schedule of Investments.
- Lower Middle Market, above, is comprised of debt investments in the Communications and Networking, Electronics and Computer Hardware, Healthcare Services - Other, Information Services, Internet Consumer and Business Services, Media/Content/Info, and Specialty Pharmaceuticals industries in the Consolidated Schedule of Investments.
- (b) The weighted averages are calculated based on the fair market value of each investment.
- (c) The significant unobservable input used in the fair value measurement of impaired debt securities is the probability weighting of alternative outcomes.
- (d) Imminent payoffs represent debt investments that the Company expects to be fully repaid within the next three months, prior to their scheduled maturity date.

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

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

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

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|        |                 |  |          |        |
|--------|-----------------|--|----------|--------|
|        | Market Adjusted | Average Industry Volatility <sup>(d)</sup> | 28.52% - | 64.31% |
| 10,661 | OPM Backsolve   |  | 109.64%  |        |
|        |                 | Risk-Free Interest Rate                    | 0.36% -  | 0.85%  |
|        |                 | Estimated Time to Exit (in months)         | 1.45%    |        |
|        |                 |  | 10 - 44  | 20     |

Total Level Three

Warrant and Equity

Investments \$ 55,337

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



## Debt Investments

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

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

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

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

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

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

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

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

#### Equity-Related Securities and Warrants

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

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

#### Escrow Receivables

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

#### Portfolio Composition

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

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

| (in thousands)             |         | Fair Value at September 30, 2016 | For the Three Months Ended September 30, 2016                 |  |                      |   | For the Nine Months Ended September 30, 2016     |                      |                |                |      |        |
|----------------------------|---------|----------------------------------|---|--|----------------------|---|--|----------------------|----------------|----------------|------|--------|
|                            |         |                                  | Net Change in Unrealized Investment Appreciation/Depreciation | Reversal of Unrealized Appreciation/Depreciation | Realized Gain/(Loss) | Net Change in Unrealized Investment Appreciation/Depreciation | Reversal of Unrealized Appreciation/Depreciation | Realized Gain/(Loss) |                |                |      |        |
| Portfolio Company          | Type    |                                  | Income  | (Depreciation)                                   | (Depreciation)       | Gain  | (Loss)   | Income               | (Depreciation) | (Depreciation) | Gain | (Loss) |
| <b>Control Investments</b> |         |                                  |   |  |                      |   |  |                      |                |                |      |        |
| SkyCross, Inc.             | Control | \$ —                             | \$ —  | \$ —   | \$ —                 | \$ —  | \$ —   | \$ (3,421)           | \$ —           | \$ —           | \$ — | \$ —   |
| Achilles Technology        | Control | 4,991                            | 16  | —  | —                    | —   | 16   | —                    | —              | —              | —    | —      |

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|                                       |           |           |       |        |      |      |        |            |        |      |
|---------------------------------------|-----------|-----------|-------|--------|------|------|--------|------------|--------|------|
| Management Co II, Inc.                |           |           |       |        |      |      |        |            |        |      |
| Total Control Investments             |           | \$ 4,991  | \$ 16 | \$ —   | \$ — | \$ — | \$ 16  | \$ (3,421) | \$ —   | \$ — |
| Affiliate Investments                 |           |           |       |        |      |      |        |            |        |      |
| Optiscan                              |           |           |       |        |      |      |        |            |        |      |
| BioMedical, Corp.                     | Affiliate | \$ 5,102  | \$ —  | \$ 553 | \$ — | \$ — | \$ 12  | \$ (2,833) | \$ —   | \$ — |
| Stion Corporation                     | Affiliate | 821       | 30    | —      | —    | —    | 133    | 539        | 648    | —    |
| Total Affiliate Investments           |           | \$ 5,923  | \$ 30 | \$ 553 | \$ — | \$ — | \$ 145 | \$ (2,294) | \$ 648 | \$ — |
| Total Control & Affiliate Investments |           | \$ 10,914 | \$ 46 | \$ 553 | \$ - | \$ — | \$ 161 | \$ (5,715) | \$ 648 | \$ — |

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

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

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

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

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

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

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

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

| (in thousands)                       | September 30, 2016 |                 | December 31, 2015 |                 |
|--------------------------------------|--------------------|-----------------|-------------------|-----------------|
|                                      | Investments at     | Percentage of   | Investments at    | Percentage of   |
|                                      | Fair Value         | Total Portfolio | Fair Value        | Total Portfolio |
| Drug Discovery & Development         | \$356,190          | 27.0 %          | \$284,266         | 23.7 %          |
| Sustainable and Renewable Technology | 195,861            | 14.8 %          | 159,487           | 13.3 %          |
| Software                             | 188,986            | 14.3 %          | 147,237           | 12.3 %          |
| Drug Delivery                        | 116,450            | 8.8 %           | 164,665           | 13.7 %          |
| Medical Devices & Equipment          | 114,588            | 8.7 %           | 90,560            | 7.5 %           |

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|                                       |             |       |   |             |       |   |
|---------------------------------------|-------------|-------|---|-------------|-------|---|
| Media/Content/Info                    | 109,603     | 8.3   | % | 95,488      | 7.9   | % |
| Internet Consumer & Business Services | 92,915      | 7.0   | % | 88,377      | 7.4   | % |
| Specialty Pharmaceuticals             | 39,466      | 3.0   | % | 52,088      | 4.3   | % |
| Healthcare Services, Other            | 30,198      | 2.3   | % | 15,131      | 1.3   | % |
| Communications & Networking           | 18,985      | 1.5   | % | 33,213      | 2.8   | % |
| Consumer & Business Products          | 18,755      | 1.4   | % | 26,611      | 2.2   | % |
| Surgical Devices                      | 12,816      | 1.0   | % | 11,185      | 0.9   | % |
| Semiconductors                        | 10,925      | 0.8   | % | 22,705      | 1.9   | % |
| Biotechnology Tools                   | 7,228       | 0.5   | % | 719         | 0.1   | % |
| Electronics & Computer Hardware       | 7,061       | 0.5   | % | 6,928       | 0.6   | % |
| Diagnostic                            | 581         | 0.1   | % | 321         | 0.0   | % |
| Information Services                  | 2           | 0.0   | % | 1,657       | 0.1   | % |
| Total                                 | \$1,320,610 | 100.0 | % | \$1,200,638 | 100.0 | % |

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

## Portfolio Activity

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

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

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

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

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

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

## Investment Collateral

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



## Income Recognition

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

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

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

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

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

deferred receivable related to expired commitments.

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

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

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

## 3. Fair Value of Financial Instruments

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

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

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

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

| (in thousands)                          |                      | Identical<br>Assets<br>(Level<br>1) | Observable<br>Inputs<br>(Level 2) | Unobservable<br>Inputs<br>(Level 3) |
|---|----------------------|-------------------------------------|-----------------------------------|-------------------------------------|
| Description                             | December<br>31, 2015 |                                     |                                   |                                     |
| Convertible Senior Notes <sup>(1)</sup> | \$ 19,540            | \$ —                                | \$ 19,540                         | \$ —                                |
| Wells Facility <sup>(2)</sup>           | 50,000               | —                                   | —                                 | 50,000                              |
| 2021 Asset-Backed Notes                 | 128,775              | —                                   | 128,775                           | —                                   |
| April 2019 Notes                        | 65,573               | —                                   | 65,573                            | —                                   |
| September 2019 Notes                    | 46,297               | —                                   | 46,297                            | —                                   |
| 2024 Notes                              | 104,401              | —                                   | 104,401                           | —                                   |

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|                |            |    |              |            |
|----------------|------------|----|--------------|------------|
| SBA Debentures | 194,121    | —  | —            | 194,121    |
| Total          | \$ 608,707 | \$ | — \$ 364,586 | \$ 244,121 |

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

## 4. Borrowings

## Outstanding Borrowings

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

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

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

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

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

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

## Long-Term SBA Debentures

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

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

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

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

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

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

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

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

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

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\$190.2 million of SBA-guaranteed debentures, subject to SBA approval. At September 30, 2016, the Company has issued \$190.2 million in SBA-guaranteed debentures in the Company's SBIC subsidiaries.

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

(in thousands)

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

(1) Interest rate includes annual charge

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## 2019 Notes

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

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

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

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

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

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

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

## April 2019 Notes

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

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

subordinated to all existing and future indebtedness and other obligations of any of the Company's subsidiaries.

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

## September 2019 Notes

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

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

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

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

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

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



## 2024 Notes

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

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

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

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

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

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

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

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September 30, 2016, the Company was in compliance with the terms of the Base Indenture as supplemented by the Third Supplemental Indenture.

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

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

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

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## 2021 Asset-Backed Notes

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

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

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

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

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

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

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

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



## Convertible Senior Notes

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

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

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

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

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

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

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

| Three<br>Months | Nine Months<br>Ended |
|-----------------|----------------------|
|-----------------|----------------------|

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

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

## Wells Facility

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

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

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

The Wells Facility also includes various financial and other covenants applicable to the Company and the Company’s subsidiaries, in addition to those applicable to Hercules Funding II, including covenants relating to certain changes of control of the Company and Hercules Funding II. Among other things, these covenants also require the Company to maintain certain financial ratios, including a maximum debt to worth ratio, minimum interest coverage ratio, minimum portfolio funding liquidity, and a minimum tangible net worth in an amount, when added to outstanding subordinated indebtedness, that is in excess of \$500.0 million plus 90% of the cumulative amount of equity raised after June 30, 2014. As of September 30, 2016, the minimum tangible net worth covenant increased to \$637.2 million as a result of the March 2015 follow-on public offering of 7.6 million shares of common stock for total gross proceeds of approximately \$100.4 million and the 4.1 million shares of common stock issued under the At-The-Market (“ATM”) equity distribution agreement with JPM Securities (“JPM”) for gross proceeds of \$52.0 million during the nine months ended September 30, 2016. The Wells Facility provides for customary events of default, including, without limitation, with respect to payment defaults, breach of representations and covenants, certain key person provisions, cross acceleration provisions to certain other debt, lien and judgment limitations, and bankruptcy.

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

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

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

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

## Union Bank Facility

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

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

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

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

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

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

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

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

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

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

### Citibank Credit Facility

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

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

### 5. Income taxes

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

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

During the three months ended September 30, 2016, the Company declared a distribution of \$0.31 per share. The determination of the tax attributes of the Company's distributions is made annually as of the end of the Company's taxable year generally based upon its taxable income for the full taxable year and distributions paid for the full taxable year. As a result, a determination made on a quarterly basis may not be representative of the actual tax attributes of the Company's distributions for a full taxable year. If the Company had determined the tax attributes of our distributions taxable year-to-date as of September 30, 2016, 100% would be from our current and accumulated earnings and profits. However, there can be no certainty to stockholders that this determination is representative of what the actual tax attributes of the Company's 2016 distributions to stockholders will be.

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



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

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

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

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

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

## 6. Stockholders' Equity

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

During the three and nine months ended September 30, 2016 the Company sold 2.1 million and 4.1 million shares of common stock for total accumulated net proceeds of approximately \$26.5 million and \$50.2 million, respectively, including \$986,000 and

\$1.8 million of offering expenses, respectively. The Company did not sell any shares under the program during the year ended December 31, 2015. The Company generally uses net proceeds from these offerings to make investments, to repurchase or pay down liabilities and for general corporate purposes. As of September 30, 2016 approximately 3.2 million shares remain available for issuance and sale under the equity distribution agreement. See “Note 12 – Subsequent Events”.

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

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

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

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

## 7. Equity Incentive Plan

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

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

On June 21, 2007, the stockholders approved amendments to the 2004 Plan and the 2006 Plan allowing for the grant of restricted stock. The amended Plans limit the combined maximum amount of restricted stock that may be issued under both Plans to 10% of the outstanding shares of the Company’s stock on the effective date of the Plans plus 10% of the number of shares of stock issued or delivered by the Company during the terms of the Plans. The amendments further specify that no one person shall be granted awards of restricted stock relating to more than 25% of the shares available for issuance under the 2004 Plan. Further, the amount of voting securities that would result from the exercise of all of the Company’s outstanding warrants, options and rights, together with any restricted stock issued pursuant to the Plans, at the time of issuance shall not exceed 25% of its outstanding voting securities, except that if the amount of voting securities that would result from such exercise of all of the Company’s outstanding warrants, options and rights issued to the Company’s directors, officers and employees, together with any restricted stock issued pursuant to the Plans, would exceed 15% of the Company’s outstanding voting securities, then the total amount of voting securities that would result from the exercise of all outstanding warrants, options and rights, together with any restricted stock issued pursuant to the Plans, at the time of issuance shall not exceed 20% of the Company’s outstanding voting securities.

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

| Nine Months Ended September 30, |          |        |          |
|---------------------------------|----------|--------|----------|
| 2016                            |          | 2015   |          |
| Common                          | Weighted | Common | Weighted |
| Stock                           | Average  | Stock  | Average  |

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

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

(Dollars in thousands,

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

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

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

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

The Company follows ASC Topic 718 (“Compensation – Stock Compensation”) to account for stock options granted. Under ASC Topic 718, compensation expense associated with stock-based compensation is measured at the grant date based on the fair value of the award and is recognized over the vesting period. Determining the appropriate fair value model and calculating the fair value of stock-based awards at the grant date requires judgment, including estimating stock price volatility, forfeiture rate and expected option life. The fair value of options granted is based upon a Black Scholes option pricing model using the assumptions in the following table for the nine months ended September 30, 2016 and 2015:

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

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

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

|            | Nine Months Ended September 30, |            |
|------------|---------------------------------|------------|
|            | 2016                            | 2015       |
| Restricted |                                 | Restricted |

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|                           | Stock Awards | Weighted Average | Stock Awards | Weighted Average |
|---------------------------|--------------|------------------|--------------|------------------|
|                           |              | Grant Date       |              | Grant Date       |
|                           |              | Fair Value       |              | Fair Value       |
| Unvested at December 31,  | 850,072      | \$ 13.59         | 1,302,780    | \$ 13.23         |
| Granted                   | 552,214      | \$ 12.01         | 676,340      | \$ 13.67         |
| Vested                    | (505,182)    | \$ 13.59         | (703,703 )   | \$ 13.28         |
| Forfeited                 | (26,573 )    | \$ 12.85         | (297,468 )   | \$ 13.25         |
| Unvested at September 30, | 870,531      | \$ 12.61         | 977,949      | \$ 13.49         |

The SEC, through an exemptive order granted on June 22, 2010, approved amendments to the Plans which allow participants to elect to have the Company withhold shares of the Company's common stock to pay for the exercise price and applicable taxes with respect to an option exercise ("net issuance exercise"). The exemptive order also permits the holders of restricted stock to elect to have the Company withhold shares of the Company's stock to pay the applicable taxes due on restricted stock at the time of vesting. Each individual can make a cash payment at the time of option exercise or to pay taxes on restricted stock.

## 8. Earnings Per Share

Shares used in the computation of the Company's basic and diluted earnings per share are as follows:

| (in thousands, except per share data)                                 | Three Months             |          | Nine Months Ended  |          |
|---|--------------------------|----------|--------------------|----------|
|   | Ended September 30, 2016 | 2015     | September 30, 2016 | 2015     |
| <b>Numerator</b>  |                          |          |                    |          |
| Net increase in net assets resulting from operations                  | \$30,812                 | \$4,075  | \$54,582           | \$28,746 |
| Less: Distributions declared-common and restricted shares             | (23,201)                 | (22,472) | (68,408)           | (65,238) |
| Undistributed (distributions in excess of) earnings                   | 7,611                    | (18,397) | (13,826)           | (36,494) |
| Undistributed (distributions in excess of) earnings-common shares     | 7,516                    | (18,397) | (13,826)           | (36,492) |
| Add: Distributions declared-common shares                             | 22,911                   | 22,164   | 67,406             | 64,031   |
| Numerator for basic and diluted change in net assets per common share | \$30,427                 | \$3,767  | \$53,580           | \$27,539 |
| <b>Denominator</b>  |                          |          |                    |          |
| Basic weighted average common shares outstanding                      | 74,122                   | 71,462   | 72,685             | 68,897   |
| Common shares issuable  | 35                       | 34       | 17                 | 226      |
| Weighted average common shares outstanding assuming dilution          | 74,157                   | 71,496   | 72,702             | 69,123   |
| <b>Change in net assets per common share</b>                          |                          |          |                    |          |
| Basic   | \$0.41                   | \$0.05   | \$0.74             | \$0.40   |
| Diluted   | \$0.41                   | \$0.05   | \$0.74             | \$0.40   |

In the table above, unvested share-based payment awards that have non-forfeitable rights to distributions or distribution equivalents are treated as participating securities for calculating earnings per share.

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

The calculation of change in net assets resulting from operations per common share—assuming dilution, excludes all anti-dilutive shares. For the three months ended September 30, 2016 and 2015, the number of anti-dilutive shares, as calculated based on the weighted average closing price of the Company's common stock for the periods, was approximately 646,783 shares and 642,088 shares, respectively. For the nine months ended September 30, 2016 and 2015, the number of anti-dilutive shares, as calculated based on the weighted average closing price of the Company's common stock for the periods, was approximately 679,253 shares and 627,526 shares, respectively.

At September 30, 2016, the Company was authorized to issue 200.0 million shares of common stock with a par value of \$0.001. Each share of common stock entitles the holder to one vote.



## 9. Financial Highlights

Following is a schedule of financial highlights for the nine months ended September 30, 2016 and 2015:

|  | Nine Months Ended<br>September 30, |           |
|--|------------------------------------|-----------|
|  | 2016                               | 2015      |
| Per share data <sup>(1)</sup> :  |                                    |           |
| Net asset value at beginning of period   | \$9.94                             | \$10.18   |
| Net investment income  | 0.92                               | 0.78      |
| Net realized gain on investments   | 0.05                               | 0.12      |
| Net unrealized appreciation (depreciation) on investments  | (0.22 )                            | (0.48 )   |
| Total from investment operations   | 0.75                               | 0.42      |
| Net increase (decrease) in net assets from capital share transactions <sup>(1)</sup>                   | 0.03                               | 0.26      |
| Distributions of net investment income <sup>(6)</sup>  | (0.94 )                            | (0.95 )   |
| Stock-based compensation expense included in investment income <sup>(2)</sup>                          | 0.08                               | 0.11      |
| Net asset value at end of period   | \$9.86                             | \$10.02   |
| Ratios and supplemental data:  |                                    |           |
| Per share market value at end of period  | \$13.56                            | \$10.11   |
| Total return <sup>(3)</sup>  | 19.47 %                            | (27.25 %) |
| Shares outstanding at end of period  | 76,400                             | 72,109    |
| Weighted average number of common shares outstanding   | 72,685                             | 68,897    |
| Net assets at end of period  | \$753,589                          | \$722,793 |
| Ratio of total expense to average net assets <sup>(4)</sup>  | 11.13 %                            | 11.87 %   |
| Ratio of net investment income before investment gains and losses to average net assets <sup>(4)</sup> | 12.39 %                            | 9.84 %    |
| Portfolio turnover rate <sup>(5)</sup>   | 28.69 %                            | 34.90 %   |
| Average debt outstanding   | \$620,769                          | \$617,503 |
| Weighted average debt per common share   | \$8.54                             | \$8.96    |

(1) All per share activity is calculated based on the weighted average shares outstanding for the relevant period, except net increase (decrease) in net assets from capital share transactions, which is based on the common shares outstanding as of the relevant balance sheet date.

(2) Stock option expense is a non-cash expense that has no effect on net asset value. Pursuant to ASC Topic 718, net investment income includes the expense associated with the granting of stock options which is offset by a corresponding increase in paid-in capital.

(3) The total return for the nine months ended September 30, 2016 and 2015 equals the change in the ending market value over the beginning of the period price per share plus distributions paid per share during the period, divided by the beginning price assuming the distribution is reinvested on the date of the distribution. As such, the total return is not annualized. The total return does not reflect any sales load that must be paid by investors.

(4) All ratios are calculated based on weighted average net assets for the relevant period and are annualized.

(5)

The portfolio turnover rate for the nine months ended September 30, 2016 and 2015 equals the lesser of investment portfolio purchases or sales during the period, divided by the average investment portfolio value during the period. As such, portfolio turnover rate is not annualized.

(6) Includes distributions on unvested shares.

## 10. Commitments and Contingencies

The Company's commitments and contingencies consist primarily of unused commitments to extend credit in the form of loans to the Company's portfolio companies. A portion of these unfunded contractual commitments are dependent upon the portfolio company reaching certain milestones before the debt commitment becomes available. Furthermore, our credit agreements contain customary lending provisions which allow us relief from funding obligations for previously made commitments in instances where the underlying company experiences materially adverse events that affect the financial condition or business outlook for the Company. Since a portion of these commitments may expire without being drawn, unfunded contractual commitments do not necessarily represent future cash requirements. As such, the Company's disclosure of unfunded contractual commitments includes only those which are available at the request of the portfolio company and unencumbered by milestones.

At September 30, 2016, the Company had approximately \$73.9 million of unfunded commitments, including undrawn revolving facilities, which were available at the request of the portfolio company and unencumbered by milestones.

The Company also had approximately \$100.0 million of non-binding term sheets outstanding at September 30, 2016. Non-binding outstanding term sheets are subject to completion of the Company's due diligence and final investment committee approval process, as well as the negotiation of definitive documentation with the prospective portfolio companies. These non-binding term sheets generally convert to contractual commitments in approximately 90 days from signing. Not all non-binding term sheets are expected to close and do not necessarily represent future cash requirements.

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

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

| (in thousands)                | Unfunded<br>Commitments<br>(1) |
|-------------------------------|--------------------------------|
| Portfolio Company             |                                |
| Paratek Pharmaceuticals, Inc. | \$ 20,000                      |
| NewVoiceMedia Limited         | 15,000                         |
| Evernote Corporation          | 14,000                         |
| Aquantia Corp.                | 11,500                         |
| Genocea Biosciences, Inc.     | 5,000                          |
| Edge Therapeutics, Inc.       | 5,000                          |
| Druva, Inc.                   | 3,000                          |
| RedSeal Inc.                  | 365                            |
| Total                         | \$ 73,865                      |

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

Certain premises are leased under agreements which expire at various dates through March 2020. Total rent expense amounted to approximately \$420,000 and \$1.3 million during the three and nine months ended September 30, 2016. Total rent expense amounted to approximately \$414,000 and \$1.2 million during the same periods ended September 30, 2015. The Company's contractual obligations as of September 30, 2016 include:

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

(1) Excludes commitments to extend credit to the Company's portfolio companies.

(2) The Company also has a warrant participation agreement with Citigroup. See Note 4 to the Company's consolidated financial statements.

(3) Includes \$190.2 million in principal outstanding under the SBA debentures, \$110.4 million of the 2019 Notes, \$244.9 million of the 2024 Notes, and \$117.0 million of the 2021 Asset-Backed Notes as of September 30, 2016.

(4) Amounts represent future principal repayments and not the carrying value of each liability. See Note 4 to the Company's consolidated financial statements.

(5) Long-term facility leases.

The Company may, from time to time, be involved in litigation arising out of its operations in the normal course of business or otherwise. Furthermore, third parties may try to seek to impose liability on the Company in connection with the activities of its portfolio companies. While the outcome of any current legal proceedings cannot at this time be predicted with certainty, the Company does not expect any current matters will materially affect the Company's financial condition or results of operations; however, there can be no assurance whether any pending legal proceedings will have a material adverse effect on the Company's financial condition or results of operations in any future reporting period.

## 11. Recent Accounting Pronouncements

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

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)," which, among other things, requires recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous

GAAP. Additionally, the ASU requires the classification of all cash payments on leases within operating activities in the Consolidated Statement of Cash Flows. ASU 2016-02 is effective for annual reporting periods, and the interim periods within those periods, beginning after December 15, 2018. Early adoption is permitted. The Company is currently evaluating the impact that ASU 2016-02 will have on its consolidated financial statements and disclosures.

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

In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments,” which addresses eight specific cash flow issues including, among other things, the classification of debt prepayment or debt extinguishment costs. ASU 2016-15 is effective for annual reporting periods, and the interim periods within those periods, beginning after December 15, 2017. Early adoption is permitted. The Company is currently evaluating the impact that ASU 2016-15 will have on its consolidated financial statements and disclosures

## 12. Subsequent Events

### Dividend Distribution Declaration

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

### 2024 Notes ATM Program

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

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

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

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

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

Subsequent to September 30, 2016 and as of October 31, 2016, the Company sold 137,250 notes for approximately \$3.5 million in aggregate principal amount. As of October 31, 2016 approximately \$146.5 million in aggregate principal amount remains available for issuance and sale under the debt distribution agreement.

### ATM Equity Program Issuances

Subsequent to September 30, 2016 and as of October 31, 2016, the Company sold 786,000 shares of common stock for total accumulated net proceeds of approximately \$10.6 million, including \$107,000 of offering expenses, under its ATM equity distribution agreement with JMP. As of October 31, 2016 approximately 2.4 million shares remain available for issuance and sale under the equity distribution agreement.

#### Portfolio Company Developments

As of October 31, 2016, the Company held warrants or equity positions in four companies that have filed registration statements on Form S-1 with the SEC in contemplation of potential initial public offerings. All four companies filed confidentially under the Jumpstart Our Business Startups Act. There can be no assurance that companies that have yet to complete their initial public offerings will do so in a timely matter or at all. In addition, subsequent to September 30, 2016 the following portfolio companies announced liquidity events:

1. In October 2016, Napo Pharmaceuticals, a company that focuses on the development and commercialization of proprietary pharmaceuticals for the global marketplace in collaboration with local partners, signed a non-binding letter-of-intent (“LOI”) to merge with the Company’s portfolio company Jaguar Animal Health, Inc.



## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Forward-Looking Statements

The matters discussed in this report, 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,” “projects,” “contemplates,” “believes,” “estimates,” “predicts,” “continue” or the negative of these terms or other similar expressions. 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 report should not be regarded as a representation by us that our plans or objectives will be achieved. The forward-looking statements contained in this report include statements as to:

- our future operating results;
- our business prospects and the prospects of our prospective portfolio companies;
- the impact of investments that we expect to make;
- our informal relationships with third parties including in the venture capital industry;
- the expected market for venture capital investments and our addressable market;
- the dependence of our future success on the general economy and its impact on the industries in which we invest;
- our ability to access debt markets and equity markets;
- the ability of our portfolio companies to achieve their objectives;
- our expected financings and investments;
- our regulatory structure and tax status;
- our ability to operate as a BDC, a SBIC and a RIC;
- the adequacy of our cash resources and working capital;
- the timing of cash flows, if any, from the operations of our portfolio companies;
- the timing, form and amount of any dividend distributions;
- the impact of fluctuations in interest rates on our business;
- the valuation of any investments in portfolio companies, particularly those having no liquid trading market; and
- our ability to recover unrealized losses.

The following discussion should be read in conjunction with our consolidated financial statements and related notes and other financial information appearing elsewhere in this report. In addition to historical information, the following discussion and other parts of this report 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 Item 1A— “Risk Factors” of Part II of this quarterly report on Form 10-Q, Item 1A— “Risk Factors” of our annual report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) on February 25, 2016 and under “Forward-Looking Statements” of this Item 2.

### Overview

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

CA.

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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 Investment Company Act of 1940, as amended (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 small business investment companies (“SBICs”). Our SBIC subsidiaries, Hercules Technology II, L.P. (“HT II”) and Hercules Technology III, L.P. (“HT III”), hold approximately \$100.4 million and \$252.7 million in assets, respectively, and accounted for approximately 5.5% and 14.0% of our total assets, respectively, prior to consolidation at September 30, 2016. As of September 30, 2016, the maximum statutory limit on the dollar amount of combined outstanding Small Business Administration (“SBA”) guaranteed debentures is \$350.0 million, subject to periodic adjustments by the SBA. In aggregate, at September 30, 2016, with our net investment of \$118.5 million, HT II and HT III have the capacity to issue a total of \$190.2 million of SBA-guaranteed debentures, subject to SBA approval. At September 30, 2016, we have issued \$190.2 million in SBA-guaranteed debentures in our SBIC subsidiaries.

We have qualified as and have elected to be treated for tax purposes as a regulated investment company (“RIC”) under Subchapter M of the Internal Revenue Code of 1986, as amended (the “Code”). Pursuant to this election, we generally will not be subject to corporate-level taxes on any income and gains that we distribute as dividends to our stockholders. However, our qualification and election to be treated as a RIC requires that we comply with provisions contained in Subchapter M of the Code. For example, as a RIC we must earn 90% or more of our gross income for each taxable year from qualified earnings, typically referred to as “good income,” as well as satisfy certain quarterly asset diversification and annual income distribution requirements.

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

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

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

## Portfolio and Investment Activity

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

## Portfolio Activity

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

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

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

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

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|                            |          |         |
|----------------------------|----------|---------|
| Existing portfolio company | 15.0     | 5.0     |
| Total                      | \$ 100.0 | \$ 86.0 |

(1) Includes restructured loans and renewals in addition to new commitments.

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

(3) Funded amounts include borrowings on revolving facilities.

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

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

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

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

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

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

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

As of September 30, 2016, we held warrants or equity positions in four companies that have filed registration statements on Form S-1 with the SEC in contemplation of potential initial public offerings. All four companies filed confidentially under the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. There can be no assurance that companies that have yet to complete their initial public offerings will do so in a timely manner or at all.



## Changes in Portfolio

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

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

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

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

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

The core yield on our debt investments, which excludes any benefits from the fees and income related to early loan repayment acceleration of unamortized fees and income as well as prepayment of fees and includes income from

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

The total return for our investors was approximately 19.5% and -27.3% during the nine months ended September 30, 2016 and 2015, respectively. The total return equals the change in the ending market value over the beginning of the period price per share plus dividend distributions paid per share during the period, divided by the beginning price assuming the distribution is reinvested on the date of the distribution. The total return does not reflect any sales load that must be paid by investors. See “Note 9 – Financial Highlights” included in the notes to our consolidated financial statements appearing elsewhere in this report.

## Portfolio Composition

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

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

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

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

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

highly concentrated among several portfolio companies.

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

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

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

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

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

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

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

| (in thousands) | Portfolio Company | Type | Fair Value at | For the Three Months Ended |             | For the Nine Months Ended |             | Reversal of Unrealized | Realized |
|----------------|-------------------|------|---------------|----------------------------|-------------|---------------------------|-------------|------------------------|----------|
|                |                   |      |               | Investment Income          | Change in   | Investment Income         | Change in   |                        |          |
|                |                   |      |               | Net                        | of          | Net                       | of          |                        |          |
|                |                   |      |               | Change in                  | Unrealized  | Change in                 | Unrealized  |                        |          |
|                |                   |      |               | Income                     | Gain/(Loss) | Income                    | Gain/(Loss) |                        |          |

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|  | September<br>30, 2016 | Unrealized Appreciation<br>/ (Depreciation) |               |             | Unrealized Appreciation<br>/ (Depreciation) |              |                    |               |             |
|--|-----------------------|---|---------------|-------------|---|--------------|--------------------|---------------|-------------|
| <b>Control Investments</b>                         |                       |   |               |             |   |              |                    |               |             |
| SkyCross, Inc. Control                             | \$—                   | \$—   | \$ —          | \$ —        | \$ —  | \$—          | \$ (3,421 )        | \$ —          | \$ —        |
| Achilles Technology Management Co II, Inc. Control |                       |   |               |             |   |              |                    |               |             |
|  | 4,991                 | 16  | —             | —           | —   | 16           | —                  | —             | —           |
| <b>Total Control Investments</b>                   | <b>\$4,991</b>        | <b>\$16</b>                                 | <b>\$ —</b>   | <b>\$ —</b> | <b>\$ —</b>                                 | <b>\$16</b>  | <b>\$ (3,421 )</b> | <b>\$ —</b>   | <b>\$ —</b> |
| <b>Affiliate Investments</b>                       |                       |   |               |             |   |              |                    |               |             |
| Optiscan BioMedical, Corp. Affiliate               | \$5,102               | \$—   | \$ 553        | \$ —        | \$ —  | \$12         | \$ (2,833 )        | \$ —          | \$ —        |
| Stion Corporation Affiliate                        | 821                   | 30  | —             | —           | —   | 133          | 539                | 648           | —           |
| <b>Total Affiliate Investments</b>                 | <b>\$5,923</b>        | <b>\$30</b>                                 | <b>\$ 553</b> | <b>\$ —</b> | <b>\$ —</b>                                 | <b>\$145</b> | <b>\$ (2,294 )</b> | <b>\$ 648</b> | <b>\$ —</b> |
| <b>Total Control &amp; Affiliate Investments</b>   | <b>\$10,914</b>       | <b>\$46</b>                                 | <b>\$ 553</b> | <b>\$ -</b> | <b>\$ —</b>                                 | <b>\$161</b> | <b>\$ (5,715 )</b> | <b>\$ 648</b> | <b>\$ —</b> |

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

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

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

### Portfolio Grading

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

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

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

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

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



## Results of Operations

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

#### Investment Income

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

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

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

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

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

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

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

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

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

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

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

#### Operating Expenses

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

#### Interest and Fees on our Borrowings

Interest and fees on our borrowings totaled approximately \$10.1 million and \$8.9 million for the three months ended September 30, 2016 and 2015, respectively and approximately \$27.0 million and \$27.4 million for the nine months ended September 30, 2016 and 2015, respectively. Interest and fee expense for the three months ended September 30, 2016 as compared to September 30, 2015 increased due to higher weighted average principal balances outstanding on our 2024 Notes along with higher debt issuance cost amortization on our Asset Backed Notes, offset by a reduction in interest expense on our credit facilities and Convertible Notes. The slight decrease in interest and fee expense for the nine months ended September 30, 2016 as compared to September 30, 2015 was attributable to the payoff of our Convertible Notes, 2017 Asset Backed Notes and a reduction in the weighted average principal balance outstanding on our Credit Facilities between periods.

We had a weighted average cost of debt, comprised of interest and fees and loss on debt extinguishment (long-term liabilities – convertible senior notes), of approximately 6.0% and 5.6% for the three months ended September 30, 2016 and 2015, respectively, and a weighted average cost of debt of approximately 5.8% and 5.9% for the nine months

ended September 30, 2016 and 2015, respectively. The increase in the weighted average cost of debt for the three months ended September 30, 2016 as compared to the same period ended September 30, 2015 is primarily attributable to the acceleration of unamortized fee expense related to pay downs on our Asset Backed Notes, and the incremental issuance of our 2024 Notes in the prior period. The decrease between the nine months ended September 30, 2016 and September 30, 2015 was primarily driven by a reduction in the weighted average principal outstanding on our higher yielding debt instruments compared to the prior period, specifically due to redemptions of our 2019 Notes and Convertible Notes, offset by the incremental issuance of our 2024 Notes.

#### General and Administrative Expenses

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

## Employee Compensation

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

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

## Loss on Extinguishment of Convertible Senior Notes

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

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

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

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

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

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

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

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

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

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

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 (“Board of Directors”). The following table summarizes the change in net unrealized appreciation (depreciation) of investments for the three and nine months ended September 30, 2016 and 2015:

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

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

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

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

During the three months ended September 30, 2015, we recorded approximately \$25.9 million of net unrealized depreciation, of which \$26.1 million was net unrealized depreciation from our debt, equity and warrant investments. Approximately \$18.1 million was attributed to net unrealized depreciation on our equity investments which primarily related to \$9.8 million of unrealized depreciation on our public equity portfolio with the largest concentration in our investment in Box, Inc., \$3.8 million of unrealized depreciation on our private portfolio companies related to declining industry performance, and the reversal of \$4.5 million of unrealized appreciation upon being realized as a gain on sale of Box, Inc. and the acquisition proceeds received from Atrenta, Inc. Approximately \$9.4 million was attributed to net unrealized depreciation on our warrant investments which primarily related to approximately \$2.1 million of unrealized depreciation on our public warrant portfolio related to portfolio company performance and \$6.1 million of unrealized depreciation on our private portfolio companies related to declining industry performance. This net unrealized depreciation was partially offset by approximately \$1.4 million of net unrealized appreciation on our debt investments which primarily related to the reversal of \$3.1 million of unrealized depreciation on a previous collateral based impairment offset by \$1.0 million of unrealized depreciation for collateral based impairments on twelve portfolio companies.

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

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



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

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

  

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

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

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

upon being realized as a gain due to the acquisition of our warrant investments in two portfolio companies and the write off of five portfolio company investments.

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

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



Total Unrealized Appreciation/(Depreciation)                      \$(3.5 ) \$(22.8) \$ (7.5 ) \$(33.8)

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

Income and Excise Taxes

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

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

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

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

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

### Financial Condition, Liquidity, and Capital Resources

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

On August 16, 2013, we entered into an ATM equity distribution agreement (the “Equity Distribution Agreement”) with JMP Securities LLC (“JMP”) and on March 7, 2016 we renewed the Equity Distribution Agreement. The Equity Distribution Agreement provides that we may offer and sell up to 8.0 million shares of our common stock from time to time through JMP, as our sales agent. Sales of our common stock, if any, may be made in negotiated transactions or transactions that are deemed to be “at the market,” as defined in Rule 415 under the Securities Act of 1933, as amended, (the “Securities Act”) including sales made directly on the New York Stock Exchange (“NYSE”) or similar securities exchange or sales made to or through a market maker other than on an exchange, at prices related to the prevailing market prices or at negotiated prices.

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

On February 24, 2015, our Board of Directors authorized a stock repurchase plan permitting us to repurchase up to \$50.0 million of our common stock. This plan expired on August 24, 2015. On August 27, 2015, our Board of Directors authorized a replacement stock repurchase plan permitting us to repurchase up to \$50.0 million of our

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

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

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

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

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

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

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

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

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

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

During the nine months ended September 30, 2016, our operating activities used \$58.5 million of cash and cash equivalents, compared to \$78.5 million used during the nine months ended September 30, 2015. This \$20.0 million

decrease in cash used by operating activities is primarily related to a decrease in investment purchases of approximately \$70.3 million offset by a decrease in investment repayments of \$38.7 million.

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

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



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

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

### Outstanding Borrowings

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

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

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

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

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

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

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

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

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

As of January 1, 2016, we adopted Accounting Standards Update (“ASU”) 2015-03 “Simplifying the Presentation of Debt Issuance Costs” and ASU 2015-15 “Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements”, which require debt issuance costs to be presented in the balance sheet as a direct deduction from the associated debt liability, except for debt issuance costs associated with line-of-credit arrangements. Adoption of these standards results in the reclassification of debt issuance costs from Other Assets and the presentation of our SBA Debentures, 2019 Notes, 2024 Notes, 2021 Asset-Backed Notes, and Convertible Senior Notes net of the associated debt issuance costs for each instrument in the liabilities section on the Consolidated Statement of Assets and Liabilities. There is no impact to the Consolidated Statement of Operations. In addition, there is no change to the presentation of the Wells Facility or Union Bank Facility as debt issuance costs are presented separately as an asset on the Consolidated Statement of Assets and Liabilities. Refer to “– Critical Accounting Policies”.

Refer to “Note 4 – Borrowings” included in the notes to our consolidated financial statements appearing elsewhere in this report for a discussion of the contract terms, interest expense, and fees associated with each outstanding borrowing as of and for the three and nine months ended September 30, 2016.

#### Commitments

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

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

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

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

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

(in thousands)

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

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

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## Contractual Obligations

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

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

(1) Excludes commitments to extend credit to our portfolio companies.

(2) We also have a warrant participation agreement with Citigroup. See Note 4 to our consolidated financial statements.

(3) Includes \$190.2 million in principal outstanding under the SBA debentures, \$110.4 million of the 2019 Notes, \$244.9 million of the 2024 Notes, and \$117.0 million of the 2021 Asset-Backed Notes as of September 30, 2016.

(4) Amounts represent future principal repayments and not the carrying value of each liability. See Note 4 to our consolidated financial statements.

(5) Long-term facility leases.

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

## Indemnification Agreements

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

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

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Dividend Distributions

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

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

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|                   |                   |                   |          |
|-------------------|-------------------|-------------------|----------|
| May 4, 2015       | May 18, 2015      | May 25, 2015      | 0.31     |
| July 29, 2015     | August 17, 2015   | August 24, 2015   | 0.31     |
| October 28, 2015  | November 16, 2015 | November 23, 2015 | 0.31     |
| February 17, 2016 | March 7, 2016     | March 14, 2016    | 0.31     |
| April 27, 2016    | May 16, 2016      | May 23, 2016      | 0.31     |
| July 27, 2016     | August 15, 2016   | August 22, 2016   | 0.31     |
| October 26, 2016  | November 14, 2016 | November 21, 2016 | 0.31     |
|                   |                   |                   | \$ 12.47 |

\*Dividend distribution paid in cash and stock.

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

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

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

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

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

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

As a RIC, we will be subject to a 4% nondeductible U.S. federal excise tax on certain undistributed income and gains unless we distribute dividends in respect of each calendar year in a timely manner to our stockholders of an amount generally at least equal to the sum of (1) 98% of our ordinary income for each calendar year, (2) 98.2% of our capital



gain net income for the 1-year period ending October 31 in that calendar year and (3) any income realized, but not distributed, in the preceding year. We will not be subject to excise taxes on amounts on which we are required to pay corporate income tax (such as retained net capital gains).

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

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

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

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

#### Critical Accounting Policies

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

#### Reclassification

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

#### Change in Accounting Principle

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

#### Valuation of Investments

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

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

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

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

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

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

- (1) our quarterly valuation process begins with each portfolio company being initially valued by the investment professionals responsible for the portfolio investment;
- (2) preliminary valuation conclusions are then documented and business based assumptions are discussed with our investment committee;
- (3) the Audit Committee of the Board of Directors reviews the preliminary valuation of the investments in the portfolio company as provided by the investment committee, which incorporates the results of the independent valuation firm as appropriate; and
- (4) the Board of Directors, upon the recommendation of the Audit Committee, discusses valuations and determines the fair value of each investment in our portfolio in good faith based on the input of, where applicable, the respective independent valuation firm and the investment committee.

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

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

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

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

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



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

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

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

The table below presents a reconciliation for all financial assets and liabilities measured at fair value on a recurring basis,

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excluding accrued interest components, using significant unobservable inputs (Level 3) for the nine months ended September 30, 2016 and the year ended December 31, 2015.

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

| (in thousands)    | Balance<br>January 1,<br>2015 | Net<br>Change<br>in                         |  | Purchases<br>(5) (2) | Sales            | Repayments<br>(6)  | Gross                            | Gross                              | Balance<br>December<br>31, 2015 |
|-------------------|-------------------------------|---|--|----------------------|------------------|--------------------|----------------------------------|------------------------------------|---------------------------------|
|                   |                               | Net<br>Realized<br>Gains<br>(Losses)<br>(1) | Unrealized<br>Appreciation<br>(Depreciation) |                      |                  |                    | Transfers<br>into<br>Level 3 (4) | Transfers<br>out of<br>Level 3 (4) |                                 |
| 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>      | <b>\$1,008,362</b>            | <b>\$(3,773)</b>                            | <b>\$(18,475)</b>                            | <b>\$720,453</b>     | <b>\$(4,659)</b> | <b>\$(505,455)</b> | <b>\$685</b>                     | <b>\$(36,438)</b>                  | <b>\$1,160,700</b>              |

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

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

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

(4) Transfers out of Level 3 during the year ended December 31, 2015 relate to the IPOs of Box, Inc., ZP Opco, Inc. (p.k.a. Zosano Pharma, Inc.), Neos Therapeutics, Edge Therapeutics Inc., ViewRay, Inc., and Cerecor, Inc. in

addition to the exercise of warrants in both Forescout, Inc. and Atrenta, Inc. to preferred stock. Transfers into Level 3 during the year ended December 31, 2015 relate to the acquisition of preferred stock as a result of the exercise of warrants in both Forescout, Inc. and Atrenta, Inc. and the conversion of debt to equity in Home Dialysis Plus and Gynesonics.

(5) Amounts listed above are inclusive of loan origination fees received at the inception of the loan which are deferred and amortized into fee income as well as the accretion of existing loan discounts and fees during the period.

Escrow receivable purchases may include additions due to proceeds held in escrow from the liquidation of level 3 investments.

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

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

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

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

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

| Investment Type - Level | Fair Value | Valuation                   | Unobservable Input <sup>(a)</sup>             | Range            | Weighted               |
|-------------------------|------------|-----------------------------|---|------------------|------------------------|
|                         | at         |                             |   |                  |                        |
|                         | September  |                             |   |                  |                        |
|                         | 30, 2016   |                             |   |                  |                        |
|                         | (in        | Techniques/Methodologies    |   |                  | Average <sup>(b)</sup> |
| Three Debt Investments  | thousands) | Originated Within 6         | Origination Yield                             | 12.24% -         |                        |
| Pharmaceuticals         | \$96,647   | Months                      |   | 15.39%           | 13.70%                 |
|                         | 420,472    | Market Comparable Companies | Hypothetical Market Yield                     | 8.96% - 20.56%   | 12.61%                 |
|                         | 2,224      | Liquidation <sup>(c)</sup>  | Premium/(Discount)                            | 0.00% - 0.75%    |                        |
| Technology              | 87,063     | Originated Within 6         | Probability weighting of alternative outcomes | 25.00% - 100.00% |                        |
|                         |            | Months                      | Origination Yield                             | 9.75% - 21.90%   | 14.66%                 |
|                         | 247,989    | Market Comparable Companies | Hypothetical Market Yield                     | 10.49% - 16.60%  | 12.35%                 |
|                         | 36,349     | Liquidation <sup>(c)</sup>  | Premium/(Discount)                            | (0.50%) - 0.25%  |                        |
|                         |            |                             | Probability weighting of alternative outcomes | 15.00% - 100.00% |                        |

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|   |             |   |  |  |        |
|---|-------------|---|--|--|--------|
| Sustainable and Renewable<br>Technology | 24,916      | Originated Within 6<br>Months                       | Origination Yield                                  | 15.60%                                     | 15.60% |
|   | 152,520     | Market Comparable<br>Companies                      | Hypothetical Market<br>Yield<br>Premium/(Discount) | 6.81% -<br>22.75% -<br>(0.25%) -<br>0.25%  | 14.44% |
| Medical Devices                         | 17,082      | Originated Within 6<br>Months                       | Origination Yield                                  | 14.64% -<br>18.13%                         | 15.58% |
|   | 74,506      | Market Comparable<br>Companies                      | Hypothetical Market<br>Yield<br>Premium/(Discount) | 10.35% -<br>16.44% -<br>(0.25%) -<br>0.50% | 13.75% |
| Lower Middle Market                     | 2,255       | Liquidation <sup>(c)</sup>                          | Probability weighting<br>of alternative outcomes   | 100.00%                                    |        |
|   | 5,436       | Market Comparable<br>Companies                      | Hypothetical Market<br>Yield<br>Premium/(Discount) | 13.33% -<br>14.58% -<br>0.25% -<br>0.50%   | 14.02% |
|   | 24,542      | Liquidation <sup>(c)</sup>                          | Probability weighting<br>of alternative outcomes   | 2.50% -<br>100.00%                         |        |
|   |             |   |  |  |        |
|   |             | Debt Investments Where Fair Value Approximates Cost |  |  |        |
|   | —           | Imminent Payoffs <sup>(d)</sup>                     |  |  |        |
|   | 26,139      | Debt Investments Maturing in Less than One Year     |  |  |        |
|   | \$1,218,140 | Total Level Three Debt Investments                  |  |  |        |

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

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

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

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

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

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

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

(c)

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

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

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

(a)

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

- **Pharmaceuticals, above**, is comprised of debt investments in the Specialty Pharmaceuticals, Drug Discovery and Development, and Drug Delivery industries in the Consolidated Schedule of Investments.
  - **Technology, above**, is comprised of debt investments in the Software, Semiconductors, Internet Consumer and Business Services, Consumer and Business Products, Information Services, and Communications and Networking industries in the Consolidated Schedule of Investments.
  - **Sustainable and Renewable Technology, above**, aligns with the Sustainable and Renewable Technology Industry in the Consolidated Schedule of Investments.
  - **Medical Devices, above**, is comprised of debt investments in the Surgical Devices and Medical Devices and Equipment industries in the Consolidated Schedule of Investments.
  - **Lower Middle Market, above**, is comprised of debt investments in the Communications and Networking, Electronics and Computer Hardware, Healthcare Services - Other, Information Services, Internet Consumer and Business Services, Media/Content/Info, and Specialty Pharmaceuticals industries in the Consolidated Schedule of Investments.
- (b) The weighted averages are calculated based on the fair market value of each investment.
- (c) The significant unobservable input used in the fair value measurement of impaired debt securities is the probability weighting of alternative outcomes.
- (d) Imminent payoffs represent debt investments that we expect to be fully repaid within the next three months, prior to their scheduled maturity date.

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

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

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

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|                                    |          |       |
|------------------------------------|----------|-------|
| Market Adjusted                    | 28.52% - |       |
| OPM Backsolve                      | 109.64%  |       |
|                                    | 0.36% -  | 0.85% |
| Risk-Free Interest Rate            | 1.45%    |       |
| Estimated Time to Exit (in months) | 10 - 44  | 20    |

Total Level Three

Warrant and Equity

Investments \$ 55,337

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

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## Debt Investments

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

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

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

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

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

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

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

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

#### Equity-Related Securities and Warrants

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

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

### Escrow Receivables

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

### Income Recognition

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

### Stock-Based Compensation

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

### Recent Accounting Pronouncements

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

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

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

currently evaluating the impact that ASU 2016-09 will have on our consolidated financial statements and disclosures.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments," which addresses eight specific cash flow issues including, among other things, the classification of debt prepayment or debt extinguishment costs. ASU 2016-15 is effective for annual reporting periods, and the interim periods within those periods, beginning after December 15, 2017. Early adoption is permitted. We are currently evaluating the impact that ASU 2016-15 will have on its consolidated financial statements and disclosures

## Subsequent Events

### Dividend Distribution Declaration

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

### 2024 Notes ATM Program

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

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

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

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

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

Subsequent to September 30, 2016 and as of October 31, 2016, we sold 137,250 notes for approximately \$3.5 million in aggregate principal amount. As of October 31, 2016 approximately \$146.5 million in aggregate principal amount remains available for issuance and sale under the debt distribution agreement.

### ATM Equity Program Issuances

Subsequent to September 30, 2016 and as of October 31, 2016, we sold 786,000 shares of common stock for total accumulated net proceeds of approximately \$10.6 million, including \$107,000 of offering expenses, under our ATM

equity distribution agreement with JMP. As of October 31, 2016 approximately 2.4 million shares remain available for issuance and sale under the equity distribution agreement.

#### Portfolio Company Developments

As of October 31, 2016, we held warrants or equity positions in four companies that have filed registration statements on Form S-1 with the SEC in contemplation of potential initial public offerings. All four companies filed confidentially under the JOBS Act. There can be no assurance that these companies will complete their initial public offerings in a timely manner or at all. In addition, subsequent to September 30, 2016 the following portfolio companies announced liquidity events:

1. In October 2016, Napo Pharmaceuticals, a company that focuses on the development and commercialization of proprietary pharmaceuticals for the global marketplace in collaboration with local partners, signed a non-binding letter-of-intent (“LOI”) to merge with our portfolio company Jaguar Animal Health, Inc.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

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

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

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

Because we currently borrow, and plan to borrow in the future, money to make investments, our net investment income is dependent upon the difference between the rate at which we borrow funds and the rate at which we invest the funds borrowed. Accordingly, there can be no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income. In periods of rising interest rates, our cost of funds would increase, which could reduce our net investment income if there is not a corresponding increase in interest income generated by variable rate assets in our investment portfolio.

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For additional information regarding the interest rate associated with each of our Credit Facilities, SBA debentures, 2019 Notes, 2024 Notes and 2021 Asset-Backed Notes, please refer to “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations - Financial Condition, Liquidity and Capital Resources - Outstanding Borrowings” in this quarterly report on Form 10-Q.



#### ITEM 4. CONTROLS AND PROCEDURES

##### Disclosure Controls and Procedures

Our chief executive and chief financial officers, under the supervision and with the participation of our management, conducted an evaluation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. As of the end of the period covered by this quarterly report on Form 10-Q, our chief executive and chief financial officers have concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive and chief financial officers, as appropriate to allow timely decisions regarding required disclosure.

##### Changes in Internal Control over Financial Reporting

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

## PART II: OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

We may, from time to time, be involved in litigation arising out of our operations in the normal course of business or otherwise. Furthermore, third parties may try to seek to impose liability on us in connection with the activities of our portfolio companies. While the outcome of any current legal proceedings cannot at this time be predicted with certainty, we do not expect any current matters will materially affect our financial condition or results of operations; however, there can be no assurance whether any pending legal proceedings will have a material adverse effect on our financial condition or results of operations in any future reporting period.

## ITEM 1A. RISK FACTORS

In addition to the risks discussed below, important risk factors that could cause results or events to differ from current expectations are described in Part I, Item 1A “Risk Factors” of the Company’s Annual Report on Form 10-K for the year ended December 31, 2015 filed with the Securities and Exchange Commission on February 25, 2016.

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 September 30, 2016 that represent greater than 5% of our net assets:

| (in thousands)              | September 30, 2016 |                          |
|-----------------------------|--------------------|--------------------------|
|                             | Fair Value         | Percentage of Net Assets |
| Machine Zone, Inc.          | \$104,447          | 13.9 %                   |
| Sungevity Development, LLC. | \$65,684           | 8.7 %                    |
| Actifio, Inc.               | \$40,681           | 5.4 %                    |

Machine Zone, Inc. is a technology company that is best known for building mobile Massively Multiplayer Online games with a focus on community-based gameplay.

Sungevity Development, LLC. is a global residential solar energy provider focused on making it easy and affordable for homeowners to benefit from solar power.

Actifio, Inc. is a software company that helps global enterprise customers and service provider partners virtualize their data in order to improve their data resiliency, agility, and mobility while reducing cost and operational complexity.

Our financial results could be materially adversely affected if these portfolio companies or any of our other significant portfolio companies encounter financial difficulty and fail to repay their obligations or to perform as expected.

The potential inability of our portfolio companies' in the healthcare industry to charge desired prices with respect to prescription drugs could impact their revenues and in turn their ability to repay us.

Some of our portfolio companies in the healthcare industry are subject to risks associated with the pricing for prescription drugs. It is uncertain whether customers of our healthcare industry portfolio companies will continue to utilize established prescription drug pricing methods, or whether other pricing benchmarks will be adopted for establishing prices within the industry. Legislation may lead to changes in the pricing for Medicare and Medicaid programs. Regulators have conducted investigations into the use of prescription drug pricing methods for federal program payment, and whether such methods have inflated drug expenditures by the Medicare and Medicaid programs. Federal and state proposals have sought to change the basis for calculating payment of certain drugs by the Medicare and Medicaid programs. Any changes to the method for calculating prescription drug costs may reduce the revenues of our portfolio companies in the healthcare industry which could in turn impair their ability to timely make any principal and interest payments owed to us.

We may be subject to restrictions on our ability to pay dividends and other distributions.

Restrictions imposed on the declaration of dividends or other distributions to holders of our common stock, by both the 1940 Act and by requirements imposed by rating agencies, might impair our ability to be subject to U.S. federal income taxation as a RIC. While we intend to prepay our Notes and other debt to the extent necessary to enable us to distribute our income as required to maintain our ability to be subject to U.S. federal income taxation as a RIC, there can be no assurance that such actions can be effected in time to satisfy the requirements set forth in the Code.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

## Dividend Reinvestment Plan

During the nine months ended September 30, 2016, we issued 110,858 shares of common stock to stockholders in connection with the dividend reinvestment plan. These issuances were not subject to the registration requirements of the Securities Act. The aggregate value of the shares of our common stock issued under our dividend reinvestment plan was approximately \$1.3 million.

## Stock Repurchase Plan

On February 24, 2015, the Company's Board of Directors authorized a stock repurchase plan permitting the Company to repurchase up to \$50.0 million of its common stock. This plan expired on August 24, 2015. On August 27, 2015, the Company's Board of Directors authorized a replacement stock repurchase plan permitting the Company to repurchase up to \$50.0 million of its common stock and on February 17, 2016, the Board of Directors extended the program until August 23, 2016, after which the plan expired.

During the nine months ended September 30, 2016, the Company made the following repurchases pursuant to the repurchase plans. The Company did not make any repurchases pursuant to the repurchase plans during the three months ended September 30, 2016.

(in thousands, except share and per share data)

| Period  | Total<br>Number of<br>Shares<br>Purchased | Average<br>Price<br>Paid Per<br>Share | as Part of<br>Publicly<br>Announced<br>Plan <sup>(1)</sup> | Maximum<br>Remaining<br>Dollar<br>Value that<br>May<br>Yet Be<br>Purchased |
|---|---|---------------------------------------|--|--|
|   |   |                                       |  | Under Plan<br><sup>(1)</sup>   |
| January 1, 2016 - January 31, 2016 <sup>(2)</sup> | 449,588                                   | \$ 10.64                              | 449,588  | \$ 40,579  |
| Total   | 449,588                                   | \$ 10.64                              | 449,588  | \$ 40,579  |

(1) Note that all repurchase activity per the table above was made pursuant to the stock repurchase plan authorized by the Company's Board of Directors on February 24, 2015 and replaced on August 27, 2015 after the plan initially expired on August 24, 2015. The plan permits the Company to repurchase up to \$50.0 million of its common stock, including the repurchases made on August 24, 2015. The plan expired on August 23, 2016.

(2) Note that there was no repurchase activity during the months of February, March, April, May, June, July, August, and September 2016.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable

ITEM 5. OTHER INFORMATION

Not Applicable

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ITEM 6. EXHIBITS

Exhibit

Number Description

- 4.1 Form of 6.25% Note due 2024, dated July 5, 2016 (Additional July 2024 Note).<sup>(1)</sup>
- 10.1 First Amendment to the Loan and Security Agreement, dated as of July 14, 2016, by and among Hercules Funding III LLC as borrower, MUFG Union Bank, N.A., as the arranger and administrative agent, and the lenders party thereto.<sup>(2)</sup>
- 10.2 Form of Amended and Restated Indemnification Agreement.<sup>(3)</sup>
- 11 Computation of Per Share Earnings (included in Note 8 to the Consolidated Financial Statements included in this report).
- 31.1 Chief Executive Officer Certification Pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002\*
- 31.2 Chief Financial Officer Certification Pursuant to Exchange Act Rule 13a-14 (a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002\*
- 32.1 Chief Executive Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002\*
- 32.2 Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002\*

\*Filed herewith.

(1) Previously filed as part of Post-Effective Amendment No. 7, as filed on July 5, 2016 (File No. 333-203511), to the Registration Statement on Form N-2 of the Company.

(2) Previously filed as part of the Current Report on Form 8-K of the Company, as filed on July 19, 2016.

(3) Previously filed as part of the Current Report on Form 8-K of the Company, as filed on July 22, 2016.



Schedule 12 – 14

HERCULES CAPITAL, INC.

## SCHEDULE OF INVESTMENTS IN AND ADVANCES TO AFFILIATES

As of and for the Nine Months Ended September 30, 2016

(in thousands)

| Portfolio Company                              | Investment <sup>(1)</sup> | Amount<br>of<br>Interest<br>Credited to<br>Income <sup>(2)</sup> | As of<br>December 31,<br>2015<br>Fair Value | Gross<br>Additions <sup>(3)</sup> | Gross<br>Reductions <sup>(4)</sup> | Net Change<br>in<br>Unrealized<br>Appreciation/<br>(Depreciation) | As of<br>September<br>30,<br>2016<br>Fair Value |
|--|---------------------------|--|---|-----------------------------------|------------------------------------|---|---|
| <b>Control Investments</b>                     |                           |  |   |                                   |                                    |   |   |
| SkyCross, Inc. <sup>(5)</sup>                  | Senior Debt               | \$ —   | \$ —  | \$ 16,900                         | \$ (13,479 )                       | \$ (3,421 )   | \$ —  |
|  | Preferred Warrants        | —  | —   | 394                               | (394 )                             | —   | —   |
| Achilles Technology                            |                           |  |   |                                   |                                    |   |   |
| Management Co II, Inc. <sup>(5)</sup>          | Senior Debt               | 15   | —   | 991                               | —                                  | —   | 991   |
|  | Common Stock              | —  | —   | 4,000                             | —                                  | —   | 4,000   |
| <b>Total Control Investments</b>               |                           | <b>\$ 15</b>   | <b>\$ —</b>                                 | <b>\$ 22,285</b>                  | <b>\$ (13,873 )</b>                | <b>\$ (3,421 )</b>  | <b>\$ 4,991</b>                                 |
| <b>Affiliate Investments</b>                   |                           |  |   |                                   |                                    |   |   |
| Optiscan BioMedical, Corp.                     | Senior Debt               | \$ 12  | \$ —  | \$ 431                            | \$ (431 )                          | \$ —  | \$ —  |
|  | Preferred Stock           | —  | 6,661                                       | 962                               | —                                  | (2,688 )  | 4,934   |
|  | Preferred Warrants        | —  | 313   | —                                 | —                                  | (145 )  | 168   |
| Stion Corporation                              | Senior Debt               | 133  | 1,013                                       | —                                 | (1,379 )                           | 1,187   | 821   |
| <b>Total Affiliate Investments</b>             |                           | <b>\$ 145</b>  | <b>\$ 7,986</b>                             | <b>\$ 1,393</b>                   | <b>\$ (1,810 )</b>                 | <b>\$ (1,646 )</b>  | <b>\$ 5,923</b>                                 |
| <b>Total Control and Affiliate Investments</b> |                           | <b>\$ 160</b>  | <b>\$ 7,986</b>                             | <b>\$ 23,678</b>                  | <b>\$ (15,683 )</b>                | <b>\$ (5,067 )</b>  | <b>\$ 10,914</b>                                |

(1) Stock and warrants are generally non-income producing and restricted. The principal amount for debt is shown in the Consolidated Schedule of Investments as of September 30, 2016

(2) Represents the total amount of interest or dividends credited to income for the period an investment was an affiliate or control investment.

(3) Gross additions include increases in the cost basis of investments resulting from new portfolio investments, paid-in-kind interest or dividends, the amortization of discounts and closing fees and the exchange of one or more



existing securities for one or more new securities.

- (4) Gross reductions include decreases in the cost basis of investments resulting from principal repayments or sales and the exchange of one or more existing securities for one or more new securities. Gross reductions also include previously recognized depreciation on investments that become control or affiliate investments during the period.
- (5) In June 2016, the Company's investments in SkyCross, Inc. became classified as a control investment as a result of obtaining more than 50% representation on a portfolio company's board. In June 2016 the Company also acquired 100% ownership of the equity of Achilles Technology Management Co II, Inc. and classified it as a control investment in accordance with the requirements of the 1940 Act. In June 2016, Achilles Technology Management Co II, Inc. acquired the assets of a global antenna company that produces radio frequency system solutions as part of an article 9 consensual foreclosure and public auction for total consideration in the amount of \$4.0 million. In September 2016 the Company made a \$1.0 million debt investment in Achilles Technology Management II to provide working capital under the terms of a loan servicing agreement. The Company's investments in Achilles Technology Management Co II, Inc. are carried on the consolidated statement of assets and liabilities at fair value.

SIGNATURES

Pursuant to the requirements of the Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HERCULES CAPITAL, INC. (Registrant)

Dated: November 3, 2016 /S/ MANUEL A. HENRIQUEZ  
Manuel A. Henriquez  
Chairman, President, and Chief Executive Officer

Dated: November 3, 2016 /S/ MARK R. HARRIS  
Mark R. Harris  
Chief Financial Officer

EXHIBIT INDEX

| Exhibit | Number   | Description |
|---------|--|-------------|
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Exchange Act Rule 13a-14 (a),  
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