UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2017

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File No. 814-00702

Hercules Capital, Inc.
(Exact name of Registrant as specified in its charter)

Maryland	**74-3113410**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

400 Hamilton Avenue, Suite 310
Palo Alto, California 94301
(Address of principal executive offices)
(650) 289-3060
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Shares, par value $0.001 per share	**New York Stock Exchange**
6.25% Notes due 2024	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

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 period 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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with a new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant as of the last business day of the registrant's most recently completed second fiscal quarter was approximately $1.1 billion based upon a closing price of $13.24 reported for such date on the New York Stock Exchange. Common shares held by each executive officer and director and by each person who owns 5% or more of the outstanding common shares have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not intended and shall not be deemed to be an admission that, such persons are affiliates of the Registrant.

On February 16, 2018, there were 85,222,353 shares outstanding of the registrant's common stock, $0.001 par value.

DOCUMENTS INCORPORATED BY REFERENCE

Documents incorporated by reference: Portions of the registrant's Proxy Statement for its 2018 Annual Meeting of Shareholders to be filed within 120 days after the close of the registrant's year end are incorporated by reference into Part III of this Annual Report on Form 10-K.

HERCULES CAPITAL, INC.
FORM 10-K
ANNUAL REPORT

In this Annual Report on Form 10-K, or Annual Report, the "Company," "Hercules," "HTGC," "we," "us" and "our" refer to Hercules Capital, Inc. and its wholly owned subsidiaries and its affiliated securitization trusts on or after February 25, 2016 and "Hercules Technology Growth Capital, Inc." and its wholly owned subsidiaries and its affiliated securitization trusts prior to February 25, 2016 unless the context otherwise requires.

PART I

Item 1. *Business*

GENERAL

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, Hartford, CT and San Diego, CA.

Our goal is to be the leading structured debt financing provider for venture capital-backed companies in technology-related industries requiring sophisticated and customized financing solutions. Our strategy is to evaluate and invest in a broad range of technology-related industries including technology, drug discovery and development, biotechnology, life sciences, healthcare, and sustainable and renewable technology and to offer a full suite of growth capital products. We focus our investments in companies active in the technology industry sub-sectors characterized by products or services that require advanced technologies, including, but not limited to, computer software and hardware, networking systems, semiconductors, semiconductor capital equipment, information technology infrastructure or services, internet consumer and business services, telecommunications, telecommunications equipment, renewable or alternative energy, media and life sciences. Within the life sciences sub-sector, we generally focus on medical devices, bio-pharmaceutical, drug discovery, drug delivery, health care services and information systems companies. Within the sustainable and renewable technology sub-sector, we focus on sustainable and renewable energy technologies and energy efficiency and monitoring technologies. We refer to all of these companies as "technology-related" companies and intend, under normal circumstances, to invest at least 80% of the value of our total assets in such businesses.

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 ("NAV") by investing in structured debt with warrants and equity of venture capital-backed companies in technology-related industries with attractive current yields and the potential for equity appreciation and realized gains. Our equity ownership in our portfolio companies may exceed 25% of the voting securities of such companies, which represents a controlling interest under the Investment Company Act of 1940, as amended, or 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, or SBICs. Our SBIC subsidiaries, Hercules Technology II, L.P., or HT II, and Hercules Technology III, L.P., or HT III, hold approximately $111.8 million and $284.0 million in assets, respectively, and accounted for approximately 5.4% and 13.8% of our total assets, respectively, prior to consolidation at December 31, 2017. At December 31, 2017, we have issued $190.2 million in Small Business Administration, or SBA, guaranteed debentures in our SBIC subsidiaries. See "— Regulation—Small Business Administration Regulations" for additional information regarding our SBIC subsidiaries.

We regularly engage in discussions with third parties with respect to various potential transactions to explore all alternatives. We may acquire an investment or a portfolio of investments or an entire company or sell portions 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.

Venture Lending Portfolio Asset Acquisition

On November 1, 2017, we, through a wholly owned subsidiary, Bearcub Acquisitions LLC, entered into, and consummated the transactions contemplated by, a definitive asset purchase agreement with Ares Capital Corporation to acquire select venture loan assets for approximately $125.8 million in cash.

CORPORATE HISTORY AND OFFICES

We are a Maryland corporation formed in December 2003 that began investment operations in September 2004. On February 25, 2016, we changed our name from "Hercules Technology Growth Capital, Inc." to "Hercules Capital, Inc." We are an internally managed, non-diversified closed-end investment company that has elected to be regulated as a business development company under the 1940 Act. As a business development company, we are required to comply with certain regulatory requirements. For instance, we generally have to invest at least 70% of our total assets in "qualifying assets," including securities of private U.S. companies, cash, cash equivalents, U.S. government securities and high-quality debt investments that mature in one year or less. A business development company also must meet a coverage ratio of total net assets to total senior securities, which include all of our borrowings (including accrued interest payable) except for debentures issued by the SBA and any preferred stock we may issue in the future, of at least 200% subsequent to each borrowing or issuance of senior securities. See "Regulation."

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 regulatory requirements, we invest primarily in United States based companies and, to a lesser extent, in foreign companies.

We are internally managed under the supervision of our Board of Directors. We do not pay management or advisory fees, but instead incur costs customary for an operating company. Some of those costs include recruiting and marketing expenses as well as the costs associated with employing management, investment and portfolio management professionals, and technology, secretarial and other support personnel. In connection with our recruiting, branding and marketing efforts, we may, among other things, make charitable contributions in amounts we believe to be immaterial and that do not exceed $500,000 in the aggregate in any year. We believe that many of these contributions help us raise our profile in the communities and benefit us in attracting and retaining talent and investment opportunities.

Effective January 1, 2006, we elected to be treated for tax purposes as a regulated investment company, or RIC, under the Internal Revenue Code of 1986, as amended, or the Code. Pursuant to this election, we generally will not have to pay corporate-level taxes on any income that we distribute to our stockholders. However, our qualification and election to be treated as a RIC requires that we comply with provisions contained in the Code. For example, as a RIC we must receive 90% or more of our income from qualified earnings, typically referred to as "good income," as well as satisfy asset diversification and income distribution requirements. As an investment company, we follow accounting and reporting guidance as set forth in Topic 946, Financial Services – Investment Companies, of the Financial Accounting Standards Board's ("FASB's") Accounting Standards Codification, as amended ("ASC").

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

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

OUR MARKET OPPORTUNITY

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

- technology-related companies have generally been underserved by traditional lending sources;
- unfulfilled demand exists for structured debt financing to technology-related companies due to the complexity of evaluating risk in these investments; and
- structured debt with warrants products are less dilutive and complement equity financing from venture capital and private equity funds.

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

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

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

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

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

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

OUR BUSINESS STRATEGY

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

Leverage the Experience and Industry Relationships of Our Management Team and Investment Professionals We have assembled a team of experienced investment professionals with extensive experience as venture capitalists, commercial lenders, and originators of structured debt and equity investments in technology-related companies. Our investment professionals have, on average, more than 15 years of experience as equity investors in, and/or lenders to, technology-related companies. In addition, our team members have originated structured debt, debt with warrants and equity investments in over 410 technology-related companies, representing almost $7.3 billion in commitments from inception to December 31, 2017, and have developed a network of industry contacts with investors and other participants within the venture capital and private equity communities. In addition, members of our management team also have operational, research and development and finance experience with technology-related companies. We have established contacts with leading venture capital and private equity fund sponsors, public and private companies, research institutions and other industry participants, which we believe will enable us to identify and attract well-positioned prospective portfolio companies.

We focus our investing activities generally in industries in which our investment professionals have investment experience. We believe that our focus on financing technology-related companies will enable us to leverage our expertise in structuring prospective investments, to assess the value of both tangible and intangible assets, to evaluate the business prospects and operating characteristics of technology-related companies and to identify and originate potentially attractive investments with these types of companies.

Mitigate Risk of Principal Loss and Build a Portfolio of Equity-Related Securities. We expect that our investments have the potential to produce attractive risk-adjusted returns through current income, in the form of interest and fee income, as well as capital appreciation from warrant and equity-related securities. We believe that we can mitigate the risk of loss on our debt investments through the combination of loan principal amortization, cash interest payments, relatively short maturities (typically between 24-48 months), security interests in the assets of our portfolio companies, and on select investment covenants requiring prospective portfolio companies to have certain amounts of available cash at the time of our investment and the continued support from a venture capital or private equity firm at the time we make our investment. Although we do not currently engage in hedging transactions, we may engage in hedging transactions in the future utilizing instruments such as forward contracts, currency options and interest rate swaps, caps, collars, and floors.

Historically our structured debt investments to technology-related companies typically include warrants or other equity interests, giving us the potential to realize equity-like returns on a portion of our investment. In addition, in some cases, we receive the right to make additional equity investments in our portfolio companies, including the right to convert some portion of our debt into equity, in connection with future equity financing rounds. We believe these equity interests will create the potential for meaningful long-term capital gains in connection with the future liquidity events of these technology-related companies.

Provide Customized Financing Complementary to Financial Sponsors' Capital.We offer a broad range of investment structures and possess expertise and experience to effectively structure and price investments in technology-related companies. Unlike many of our competitors that only invest in companies that fit a specific set of investment parameters, we have the flexibility to structure our investments to suit the particular needs of our portfolio companies. We offer customized financing solutions ranging from senior debt, including below-investment grade debt instruments (also known as "junk bonds"), to equity capital, with a focus on structured debt with warrants.

We use our relationships in the financial sponsor community to originate investment opportunities. Because venture capital and private equity funds typically invest solely in the equity securities of their portfolio companies, we believe that our debt investments will be viewed as an attractive and complimentary source of capital, both by the portfolio company and by the portfolio company's financial sponsor. In addition, we believe that many venture capital and private equity fund sponsors encourage their portfolio companies to use debt financing for a portion of their capital needs as a means of potentially enhancing equity returns, minimizing equity dilution and increasing valuations prior to a subsequent equity financing round or a liquidity event.

Invest at Various Stages of Development. We provide growth capital to technology-related companies at all stages of development, including select publicly listed companies and select special opportunity lower middle market companies that require additional capital to fund acquisitions, recapitalizations and refinancings and established-stage companies. We believe that this provides us with a broader range of potential investment opportunities than those available to many of our competitors, who generally focus their investments on a particular stage in a company's development. Because of the flexible structure of our investments and the extensive experience of our investment professionals, we believe we are well positioned to take advantage of these investment opportunities at all stages of prospective portfolio companies' development.

Benefit from Our Efficient Organizational Structure. We believe that the perpetual nature of our corporate structure enables us to be a long-term partner for our portfolio companies in contrast to traditional investment funds, which typically have a limited life. In addition, because of our access to the equity markets, we believe that we may benefit from a lower cost of capital than that available to private investment funds. We are not subject to requirements to return invested capital to investors nor do we have a finite investment horizon. Capital providers that are subject to such limitations are often required to seek a liquidity event more quickly than they otherwise might, which can result in a lower overall return on an investment.

Deal Sourcing Through Our Proprietary Database. We have developed a proprietary and comprehensive structured query language-based ("SQL") database system to track various aspects of our investment process including sourcing, originations, transaction monitoring and post-investment performance. As of December 31, 2017, our proprietary SQL-based database system included approximately 48,350 technology-related companies and approximately 9,650 venture capital firms, private equity sponsors/investors, as well as various other industry contacts. This proprietary SQL system allows us to maintain, cultivate and grow our industry relationships while providing us with comprehensive details on companies in the technology-related industries and their financial sponsors.

OUR INVESTMENTS AND OPERATIONS

We principally invest in debt securities and, to a lesser extent, equity securities, with a particular emphasis on structured debt with warrants.

We generally seek to invest in companies that have been operating for at least six to 12 months prior to the date of our investment. We anticipate that such entities may, at the time of investment, be generating revenues or will have a business plan that anticipates generation of revenues within 24 to 48 months. Further, we anticipate that on the date of our investment we will generally obtain a lien on available assets, which may or may not include intellectual property, and these companies will have sufficient cash on their balance sheet to operate as well as potentially amortize their debt for at least three to nine months following our investment. We generally require that a prospective portfolio company, in addition to having sufficient capital to support leverage, demonstrate an operating plan capable of generating cash flows or raising the additional capital necessary to cover its operating expenses and service its debt, for an additional six to twelve months subject to market conditions.

We expect that our investments will generally range from $12.0 million to $40.0 million, although we may make investments in amounts above or below this range. We typically structure our debt securities to provide for amortization of principal over the life of the loan, but may include a period of interest-only payments. Our loans will typically be collateralized by a security interest in the borrower's assets, although we may not have the first claim on these assets and the assets may not include intellectual property. Our debt investments carry fixed or variable contractual interest rates which generally ranged from approximately 4.6% to 13.0% as of December 31, 2017. As of December 31, 2017, approximately 96.4% of our loans were at floating rates or floating rates with a floor and 3.6% of the loans were at fixed rates.

In addition to the cash yields received on our loans, our loans generally include one or more of the following: exit fees, balloon payment fees, commitment fees, success fees or prepayment fees. In some cases our loans also include contractual payment-in-kind ("PIK") interest arrangements. The increases in loan balances as a result of contractual PIK arrangements are included in income for the period in which such PIK interest was accrued, which is often in advance of receiving cash payment, and are separately identified on our statements of cash flows. We also may be required to include in income for tax purposes certain other amounts prior to receiving the related cash.

In addition, the majority of our investments in the structured debt of venture capital-backed companies generally have equity enhancement features, typically in the form of warrants or other equity-related securities that are considered original issue discounts ("OID") to our loans and are designed to provide us with an opportunity for potential capital appreciation. The warrants typically will be immediately exercisable upon issuance and generally will remain exercisable for the lesser of five to ten years or three to five years after completion of an initial public offering ("IPO"). The exercise prices for the warrants varies from nominal exercise prices to exercise prices that are at or above the current fair market value of the equity for which we receive warrants. We may structure warrants to provide minority rights provisions or on a very select basis put rights upon the occurrence of certain events. We generally target a total annualized return (including interest, fees and value of warrants) of 12% to 25% for our debt investments.

Typically, our structured debt and equity investments take one of the following forms:

- *Structured Debt with Warrants.* We seek to invest a majority of our assets in structured debt with warrants of prospective portfolio companies. Our investments in structured debt with warrants may be the only debt capital on the balance sheet of our portfolio companies, and in many cases we have a first priority security interest in all of our portfolio company's assets, or in certain investments we may have a negative pledge on intellectual property. Our structured debt with warrants typically has a maturity of between two and seven years, and they may provide for full amortization after an interest only period. Our structured debt with warrants generally carries a contractual interest rate up to 13.0% and may include an additional exit fee payment or contractual PIK interest arrangements. We may structure our structured debt with warrants with restrictive affirmative and negative covenants, default penalties, prepayment penalties, lien protection, equity calls, change-in-control provisions or board observation rights.
- *Senior Debt.* We seek to invest a limited portion of our assets in senior debt. Senior debt may be collateralized by accounts receivable and/or inventory financing of prospective portfolio companies. Senior debt has a senior position with respect to a borrower's scheduled interest and principal payments and holds a first priority security interest in the assets pledged as collateral. Senior debt also may impose covenants on a borrower with regard to cash flows and changes in capital structure, among other items. We generally collateralize our investments by obtaining security interests in our portfolio companies' assets, which may include their intellectual property. In other cases we may obtain a negative pledge covering a company's intellectual property. Our senior loans, in certain instances, may be tied to the financing of specific assets. In connection with a senior debt investment, we may also provide the borrower with a working capital line-of-credit that will carry an interest rate ranging from Prime or LIBOR plus a spread with a floor, generally maturing in one to three years, and typically secured by accounts receivable and/or inventory.
- *Equipment Loans.* We intend to invest a limited portion of our assets in equipment-based loans to early-stage prospective portfolio companies. Equipment-based loans are secured by a first priority security interest in only the specific assets financed. These loans are generally for amounts of $1.0 million to $3.0 million but may be up to $15.0 million, carry a contractual interest rate between Prime and Prime plus 9.0%, and have an average term between three and four years. Equipment loans may also include exit fee payments.
- *Equity-Related Securities.* The equity-related securities we hold consist primarily of warrants or other equity interests generally obtained in connection with our structured debt investments. In addition to the warrants received as a part of a structured debt financing, we typically receive the right to make equity investments in a portfolio company in connection with that company's next round of equity financing. We may also hold certain debt investments that have the right to convert a portion of the debt investment into equity. These rights will provide us with the opportunity to further enhance our returns over time through opportunistic equity investments in our portfolio companies. These equity-related investments are typically in the form of preferred or common equity and may be structured with a dividend yield, providing us with a current return, and with customary anti-dilution protection and preemptive rights. We may achieve liquidity through a merger or acquisition of a portfolio company, a public offering of a portfolio company's stock or by exercising our right, if any, to require a portfolio company to buy back the equity-related securities we hold. We may also make stand-alone direct equity investments into portfolio companies in which we may not have any debt investment in the company. As of December 31, 2017, we held warrant and equity-related securities in 163 portfolio companies.

A comparison of the typical features of our various investment alternatives is set forth in the chart below.

	Structured Debt with Warrants	**Senior Debt**	**Equipment Loans**	**Equity-Related Securities**
Typical Structure	Term debt with warrants	Term or revolving debt	Term debt with warrants	Preferred stock or common stock
Investment Horizon	Long-term, ranging from 2 to 7 years, with an average of 3 years	Usually under 3 years	Ranging from 3 to 4 years	Ranging from 3 to 7 years
Ranking/Security	Senior secured, either first out or last out, or second lien	Senior / First lien	Secured only by underlying equipment	None/unsecured
Covenants	Less restrictive; mostly financial	Generally borrowing base and financial	None	None
Risk Tolerance	Medium / High	Low	High	High
Coupon/Dividend	Cash pay - fixed and floating rate; PIK in limited cases	Cash pay - fixed or floating rate	Cash pay - fixed or floating rate and may include PIK	Generally none
Customization or Flexibility	More flexible	Little to none	Little to none	Flexible
Equity Dilution	Low to medium	None to low	Low	High

Investment Criteria

We have identified several criteria, among others, that we believe are important in achieving our investment objective with respect to prospective portfolio companies. These criteria, while not inclusive, provide general guidelines for our investment decisions.

Portfolio Composition. While we generally focus our investments in venture capital-backed companies in technology-related industries, we seek to invest across various financial sponsors as well as across various stages of companies' development and various technology industry sub-sectors and geographies. As of December 31, 2017, approximately 74.9% of the fair value of our portfolio was composed of investments in five industries: 23.9% was composed of investments in the drug discovery and development industry, 23.4% was composed of investments in the software industry, 10.0% was composed of investments in the internet consumer and business services industry, 9.9% was composed of investments in the media/ content/ info industry and 7.7% was composed of investments in the sustainable and renewable technology industry.

Continuing Support from One or More Financial Sponsors. We generally invest in companies in which one or more established financial sponsors have previously invested and continue to make a contribution to the management of the business. We believe that having established financial sponsors with meaningful commitments to the business is a key characteristic of a prospective portfolio company. In addition, we look for representatives of one or more financial sponsors to maintain seats on the Board of Directors of a prospective portfolio company as an indication of such commitment.

Company Stage of Development. While we invest in companies at various stages of development, we generally require that prospective portfolio companies be beyond the seed stage of development and generally have received or anticipate having commitments for their first institutional round of equity financing for early stage companies. We expect a prospective portfolio company to demonstrate progress in its product development or demonstrate a path towards revenue generation or increase its revenues and operating cash flow over time. The anticipated growth rate of a prospective portfolio company is a key factor in determining the value that we ascribe to any warrants or other equity securities that we may acquire in connection with an investment in debt securities.

Operating Plan. We generally require that a prospective portfolio company, in addition to having potential access to capital to support leverage, demonstrate an operating plan capable of generating cash flows or the ability to potentially raise the additional capital necessary to cover its operating expenses and service its debt for a specific period. Specifically, we require that a prospective portfolio company demonstrate at the time of our proposed investment that in addition to having sufficient capital to support leverage, it has an operating plan capable of generating cash flows or raising the additional capital necessary to cover its operating expenses and service its debt for an additional six to 12 months subject to market conditions.

Security Interest. In many instances we seek a first priority security interest in all of the portfolio companies' tangible and intangible assets as collateral for our debt investment, subject in some cases to permitted exceptions. In other cases we may obtain a negative pledge prohibiting a company from pledging or otherwise encumbering their intellectual property. Although we do not intend to operate as an asset-based lender, the estimated liquidation value of the assets, if any, collateralizing the debt securities that we hold is an important factor in our credit analysis and subject to assumptions that may change over the life of the investment especially when attempting to estimate the value of intellectual property. We generally evaluate both tangible assets, such as accounts receivable, inventory and equipment, and intangible assets, such as intellectual property, customer lists, networks and databases.

Covenants. Our investments may include one or more of the following covenants: cross-default; material adverse change provisions; requirements that the portfolio company provide periodic financial reports and operating metrics; and limitations on the portfolio company's ability to incur additional debt, sell assets, dividend recapture, engage in transactions with affiliates and consummate an extraordinary transaction, such as a merger or recapitalization without our consent. In addition, we may require other performance or financial based covenants, as we deem appropriate.

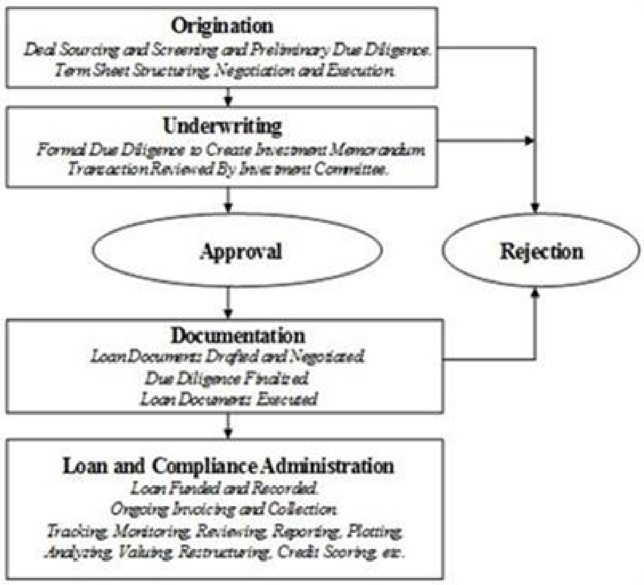
Exit Strategy. Prior to making a debt investment that is accompanied by an equity-related security in a prospective portfolio company, we analyze the potential for that company to increase the liquidity of its equity through a future event that would enable us to realize appreciation in the value of our equity interest. Liquidity events may include an IPO, a private sale of our equity interest to a third party, a merger or an acquisition of the company or a purchase of our equity position by the company or one of its stockholders.

Investment Process

We have organized our management team around the four key elements of our investment process:

- Origination;
- Underwriting;
- Documentation; and
- Loan and Compliance Administration.

Our investment process is summarized in the following chart:



Origination

The origination process for our investments includes sourcing, screening, preliminary due diligence and deal structuring and negotiation, all leading to an executed non-binding term sheet. As of December 31, 2017, our investment origination team, which consists of approximately 35 investment professionals, is headed by our Chief Investment Officer and our Chief Executive Officer. The origination team is responsible for sourcing potential investment opportunities and members of the investment origination team use their extensive relationships with various leading financial sponsors, management contacts within technology-related companies, trade sources, technology conferences and various publications to source prospective portfolio companies. Our investment origination team is divided into life sciences, technology, sustainable and renewable technology, and special situation sub-teams to better source potential portfolio companies.

In addition, we have developed a proprietary and comprehensive SQL-based database system to track various aspects of our investment process including sourcing, originations, transaction monitoring and post-investment performance. This proprietary SQL system allows our origination team to maintain, cultivate and grow our industry relationships while providing our origination team with comprehensive details on companies in the technology-related industries and their financial sponsors.

If a prospective portfolio company generally meets certain underwriting criteria, we perform preliminary due diligence, which may include high level company and technology assessments, evaluation of its financial sponsors' support, market analysis, competitive analysis, identifying key management, risk analysis and transaction size, pricing, return analysis and structure analysis. If the preliminary due diligence is satisfactory, and the origination team recommends moving forward, we then structure, negotiate and execute a non-binding term sheet with the potential portfolio company. Upon execution of a term sheet, the investment opportunity moves to the underwriting process to complete formal due diligence review and approval.

Underwriting

The underwriting review includes formal due diligence and approval of the proposed investment in the portfolio company.

Due Diligence. Our due diligence on a prospective investment is typically completed by two or more investment professionals whom we define as the underwriting team. The underwriting team for a proposed investment consists of the deal sponsor who typically possesses general industry knowledge and is responsible for originating and managing the transaction, other investment professional(s) who perform due diligence, credit and corporate financial analyses and, as needed, our legal professionals. To ensure consistent underwriting, we generally use our standardized due diligence methodologies, which include due diligence on financial performance and credit risk as well as an analysis of the operations and the legal and applicable regulatory framework of a prospective portfolio company. The members of the underwriting team work together to conduct due diligence and understand the relationships among the prospective portfolio company's business plan, operations and financial performance.

As part of our evaluation of a proposed investment, the underwriting team prepares an investment memorandum for presentation to the investment committee. In preparing the investment memorandum, the underwriting team typically interviews select key management of the company and select financial sponsors and assembles information necessary to the investment decision. If and when appropriate, the investment professionals may also contact industry experts and customers, vendors or, in some cases, competitors of the company.

Approval Process. The sponsoring managing director or principal presents the investment memorandum to our investment committee for consideration. The approval of a majority of our investment committee and an affirmative vote by our Chief Executive Officer is required before we proceed with any investment. The members of our investment committee are our Chief Executive Officer, our Chief Financial Officer, and our Chief Investment Officer. The investment committee generally meets weekly and more frequently on an as-needed basis.

Documentation

Our legal department administers the documentation process for our investments. This department is responsible for documenting the transactions approved by our investment committee with a prospective portfolio company. This department negotiates loan documentation and, subject to appropriate approvals, final documents are prepared for execution by all parties. The legal department generally uses the services of external law firms to complete the necessary documentation.

Loan and Compliance Administration

Our investment committee, supported by our investment team, credit team, and finance department, administers loans and track covenant compliance, if applicable, of our investments and oversees periodic reviews of our critical functions to ensure adherence with our internal policies and procedures. After funding of a loan in accordance with the investment committee's approval, the loan is recorded in our loan administration software and our SQL-based database system. The investment team, credit team, and finance department are responsible for ensuring timely interest and principal payments and collateral management as well as advising the investment committee on the financial performance and trends of each portfolio company, including any covenant violations that occur, to aid us in assessing the appropriate course of action for each portfolio company and evaluating overall portfolio quality. In addition, the investment team and credit team advise the investment committee and the Audit Committee of our Board of Directors, accordingly, regarding the credit and investment grading for each portfolio company as well as changes in the value of collateral that may occur.

The investment team and credit team monitor our portfolio companies in order to determine whether the companies are meeting our financing criteria and their respective business plans and also monitors the financial trends of each portfolio company from its monthly or quarterly financial statements to assess the appropriate course of action for each company and to evaluate overall portfolio quality. In addition, our management team closely monitors the status and performance of each individual company through our SQL-based database system and periodic contact with our portfolio companies' management teams and their respective financial sponsors.

Credit and Investment Grading System. Our investment team and credit team use an investment grading system to characterize and monitor our outstanding loans. Our investment team and credit team monitors and, when appropriate, recommends changes to investment grading. Our investment committee reviews the recommendations and/or changes to the investment grading, which are submitted on a quarterly basis to the Audit Committee and our Board of Directors for approval.

From time to time, we will identify investments that require closer monitoring or become workout assets. We develop a workout strategy for workout assets and our investment committee monitors the progress against the strategy. We may incur losses from our investing activities, however, we work with our troubled portfolio companies in order to recover as much of our investments as is practicable, including possibly taking control of the portfolio company. There can be no assurance that principal will be recovered.

We use the following investment grading system approved by our Board of Directors:

Grade 1. Loans involve the least amount of risk in our portfolio. The borrower is performing above expectations, and the trends and risk profile is generally favorable.

Grade 2. The borrower is performing as expected and the risk profile is neutral to favorable. All new loans are initially graded 2.

Grade 3. The borrower may be performing below expectations, and the loan's risk has increased materially since origination. We increase procedures to monitor a borrower that may have limited amounts of cash remaining on the balance sheet, is approaching its next equity capital raise within the next three to six months, or if the estimated fair value of the enterprise may be lower than when the loan was originated. We will generally lower the loan grade to a grade 3 even if the company is performing in accordance to plan as it approaches the need to raise additional cash to fund its operations. Once the borrower closes its new equity capital raise, we may increase the loan grade back to grade 2 or maintain it at a grade 3 as the company continues to pursue its business plan.

Grade 4. The borrower is performing materially below expectations, and the loan risk has substantially increased since origination. Loans graded 4 may experience some partial loss or full return of principal but are expected to realize some loss of interest which is not anticipated to be repaid in full, which, to the extent not already reflected, may require the fair value of the loan to be reduced to the amount we anticipate will be recovered. Grade 4 investments are closely monitored.

Grade 5. The borrower is in workout, materially performing below expectations and a significant risk of principal loss is probable. Loans graded 5 will experience some partial principal loss or full loss of remaining principal outstanding is expected. Grade 5 loans will require the fair value of the loans be reduced to the amount, if any, we anticipate will be recovered.

At December 31, 2017, our investments had a weighted average investment grading of 2.17.

Managerial Assistance

As a business development company, we are required to offer, and provide upon request, managerial assistance to our portfolio companies. This assistance could involve, among other things, monitoring the operations of our portfolio companies, participating in board and management meetings, consulting with and advising officers of portfolio companies and providing other organizational and financial guidance. We may, from time to time, receive fees for these services. In the event that such fees are received, they are incorporated into our operating income and are passed through to our stockholders, given the nature of our structure as an internally managed business development company. See "—Regulation—Significant Managerial Assistance" for additional information.

COMPETITION

Our primary competitors provide financing to prospective portfolio companies and include non-bank financial institutions, federally or state chartered banks, venture debt funds, financial institutions, venture capital funds, private equity funds, investment funds and investment banks. Many of these entities have greater financial and managerial resources than we have, and the 1940 Act imposes certain regulatory restrictions on us as a business development company to which many of our competitors are not subject. However, we believe that few of our competitors possess the expertise to properly structure and price debt investments to venture capital-backed companies in technology-related industries. We believe that our specialization in financing technology-related companies will enable us to determine a range of potential values of intellectual property assets, evaluate the business prospects and operating characteristics of prospective portfolio companies and, as a result, identify investment opportunities that produce attractive risk-adjusted returns. For additional information concerning the competitive risks we face, see "Item 1A. Risk Factors—Risks Related to our Business Structure—We operate in a highly competitive market for investment opportunities, and we may not be able to compete effectively."

BROKERAGE ALLOCATIONS AND OTHER PRACTICES

Because we generally acquire and dispose of our investments in privately negotiated transactions, we typically do not use brokers in the normal course of business. However, from time to time, we may work with brokers to sell positions we have acquired in the securities of publicly listed companies or to acquire positions (principally equity) in companies where we see a market opportunity to acquire such securities at attractive valuations. In cases where we do use a broker, we do not execute transactions through any particular broker or dealer, but will seek to obtain the best net results for the Company, taking into account such factors as price (including the applicable brokerage commission or dealer spread), size of order, difficulty of execution, and operational facilities of the firm and the firm's risk and skill in positioning blocks of securities. While we generally seek reasonably competitive execution costs, we may not necessarily pay the lowest spread or commission available. Subject to applicable legal requirements, we may select a broker based partly upon brokerage or research services provided to us. In return for such services, we may pay a higher commission than other brokers would charge if we determine in good faith that such commission is reasonable in relation to the services provided.

EMPLOYEES

As of December 31, 2017, we had 67 employees, including approximately 35 investment and portfolio management professionals, all of whom have extensive experience working on financing transactions for technology-related companies.

REGULATION

The following discussion is a general summary of the material prohibitions and descriptions governing business development companies. It does not purport to be a complete description of all of the laws and regulations affecting business development companies.

A business development company primarily focuses on investing in or lending to private companies and making managerial assistance available to them, while providing its stockholders with the ability to retain the liquidity of a publicly-traded stock. The 1940 Act contains prohibitions and restrictions relating to transactions between business development companies and their directors and officers and principal underwriters and certain other related persons and requires that a majority of the directors be persons other than "interested persons," as that term is defined in the 1940 Act. In addition, the 1940 Act provides that we may not change the nature of our business so as to cease to be, or to withdraw our election as, a business development company unless approved by a majority of our outstanding voting securities as defined in the 1940 Act. A majority of the outstanding voting securities of a company is defined under the 1940 Act as the lesser of: (i) 67% or more of such company's shares present at a meeting if more than 50% of the outstanding shares of such company are present or represented by proxy, or (ii) more than 50% of the outstanding shares of such company.

Qualifying Assets

Under the 1940 Act, a business development company may not acquire any asset other than assets of the type listed in Section 55(a) of the 1940 Act, which are referred to as qualifying assets, unless, at the time the acquisition is made, qualifying assets represent at least 70% of the company's total assets. The principal categories of qualifying assets relevant to our proposed business are the following:

(1) Securities purchased in transactions not involving any public offering from the issuer of such securities, which issuer (subject to certain limited exceptions) is an eligible portfolio company, or from any person who is, or has been during the preceding 13 months, an affiliated person of an eligible portfolio company, or from any other person, subject to such rules as may be prescribed by the SEC. An eligible portfolio company is defined in the 1940 Act as any issuer which:

- (a) is organized under the laws of, and has its principal place of business in, the United States;
- (b) is not an investment company (other than a SBIC wholly owned by the business development company) or a company that would be an investment company but for certain exclusions under the 1940 Act; and
- (c) does not have any class of securities listed on a national securities exchange; or if it has securities listed on a national securities exchange such company has a market capitalization of less than $250 million; is controlled by the business development company and has an affiliate of a business development company on its Board of Directors; or meets such other criteria as may be established by the SEC.

(2) Securities of any portfolio company which we control.

(3) Securities purchased in a private transaction from a U.S. issuer that is not an investment company or from an affiliated person of the issuer, or in transactions incident thereto, if the issuer is in bankruptcy and subject to reorganization or if the issuer, immediately prior to the purchase of its securities was unable to meet its obligations as they came due without material assistance other than conventional lending or financing arrangements.

(4) Securities of an eligible portfolio company purchased from any person in a private transaction if there is no ready market for such securities and we already own 60% of the outstanding equity of the eligible portfolio company.

(5) Securities received in exchange for or distributed on or with respect to securities described in (1) through (4) above, or pursuant to the exercise of warrants or rights relating to such securities.

(6) Cash, cash equivalents, U.S. Government securities or high-quality debt securities maturing in one year or less from the time of investment.

Control, as defined by the 1940 Act, is presumed to exist where a business development company beneficially owns more than 25% of the outstanding voting securities of the portfolio company or has greater than 50% representation on its board.

We do not intend to acquire securities issued by any investment company, including other business development companies, that exceed the limits imposed by the 1940 Act. Under these limits, we generally cannot acquire more than 3% of the voting stock of any investment company (as defined in the 1940 Act), invest more than 5% of the value of our total assets in the securities of one such investment company or invest more than 10% of the value of our total assets in the securities of such other investment companies in the aggregate. With regard to that portion of our portfolio invested in securities issued by investment companies, it should be noted that such investments might subject our stockholders to additional expenses.

Significant Managerial Assistance

Business development companies generally must offer to make available to the issuer of the securities significant managerial assistance, except in circumstances where either (i) the business development company controls such issuer of securities or (ii) the business development company purchases such securities in conjunction with one or more other persons acting together and one of the other persons in the group makes available such managerial assistance. Making available significant managerial assistance means, among other things, any arrangement whereby the business development company, through its directors, officers or employees, offers to provide and, if accepted, does so provide, significant guidance and counsel concerning the management, operations or business objectives and policies of a portfolio company through monitoring of portfolio company operations, selective participation in board and management meetings, consulting with and advising a portfolio company’s officers or other organizational or financial guidance.

Temporary Investments

Pending investment in other types of qualifying assets, as described above, our investments may consist of cash, cash equivalents, U.S. government securities or high quality debt securities maturing in one year or less from the time of investment, which we refer to, collectively, as temporary investments, so that 70% of our assets are qualifying assets. We may invest in U.S. Treasury bills or in repurchase agreements, provided that such agreements are fully collateralized by cash or securities issued by the U.S. government or its agencies. A repurchase agreement involves the purchase by an investor, such as us, of a specified security and the simultaneous agreement by the seller to repurchase it at an agreed upon future date and at a price which is greater than the purchase price by an amount that reflects an agreed-upon interest rate. There is no percentage restriction on the proportion of our assets that may be invested in such repurchase agreements. However, if more than 25% of our total assets constitute repurchase agreements from a single counterparty, we generally would not meet the diversification tests imposed on us by the Code in order to qualify as a RIC for federal income tax purposes. Thus, we do not intend to enter into repurchase agreements with a single counterparty in excess of this limit. We will monitor the creditworthiness of the counterparties with which we enter into repurchase agreement transactions.

Warrants and Options

Under the 1940 Act, a business development company is subject to restrictions on the amount of warrants, options, restricted stock or rights to purchase shares of capital stock that it may have outstanding at any time. In particular, the amount of capital stock that would result from the conversion or exercise of all outstanding warrants, options or other rights to purchase capital stock cannot exceed 25% of the business development company’s total outstanding shares of capital stock. This amount is reduced to 20% of the business development company’s total outstanding shares of capital stock if the amount of warrants, options or rights issued pursuant to an executive compensation plan would exceed 15% of the business development company’s total outstanding shares of capital stock. We have received exemptive relief from the SEC permitting us to issue stock options and restricted stock to our employees and directors subject to the above conditions, among others. For a discussion regarding the conditions of this exemptive relief, see “—Exemptive Relief” below and Note 7 to our consolidated financial statements.

Senior Securities; Coverage Ratio

We will be permitted, under specified conditions, to issue multiple classes of indebtedness and one class of stock senior to our common stock if our asset coverage, as defined in the 1940 Act, is at least equal to 200% immediately after each such issuance. In addition, we may not be permitted to declare any cash dividend distribution on our outstanding common shares, or purchase any such shares, unless, at the time of such declaration or purchase, we have asset coverage of at least 200% after deducting the amount of such distribution or purchase price. We may also borrow amounts up to 5% of the value of our total assets for temporary or emergency purposes. For a discussion of the risks associated with the resulting leverage, see "Item 1A. Risk Factors—Risks Related to Our Business Structure—Because we have substantial indebtedness, there could be increased risk in investing in our company."

On April 5, 2007, we received approval from the SEC on our request for exemptive relief that permits us to exclude the indebtedness of our wholly-owned subsidiaries that are SBICs from the 200% asset coverage requirement applicable to us.

Capital Structure

We are not generally able to issue and sell our common stock at a price below NAV per share. We may, however, sell our common stock, at a price below the current NAV of the common stock, or sell warrants, options or other rights to acquire such common stock, at a price below the current NAV of the common stock if our Board of Directors determines that such sale is in the best interests of us and our stockholders have approved the practice of making such sales.

In connection with the receipt of such stockholder approval, we will limit the number of shares that we issue at a price below NAV pursuant to this authorization so that the aggregate dilutive effect on our then outstanding shares will not exceed 20%. Our Board of Directors, subject to its fiduciary duties and regulatory requirements, has the discretion to determine the amount of the discount, and as a result, the discount could be up to 100% of NAV per share.

Code of Ethics

We have adopted and will maintain a code of ethics that establishes procedures for personal investments and restricts certain personal securities transactions. Personnel subject to the code may invest in securities for their personal investment accounts, including securities that may be purchased or held by us, so long as such investments are made in accordance with the code's requirements. Our code of ethics will generally not permit investments by our employees in securities that may be purchased or held by us. We may be prohibited under the 1940 Act from conducting certain transactions with our affiliates without the prior approval of our directors who are not interested persons and, in some cases, the prior approval of the SEC.

Our current code of ethics is posted on our website atwww.htgc.com. You may read and copy the code of ethics at the SEC's Public Reference Room in Washington, D.C. You may obtain information on the operation of the Public Reference Room by calling the SEC at (202) 551-8090. In addition, the code of ethics is available on the EDGAR Database on the SEC's Internet site at http://www.sec.gov. You may also obtain copies of the code of ethics, after paying a duplicating fee, by electronic request at the following e-mail address: publicinfo@sec.gov, or by writing the SEC's Public Reference Section, 100 F Street, N.E., Washington, D.C. 20549.

Privacy Principles

We are committed to maintaining the privacy of our stockholders and safeguarding their non-public personal information. The following information is provided to help you understand what personal information we collect, how we protect that information and why, in certain cases, we may share information with select other parties.

Generally, we do not receive any non-public personal information relating to our stockholders, although certain non-public personal information of our stockholders may become available to us. We do not disclose any non-public personal information about our stockholders or former stockholders, except as permitted by law or as is necessary in order to service stockholder accounts (for example, to a transfer agent).

We restrict access to non-public personal information about our stockholders to our employees with a legitimate business need for the information. We maintain physical, electronic and procedural safeguards designed to protect the non-public personal information of our stockholders.

Proxy Voting Policies and Procedures

We vote proxies relating to our portfolio securities in the best interest of our stockholders. Our proxy voting decisions are made by members of the Investment Team, who review on a case- by-case basis each proposal submitted to a stockholder vote to determine its impact on the portfolio securities held by us. Although we generally vote against proposals that may have a negative impact on our portfolio securities, we may vote for such a proposal if there exists compelling long-term reasons to do so. We generally do not believe it is necessary to engage the services of an independent third party to assist in issue analysis and vote recommendation for proxy proposals.

To ensure that our vote is not the product of a conflict of interest, we require that: (i) anyone involved in the decision making process disclose to our Chief Compliance Officer any potential conflict that he or she is aware of and any contact that he or she has had with any interested party regarding a proxy vote; and (ii) employees involved in the decision making process or vote administration are prohibited from revealing how we intend to vote on a proposal in order to reduce any attempted influence from interested parties.

Exemptive Relief

On June 21, 2005, we filed a request with the SEC for exemptive relief to allow us to take certain actions that would otherwise be prohibited by the 1940 Act, as applicable to business development companies. Specifically, we requested that the SEC permit us to issue stock options to our non-employee directors as contemplated by Section 61(a)(3)(B)(i)(II) of the 1940 Act. On February 15, 2007, we received approval from the SEC on this exemptive request. In addition, in June 2007, we filed an amendment to the February 2007 order to adjust the number of shares issued to the non-employee directors. On October 10, 2007, we received approval from the SEC on this amended exemptive request.

On April 5, 2007, we received approval from the SEC on our request for exemptive relief that permits us to exclude the indebtedness of our wholly-owned subsidiaries that are SBICs from the 200% asset coverage requirement applicable to us.

On May 23, 2007, we received approval from the SEC on our request for exemptive relief that permits us to issue restricted stock to our employees, officers and directors. On June 21, 2007, our shareholders approved amendments to the 2004 Equity Incentive Plan (the “2004 Plan”) and 2006 Non-Employee Director Plan (the “2006 Plan” and, together with the 2004 Plan, the “Plans”) permitting such restricted grants. On June 21, 2017, the 2006 Plan expired in accordance with its terms and no additional awards may be granted under the 2006 Plan. In the future, we may adopt a Non-Employee Director Plan that, among other things, provides for the issuance of restricted stock to directors. The maximum amount of shares that may be issued under the Plans will be 10% of the outstanding shares of our common stock on the effective date of the Plans plus 10% of the outstanding number of shares of our common stock issued or delivered by us (other than pursuant to compensation plans) during the term of the Plans. The amount of voting securities that would result from the exercise of all of our outstanding warrants, options, and rights, if any, together with any restricted stock issued pursuant to the Plans, at the time of issuance shall not exceed 25% of our outstanding voting securities, except that if such amount would exceed 15% of our outstanding voting securities, then the total amount of voting securities that would result from the exercise of all outstanding warrants, options, and rights, if any, together with any restricted stock issued pursuant to the Plans, at the time of issuance shall not exceed 20% of our outstanding voting securities.

On June 22, 2010 we received approval from the SEC on our request for exemptive relief that permits our employees to exercise their stock options and restricted stock and pay any related income taxes using a cashless exercise program.

Other

We may be periodically examined by the SEC for compliance with the Exchange Act and the 1940 Act.

We are required to provide and maintain a bond issued by a reputable fidelity insurance company to protect us against larceny and embezzlement. Furthermore, as a business development company, we are prohibited from protecting any director or officer against any liability to our stockholders arising from willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of such person’s office.

We are required to adopt and implement written policies and procedures reasonably designed to prevent violation of the federal securities laws, review these policies and procedures annually for their adequacy and the effectiveness of their implementation. Our Chief Compliance Officer is responsible for administering these policies and procedures.

Small Business Administration Regulations

We make investments in qualifying small businesses through our two wholly-owned SBIC subsidiaries, HT II and HT III. With our net investments of $44.0 million and $74.5 million in HT II and HT III, respectively, we have the combined capacity to issue a total of $190.2 million of SBA guaranteed debentures, subject to SBA approval. At December 31, 2017, we have issued $190.2 million in SBA guaranteed debentures in our SBIC subsidiaries.

We intend to seek an additional SBIC license to ensure continued access to the maximum statutory limit of SBA guaranteed debentures under the SBIC program. We have formed Hercules Technology IV, L.P. for that purpose. There can be no assurance of when or if we will receive SBA approval for another SBIC license.

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

HT II and HT III are periodically examined and audited by the SBA's staff to determine their compliance with SBA regulations. If HT II or HT III fails to comply with applicable SBA regulations, the SBA could, depending on the severity of the violation, limit or prohibit HT II's or HT III's use of debentures, declare outstanding debentures immediately due and payable, and/or limit HT II or HT III from making new investments. In addition, HT II or HT III may also be limited in their ability to make distributions to us if they do not have sufficient capital in accordance with SBA regulations. Such actions by the SBA would, in turn, negatively us because HT II and III are our wholly owned subsidiaries. HT II and HT III were in compliance with the terms of the SBIC's leverage as of December 31, 2017 as a result of having sufficient capital as defined under the SBA regulations.

HT II and HT III hold approximately $111.8 million and $284.0 million in assets, respectively, and accounted for approximately 5.4% and 13.8% of our total assets prior to consolidation at December 31, 2017.

The SBA restricts the ability of SBICs to repurchase their capital stock. SBA regulations also include restrictions on a "change of control" or transfer of an SBIC and require that SBICs invest idle funds in accordance with SBA regulations. In addition, HT II and HT III may also be limited in their ability to make distributions to us if they do not have sufficient capital and/or distributed earnings, in accordance with SBA regulations.

Our SBIC subsidiaries are subject to regulation and oversight by the SBA, including requirements with respect to maintaining certain minimum financial ratios and other covenants. Receipt of an SBIC license does not assure that our SBIC subsidiaries will receive SBA guaranteed debenture funding, which is dependent upon our SBIC subsidiaries continuing to be in compliance with SBA regulations and policies. The SBA, as a creditor, will have a superior claim to our SBIC subsidiaries' assets over our stockholders in the event we liquidate our SBIC subsidiaries or the SBA exercises its remedies under the SBA-guaranteed debentures issued by our SBIC subsidiaries upon an event of default.

CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

The following discussion is a general summary of certain material U.S. federal income tax considerations relating to our qualification and taxation as a RIC and the acquisition, ownership and disposition of our preferred stock or common stock, but does not purport to be a complete description of the income tax considerations relating thereto. Except as otherwise noted, this discussion assumes you are a taxable U.S. person (as defined for U.S. federal income tax purposes) and that you hold your shares of our stock as capital assets for U.S. federal income tax purposes (generally, assets held for investment). This discussion is based upon current provisions of the Code, the regulations promulgated thereunder and judicial and administrative authorities, all of which are subject to change or differing interpretations by the courts or the Internal Revenue Service (the "IRS"), possibly with retroactive effect. No attempt is made to present a detailed explanation of all U.S. federal income tax concerns affecting us and our shareholders (including shareholders subject to special rules under U.S. federal income tax law).

The discussions set forth herein do not constitute tax advice. We have not sought and will not seek any ruling from the IRS regarding any matters discussed herein. No assurance can be given that the IRS would not assert, or that a court would not sustain, a position contrary to those set forth below. This summary does not discuss any aspects of foreign, state or local tax. Prospective investors must consult their own tax advisers as to the U.S. federal income tax consequences (including the alternative minimum tax consequences) of acquiring, holding and disposing of shares of our stock, as well as the effects of state, local and non-U.S. tax laws.

Election to be Subject to Tax as a RIC

Through December 31, 2005, we were subject to U.S. federal income tax as an ordinary corporation under Subchapter C of the Code. Effective beginning on January 1, 2006 we met the criteria specified below to qualify as a RIC, and elected to be treated as a RIC under Subchapter M of the Code with the filing of our U.S. federal income tax return for 2006. To qualify for treatment as a RIC we must, among other things, meet certain source of income and asset diversification requirements (as described below). In addition, we must distribute to our stockholders, in respect of each taxable year, dividends for federal income tax purposes of an amount generally at least equal to 90% of our "investment company taxable income," which is generally equal to the sum of our net ordinary income plus the excess of our realized net short-term capital gains over our realized net long-term capital losses, determined without regard to any deduction for distributions paid, or the "Annual Distribution Requirement." Upon satisfying these requirements in respect of a taxable year, we generally will not be subject to corporate taxes on any income we distribute to our stockholders as dividends for federal income tax purposes, which will allow us to reduce or eliminate our liability for corporate-level income tax.

On December 31, 2005, immediately before the effective date of our RIC election, we held assets with "built-in gains," which are assets whose fair market value as of the effective date of the election exceeded their tax basis as of such date. We elected to recognize all of our net built-in gains on such assets at the time of the conversion and paid tax on the built-in gain with the filing of our 2005 U.S. federal income tax return. In making this election, we marked our portfolio investments and other assets to market at the time of our RIC election and paid approximately $294,000 in income tax on the resulting gains.

Taxation as a Regulated Investment Company

For any taxable year in which we:

- qualify as a RIC; and
- distribute dividends for federal income tax purposes to our shareholders of an amount at least equal to the Annual Distribution Requirement;

We generally will not be subject to U.S. federal income tax on the portion of our investment company taxable income and net capital gain (*i.e.*, net realized long-term capital gains in excess of net realized short-term capital losses) we distribute (or are deemed to distribute) as dividends for U.S. federal income tax purposes to stockholders with respect to that taxable year.

As described above, we made the election to recognize built-in gains as of the effective date of our election to be treated as a RIC and therefore were not subject to built-in gains tax when we sold those assets. However, if we subsequently acquire built-in gain assets from a C corporation in a carryover basis transaction, then we may be subject to tax on the gains recognized by us on dispositions of such assets unless we make a special election to pay corporate-level tax on such built-in gain at the time the assets are acquired. We will be subject to U.S. federal income tax at the regular corporate rates on any income or capital gains not distributed (or deemed distributed) as dividends for U.S. federal income tax purposes to our stockholders.

In order to qualify as a RIC for federal income tax purposes and obtain the tax benefits of RIC status, in addition to satisfying the Annual Distribution Requirement, we must, among other things:

- have in effect at all times during each taxable year an election to be regulated as a business development company under the 1940 Act;
- derive in each taxable year at least 90% of our gross income from (a) dividends, interest, payments with respect to certain securities loans, gains from the sale of stock or other securities, or other income derived with respect to our business of investing in such stock or securities and (b) net income derived from an interest in a "qualified publicly traded partnership" (the "90% Income Test");
- diversify our holdings so that at the end of each quarter of the taxable year:
  - at the close of each quarter of each taxable year, at least 50% of the value of our assets consists of cash, cash equivalents, U.S. government securities, securities of other RICs, and other securities if such other securities of any one issuer do not represent more than 5% of the value of our assets or more than 10% of the outstanding voting securities of such issuer; and
  - at the close of each quarter of each taxable year, no more than 25% of the value of our assets is invested in (i) securities (other than U.S. government securities or securities of other RICs) of one issuer, (ii) securities of two or more issuers that are controlled, as determined under applicable tax rules, by us and that are engaged in the same or similar or related trades or businesses or (iii) securities of one or more "qualified publicly traded partnerships" (the "Diversification Tests").

We may invest in partnerships which may result in our being subject to state, local or foreign income, franchise or other tax liabilities. In addition, some of the income and fees that we may recognize will not be qualifying income under the 90% Income Test. In order to mitigate the risk that such income and fees would disqualify us as a RIC as a result of a failure to satisfy the 90% Income Test, we may be required to recognize such income and fees indirectly through one or more entities classified as corporations for U.S. federal income tax purposes. Such corporations generally will be subject to corporate income taxes on their earnings, which ultimately will reduce our return on such income and fees.

As a RIC, we will be subject to a 4% nondeductible U.S. federal excise tax on certain undistributed income and gains unless we make distributions treated as dividends for U.S. federal income tax purposes 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 our ordinary income (taking into account certain deferrals and elections) for each calendar year, (2) 98.2% of our capital gain net income (adjusted for certain ordinary losses) for the 1-year period ending October 31 of each such calendar year and (3) any ordinary income and capital gain net income realized, but not distributed, in preceding calendar years (the "Excise Tax Avoidance Requirement"). We are not subject to this excise tax on any amount on which we incurred U.S. federal corporate income tax (such as the tax imposed on a RIC's 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 distributions treated as dividends for U.S. federal income tax purposes 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 treated as dividends for U.S. federal income tax purposes 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, distributions declared and paid by us in a taxable year may differ from our taxable income for that taxable year as such 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.

Under applicable Treasury regulations and other administrative guidance issued by the IRS, we are permitted to treat certain distributions payable in our stock as taxable distributions that will satisfy the Annual Distribution Requirement as well as the Excise Tax Avoidance Requirement provided that shareholders have the opportunity to elect to receive the distribution in cash. Taxable stockholders receiving such distributions will be required to include the full amount of the such distributions as ordinary income (or as long-term capital gain to the extent such distribution is properly reported as a capital gain dividend) to the extent of our current and accumulated earnings and profits for United States federal income tax purposes. As a result, a U.S. stockholder may be subject to tax with respect to such distributions in excess of any cash received. If a U.S. stockholder sells the stock it receives as a distribution in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the distribution, depending on the market price of our stock at the time of the sale. Furthermore, with respect to non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such distributions, including in respect of all or a portion of such distribution that is payable in stock. In addition, if a significant number of our stockholders determine to sell shares of our stock in order to pay taxes owed on distributions, then such sales may put downward pressure on the trading price of our stock. We may in the future determine to make taxable distributions that are payable in part in our common stock.

We may be required to recognize taxable income in circumstances in which we do not receive a corresponding payment in cash. For example, if we hold debt obligations that are treated under applicable tax rules as having OID (such as debt instruments with PIK interest provisions or, in certain cases, increasing interest rates or debt instruments that were issued with warrants), we must include in income each taxable year a portion of the OID that accrues over the life of the obligation, regardless of whether cash representing such income is received by us in the same taxable year. Because any OID accrued is generally required to be included in our investment company taxable income for the taxable year of accrual, we may be required to make a distribution to our stockholders in order to satisfy the Annual Distribution Requirement and the Excise Tax Avoidance Requirement, even though we will not have received any corresponding cash amount.

Gain or loss realized by us from the sale or exchange of warrants acquired by us as well as any loss attributable to the lapse of such warrants generally will be treated as capital gain or loss. Such gain or loss generally will be long-term or short-term, depending on how long we held a particular warrant.

We are authorized to borrow funds and to sell assets in order to satisfy the Annual Distribution Requirement and the Excise Tax Avoidance Requirement (collectively, the "Distribution Requirements"). However, under the 1940 Act, we are not permitted to make distributions to our stockholders while our debt obligations and other senior securities are outstanding unless certain "asset coverage" tests are met. See "Regulation—Senior Securities; Coverage Ratio." We may be restricted from making distributions under the terms of our debt obligations themselves unless certain conditions are satisfied. Moreover, our ability to dispose of assets to meet the Distribution Requirements may be limited by (1) the illiquid nature of our portfolio, or (2) other requirements relating to our status as a RIC, including the Diversification Tests. If we dispose of assets in order to meet the Distribution Requirements, we may make such dispositions at times that, from an investment standpoint, are not advantageous. If we are prohibited from making distributions or are unable to obtain cash from other sources to make the distributions, we may fail to be subject to tax as a RIC, which would result in us becoming subject to corporate-level income taxes.

In addition, we will be partially dependent on our SBIC subsidiaries for cash distributions to enable us to meet the RIC Distribution Requirements. Our SBIC subsidiaries may be limited by the Small Business Investment Act of 1958, as amended, and SBA regulations governing SBICs, from making certain distributions to us that may be necessary to maintain our status as a RIC. We may have to request a waiver of the SBA's restrictions for our SBIC subsidiaries to make certain distributions to maintain our RIC status. We cannot assure you that the SBA will grant such waiver. If our SBIC subsidiaries are unable to obtain a waiver, compliance with the SBA regulations may cause us to fail to be subject to tax as a RIC, which would result in us becoming subject to corporate-level income taxes.

Certain of our investment practices are subject to special and complex U.S. federal income tax provisions that may, among other things, (i) convert distributions that would otherwise constitute qualified dividend income into ordinary income, (ii) treat distributions that would otherwise be eligible for deductions available to certain U.S. corporations under the Code as ineligible for such treatment, (iii) disallow, suspend or otherwise limit the allowance of certain losses or deductions, (iv) convert long-term capital gains into short-term capital gains or ordinary income, (v) convert short-term capital losses into long-term capital losses, (vi) convert an ordinary loss or deduction into a capital loss (the deductibility of which is more limited), (vii) cause us to recognize income or gain without a corresponding receipt of cash, (viii) adversely alter the characterization of certain complex financial transactions, and (ix) produce gross income that will not constitute qualifying gross income for purposes of the 90% Income Test. These rules also could affect the amount, timing and character of distributions to stockholders.

A RIC is limited in its ability to deduct expenses in excess of its "investment company taxable income." If our otherwise deductible expenses in a given taxable year exceed our ordinary taxable gross income (e.g., as the result of large amounts of equity-based compensation), we would incur a net operating loss for that taxable year. However, a RIC is not permitted to carry back or carry forward net operating losses, respectively, to prior and subsequent taxable years, and such net operating losses do not pass through to the RIC's stockholders. In addition, deductible expenses can be used only to offset investment company taxable income, not net capital gain. A RIC may not use any net capital losses (that is, realized capital losses in excess of realized capital gains) to offset the RIC's investment company taxable income, but may carry forward such net capital losses, and generally use them to offset capital gains indefinitely. Due to these limits on the deductibility of expenses and net capital losses, we may for tax purposes have aggregate taxable income for several taxable years that we are required to distribute and that is taxable to our stockholders even if such taxable income is greater than the aggregate net income we actually earned during those taxable years. Such required distributions may be made from our cash assets or by liquidation of investments, if necessary. We may realize gains or losses from such liquidations. In the event we realize net capital gains from such transactions, you may receive a larger capital gain distribution than you would have received in the absence of such transactions.

Investment income received from sources within foreign countries, or capital gains earned by investing in securities of foreign issuers, may be subject to foreign income taxes withheld at the source. In this regard, withholding tax rates in countries with which the United States does not have a tax treaty are often as high as 35% or more. The United States has entered into tax treaties with many foreign countries that may entitle us to a reduced rate of tax or exemption from tax on this related income and gains. The effective rate of foreign tax cannot be determined at this time since the amount of our assets to be invested within various countries is not now known. We do not anticipate being eligible for the special election that allows a RIC to treat foreign income taxes paid by such RIC as having been paid by its shareholders.

If we acquire the equity securities of certain foreign corporations that earn at least 75% of their annual gross income from passive sources (such as interest, dividends, rents, royalties or capital gain) or hold at least 50% of their total assets in investments producing such passive income ("passive foreign investment companies"), we could be subject to federal income tax and additional interest charges on "excess distributions" received from such companies or gain from the sale of stock in such companies, even if all income or gain actually received by us is timely distributed to our shareholders to the extent that such income or gain is attributable to our ownership of the passive foreign investment company stock in a prior taxable year. We would not be able to pass through to our shareholders any credit or deduction for such a tax. Certain elections may, if available, ameliorate these adverse tax consequences, but any such election could require us to recognize taxable income or gain without the concurrent receipt of cash. We intend to limit and/or manage our holdings in passive foreign investment companies to minimize our liability for any such taxes and related interest charges.

If we hold greater than 10% of the interests treated as equity for U.S. federal income tax purposes in a foreign corporation that is treated as a controlled foreign corporation ("CFC"), we may be treated as receiving a deemed distribution (taxable as ordinary income) each taxable year from such foreign corporation in an amount equal to our pro rata share of the corporation's income for such taxable year (including both ordinary earnings and capital gains), whether or not the corporation makes an actual distribution during such taxable year. We would be required to include the amount of a deemed distribution from a CFC when computing our investment company taxable income as well as in determining whether we satisfy the distribution requirements applicable to RICs, even to the extent the amount of our income deemed recognized from the CFC exceeds the amount of any actual distributions from the CFC and our proceeds from any sales or other dispositions of CFC stock during a taxable year. In general, a foreign corporation will be considered a CFC if greater than 50% of the shares of the corporation, measured by reference to combined voting power or value, is owned (directly, indirectly or by attribution) by U.S. Shareholders. A "U.S. Shareholder," for this purpose, is any U.S. person that possesses (actually or constructively) 10% or more of the combined voting power or value of all classes of shares of a foreign corporation. Furthermore, under recently proposed Treasury Regulations, certain income derived by us from a CFC would generally constitute qualifying income for purposes of determining our ability to be subject to tax as a RIC only to the extent the CFC makes distributions of that income to us in the same year of the CFC in which we are treated as having received a deemed distribution of such income. As such, we may limit and/or manage our holdings in issuers that could be treated as CFCs in order to limit our tax liability or maximize our after-tax return from these investments.

Our functional currency, for U.S. federal income tax purposes, is the U.S. dollar. Under the Code, foreign exchange gains and losses realized by us in connection with certain transactions involving foreign currencies, or payables or receivables denominated in a foreign currency, as well as certain non-U.S. dollar denominated debt securities, certain foreign currency futures contracts, foreign currency option contracts, foreign currency forward contracts, and similar financial instruments are subject to Code provisions that generally treat such gains and losses as ordinary income and losses and may affect the amount, timing and character of distributions to our stockholders. Any such transactions that are not directly related to our investment in securities (possibly including speculative currency positions or currency derivatives not used for hedging purposes) also could, under future Treasury regulations, produce income not among the types of "qualifying income" from which a RIC must derive at least 90% of its annual gross income.

Failure to Qualify as a Regulated Investment Company

If we fail to satisfy the 90% Income Test or the Diversification Tests for any taxable year, we may nevertheless continue to qualify as a RIC for such taxable year if certain relief provisions are applicable (which may, among other things, require us to pay certain corporate-level federal taxes or to dispose of certain assets).

If we were unable to qualify for treatment as a RIC and the foregoing relief provisions are not applicable, we would be subject to tax on all of our taxable income at regular corporate rates. We would not be able to deduct distributions to stockholders, nor would they be required to be made. Such distributions would be taxable to our stockholders and provided certain holding period and other requirements were met, could qualify for treatment as “qualified dividend income” eligible for the 20% maximum U.S. federal income tax rate if earned by certain U.S. resident non-corporate stockholdersto the extent of our current and accumulated earnings and profits. Subject to certain limitations under the Code, corporate distributions generally would be eligible for the dividends-received deduction with respect to distributions current and accumulated earnings and profits if earned by certain U.S. resident corporate stockholders. Distributions in excess of our current and accumulated earnings and profits would be treated first as a return of capital to the extent of the stockholder’s tax basis, and any remaining distributions would be treated as a capital gain. To requalify as a RIC in a subsequent taxable year, we would be required to satisfy the RIC qualification requirements for that taxable year and dispose of any earnings and profits from any taxable year in which we failed to qualify as a RIC. Subject to a limited exception applicable to a corporation that qualified as a RIC under Subchapter M of the Code for at least one taxable year prior to disqualification and that requalify as a RIC no later than the second taxable year following the nonqualifying taxable year, we also could be subject to tax on any unrealized net built-in gains in the assets held by us during the period in which we failed to qualify as a RIC that are recognized within the subsequent five taxable years, unless we made a special election to incur a corporate-level income tax on such built-in gain at the time of our requalification as a RIC.

DETERMINATION OF NET ASSET VALUE

We determine the NAV per share of our common stock quarterly. The NAV per share is equal to the value of our total assets minus liabilities and any preferred stock outstanding divided by the total number of shares of common stock outstanding. As of the date of this report, we do not have any preferred stock outstanding.

At December 31, 2017, approximately 93.2% 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, Fair Value Measurements and Disclosures. 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 one or more independent valuation firms 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 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 publicly 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.

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 investments 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 an analysis of, 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 investment 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 investment is greater than amortized cost.

When originating a debt investment, 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 as of the valuation date.

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 option pricing model ("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 December 31, 2017, there were no material past due escrow receivables.

Determinations In Connection With Offerings

In connection with each offering of shares of our common stock, the Board of Directors or a committee thereof is required to make the determination that we are not selling shares of our common stock at a price below our then current NAV at the time at which the sale is made, unless it is determined by the Board of Directors that such sale is in the best interests of our stockholders and such sale is otherwise approved by our stockholders. The Board of Directors considers the following factors, among others, in making such determination:

- the NAV of our common stock disclosed in the most recent periodic report we filed with the SEC;
- our management's assessment of whether any material change in the NAV has occurred (including through the realization of net gains on the sale of our portfolio investments) from the period beginning on the date of the most recently disclosed NAV to the period ending two days prior to the date of the sale of our common stock; and
- the magnitude of the difference between (i) a value that our Board of Directors or an authorized committee thereof has determined reflects the current NAV of our common stock, which is generally based upon the NAV of our common stock disclosed in the most recent periodic report that we filed with the SEC, as adjusted to reflect our management's assessment of any material change in the NAV of our common stock since the date of the most recently disclosed NAV of our common stock, and (ii) the offering price of the shares of our common stock in the proposed offering.

Importantly, this determination does not require that we calculate NAV in connection with each offering of shares of our common stock, but instead it involves the determination by the Board of Directors or a committee thereof that we are not selling shares of our common stock at a price below the then current NAV at the time at which the sale is made.

Moreover, to the extent that there is a possibility that we may (i) issue shares of our common stock at a price below the then current NAV of our common stock at the time at which the sale is made or (ii) trigger the undertaking (which we will provide to the SEC in a registration statement to which a prospectus will be a part) to suspend the offering of shares of our common stock pursuant to a prospectus if the NAV fluctuates by certain amounts in certain circumstances until such prospectus is amended, the Board of Directors or a committee thereof will elect, in the case of clause (i) above, either to postpone the offering until such time that there is no longer the possibility of the occurrence of such, events or to undertake to determine NAV within two days prior to any such sale to ensure that such sale will not be below our then current NAV, and, in the case of clause (ii) above, to comply with such undertaking or to undertake to determine NAV to ensure that such undertaking has not been triggered.

These processes and procedures are part of our compliance policies and procedures. Records will be made contemporaneously with all determinations described in this section and these records will be maintained with other records we are required to maintain under the 1940 Act.

Item 1A. ***Risk Factors***

Investing in our securities may be speculative and involves a high degree of risk. You should consider carefully the risks described below and all other information contained in this Annual Report, including our financial statements and the related notes and the schedules and exhibits to this Annual Report. The risks set forth below are not the only risks we face. Additional risks and uncertainties not presently known to us or not presently deemed material by us may also impair our operations and performance. If any of the following risks occur, our business, financial condition and results of operations could be materially adversely affected. In such case, our NAV and the trading price of our securities could decline, and you may lose all or part of your investment.

Risks Related to our Business Structure

As an internally managed business development company, we are subject to certain restrictions that may adversely affect our business.

As an internally managed business development company, the size and categories of our assets under management is limited, and we are unable to offer as wide a variety of financial products to prospective portfolio companies and sponsors (potentially limiting the size and diversification of our asset base). We therefore may not achieve efficiencies of scale and greater management resources available to externally managed business development companies.

Additionally, as an internally managed business development company, our ability to offer more competitive and flexible compensation structures, such as offering both a profit sharing plan and an equity incentive plan, is subject to the limitations imposed by the 1940 Act, which limits our ability to attract and retain talented investment management professionals. As such, these limitations could inhibit our ability to grow, pursue our business plan and attract and retain professional talent, any or all of which may have a negative impact on our business, financial condition and results of operations.

As an internally managed business development company, we are dependent upon key management personnel for their time availability and for our future success, particularly Manuel A. Henriquez, and if we are not able to hire and retain qualified personnel, or if we lose any member of our senior management team, our ability to implement our business strategy could be significantly harmed.

As an internally managed business development company, our ability to achieve our investment objectives and to make distributions to our stockholders depends upon the performance of our senior management. We depend upon the members of our senior management, particularly Mr. Henriquez, as well as other key personnel for the identification, final selection, structuring, closing and monitoring of our investments. These employees have critical industry experience and relationships on which we rely to implement our business plan. If we lose the services of Mr. Henriquez or any senior management members, we may not be able to operate the business as we expect, and our ability to compete could be harmed, which could cause our operating results to suffer. Furthermore, we do not have an employment agreement with Mr. Henriquez or our senior management that restricts them from creating new investment vehicles subject to compliance with applicable law. We believe our future success will depend, in part, on our ability to identify, attract and retain sufficient numbers of highly skilled employees. If we do not succeed in identifying, attracting and retaining such personnel, we may not be able to operate our business as we expect.

As an internally managed business development company, our compensation structure is determined and set by our Board of Directors. This structure currently includes salary and bonus and incentive compensation, which is issued through grants and subsequent vesting of restricted stock. We are not generally permitted by the 1940 Act to employ an incentive compensation structure that directly ties performance of our investment portfolio and results of operations to compensation owing to our granting of restricted stock as incentive compensation.

Members of our senior management may receive offers of more flexible and attractive compensation arrangements from other companies, particularly from investment advisers to externally managed business development companies that are not subject to the same limitations on incentive-based compensation that we, as an internally managed business development company are subject to. We do not currently have agreements with certain members of our senior management that prohibit them from leaving and competing with our business and certain States limit our ability to have such agreements. In addition, the evaluation of alternative management structures discussed above may lead to changes in our management structure. A departure by one or more members of our senior management could have a negative impact on our business, financial condition and results of operations.

Our business model depends to a significant extent upon strong referral relationships with venture capital and private equity fund sponsors, and our inability to develop or maintain these relationships, or the failure of these relationships to generate investment opportunities, could adversely affect our business.

We expect that members of our management team will maintain their relationships with venture capital and private equity firms, and we will rely to a significant extent upon these relationships to provide us with our deal flow. If we fail to maintain our existing relationships, our relationships become strained as a result of enforcing our rights with respect to non-performing portfolio companies in protecting our investments or we fail to develop new relationships with other firms or sources of investment opportunities, then we will not be able to grow our investment portfolio. In addition, persons with whom members of our management team have relationships are not obligated to provide us with investment opportunities and, therefore, there is no assurance that such relationships will lead to the origination of debt or other investments.

We may be the target of litigation.

We may be the target of securities litigation in the future, particularly if the trading price of our common stock and our debt securities fluctuates significantly. We could also generally be subject to litigation, including derivative actions by our stockholders. Any litigation could result in substantial costs and divert management's attention and resources from our business and cause a material adverse effect on our business, financial condition and results of operations.

We operate in a highly competitive market for investment opportunities, and we may not be able to compete effectively.

A number of entities compete with us to make the types of investments that we plan to make in prospective portfolio companies. We compete with a large number of venture capital and private equity firms, as well as with other investment funds, business development companies, investment banks and other sources of financing, including traditional financial services companies such as commercial banks and finance companies. Many of our competitors are substantially larger and have considerably greater financial, technical, marketing and other resources than we do. For example, some competitors may have a lower cost of funds and/or access to funding sources that are not available to us. This may enable some competitors to make loans with interest rates that are comparable to or lower than the rates that we typically offer.

A significant increase in the number and/or the size of our competitors, including traditional commercial lenders and other financing sources, in technology-related industries could force us to accept less attractive investment terms. We may be unable to capitalize on certain opportunities if we do not match competitors' pricing, terms and structure. If we do match competitors' pricing, terms or structure, we may experience decreased net interest income and increased risk of credit losses. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments, establish more relationships and build their market shares. An increasing number of competitors may also have the effect of compressing our margins, which could harm our ability to retain employees, increase our operating costs, and decrease the amount and frequency of future distributions. Furthermore, many potential competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a business development company or that the Code imposes on us as a RIC. If we are not able to compete effectively, our business, financial condition, and results of operations will be adversely affected. As a result of this competition, there can be no assurance that we will be able to identify and take advantage of attractive investment opportunities, or that we will be able to fully invest our available capital.

If we are unable to manage our future growth effectively, we may be unable to achieve our investment objective, which could adversely affect our financial condition and results of operations and cause the value of your investment to decline.

Our ability to achieve our investment objective will depend on our ability to sustain growth. Sustaining growth will depend, in turn, on our senior management team's ability to identify, evaluate, finance and invest in suitable companies that meet our investment criteria. Accomplishing this result on a cost-effective basis is largely a function of our marketing capabilities, our management of the investment process, our ability to provide efficient services and our access to financing sources on acceptable terms. Organizational growth and scale-up of our investments could strain our existing managerial, investment, financial and other resources. Management of our growth could divert financial resources from other projects. Failure to manage our future growth effectively could lead to a decrease in our future distributions and have a material adverse effect on our business, financial condition and results of operations.

Because we intend to distribute substantially all of our income to our stockholders in order to qualify as a RIC, we will continue to need additional capital to finance our growth. If additional funds are unavailable or not available on favorable terms, our ability to grow will be impaired.

In order to satisfy the tax requirements applicable to a RIC and to minimize or avoid being subject to income and excise taxes, we intend to make distributions to our stockholders treated as dividends for U.S. federal income tax purposes generally of an amount at least equal to substantially all of our net ordinary income and realized net capital gains except for certain realized net capital gains, which we may retain, pay applicable income taxes with respect thereto and elect to treat as deemed distributions to our stockholders. As a business development company, we generally are required to meet a coverage ratio of total assets to total borrowings and other senior securities, which includes all of our borrowings and any preferred stock that we may issue in the future, of at least 200%. This requirement limits the amount that we may borrow. This limitation may prevent us from incurring debt and require us to raise additional equity at a time when it may be disadvantageous to do so. We cannot assure you that debt and equity financing will be available to us on favorable terms, or at all, and debt financings may be restricted by the terms of any of our outstanding borrowings. If we are unable to incur additional debt, we may be required to raise additional equity at a time when it may be disadvantageous to do so. In addition, shares of closed-end investment companies have recently traded at discounts to their NAV.

This characteristic of closed-end investment companies is separate and distinct from the risk that our NAV per share may decline. We cannot predict whether shares of our common stock will trade above, at or below our NAV. If our common stock trades below its NAV, we generally will not be able to issue additional shares of our common stock at its market price without first obtaining the approval for such issuance from our stockholders and our independent directors. If additional funds are not available to us, we could be forced to curtail or cease new lending and investment activities, and our NAV could decline. In addition, our results of operations and financial condition could be adversely affected.

Because most of our investments typically are not in publicly-traded securities, there is uncertainty regarding the value of our investments, which could adversely affect the determination of our NAV.

At December 31, 2017, portfolio investments, whose fair value is determined in good faith by the Board of Directors, were approximately 93.2% of our total assets. We expect our investments to continue to consist primarily of securities issued by privately-held companies, the fair value of which is not readily determinable. In addition, we are not permitted to maintain a general reserve for anticipated loan losses. Instead, we are required by the 1940 Act to specifically value each investment and record an unrealized gain or loss for any asset that we believe has increased or decreased in value.

There is no single standard for determining fair value in good faith. We value these securities at fair value as determined in good faith by our Board of Directors, based on the recommendations of our Audit Committee. In making a good faith determination of the value of these securities, we generally start with the cost basis of each security, which includes the amortized original issue discount, or OID, and payment-in-kind, or PIK, interest, if any. The Audit Committee uses its best judgment in arriving at the fair value of these securities. As a result, determining fair value requires that judgment be applied to the specific facts and circumstances of each portfolio investment while applying a valuation process for the types of investments we make, which includes but is not limited to deriving a hypothetical exit price.

However, the Board of Directors retains ultimate authority as to the appropriate valuation of each investment. Because such valuations are inherently uncertain and may be based on estimates, our determinations of fair value may differ materially from the values that would be assessed if a ready market for these securities existed. We adjust quarterly the valuation of our portfolio to reflect the Board of Directors' determination of the fair value of each investment in our portfolio. Any changes in fair value are recorded in our statement of operations as net change in unrealized appreciation or depreciation. Our NAV could be adversely affected if our determinations regarding the fair value of our investments were materially higher than the values that we ultimately realize upon the disposal of such securities.

Because we have substantial indebtedness, there could be increased risk in investing in our company.

Lenders have fixed dollar claims on our assets that are superior to the claims of stockholders, and we have granted, and may in the future grant, lenders a security interest in our assets in connection with borrowings. In the case of a liquidation event, those lenders would receive proceeds before our stockholders. In addition, borrowings, also known as leverage, magnify the potential for gain or loss on amounts invested and, therefore, increase the risks associated with investing in our securities. Leverage is generally considered a speculative investment technique. If the value of our assets increases, then leverage would cause the NAV attributable to our common stock to increase more than it otherwise would have had we not leveraged. Conversely, if the value of our assets decreases, leverage would cause the NAV attributable to our common stock to decline more than it otherwise would have had we not used leverage. Similarly, any increase in our revenue in excess of interest expense on our borrowed funds would cause our net income to increase more than it would without the leverage. Any decrease in our revenue would cause our net income to decline more than it would have had we not borrowed funds and could negatively affect our ability to make distributions on common stock. Our ability to service any debt that we incur will depend largely on our financial performance and will be subject to prevailing economic conditions and competitive pressures. We and, indirectly, our stockholders will bear the cost associated with our leverage activity. If we are not able to service our substantial indebtedness, our business could be harmed materially.

Our secured credit facilities with Wells Fargo Capital Finance LLC (the "Wells Facility") and MUFG Union Bank, N.A. (the "Union Bank Facility," and together with the Wells Facility, our "Credit Facilities") , our 2022 Notes, our 2024 Notes, our 2021 Asset-Backed Notes, and our 2022 Convertible Notes (as each term is defined below) contain financial and operating covenants that could restrict our business activities, including our ability to declare dividend distributions if we default under certain provisions.

As of December 31, 2017, we had no borrowings outstanding under the Wells Facility and the Union Bank Facility. In addition, as of December 31, 2017, we had approximately $190.2 million of indebtedness outstanding incurred by our SBIC subsidiaries, approximately $150.0 million in aggregate principal amount of 4.625% notes due 2022 (the "2022 Notes"), approximately $183.5 million in aggregate principal amount of 6.25% notes due 2024 (the "2024 Notes"), approximately $49.2 million in aggregate principal amount of fixed rate asset-backed notes issued in November 2014 (the "2021 Asset-Backed Notes") in connection with our $237.4 million debt securitization (the "2014 Debt Securitization") and approximately $230.0 million in aggregate principal amount of 4.375% convertible notes due 2022 (the "2022 Convertible Notes").

There can be no assurance that we will be successful in obtaining any additional debt capital on terms acceptable to us or at all. If we are unable to obtain debt capital, then our equity investors will not benefit from the potential for increased returns on equity resulting from leverage to the extent that our investment strategy is successful and we may be limited in our ability to make new commitments or fundings to our portfolio companies.

As a business development company, generally, we are not permitted to incur indebtedness unless immediately after such borrowing we have an asset coverage for total borrowings of at least 200% (i.e., the amount of debt may not exceed 50% of the value of our assets). In addition, we may not be permitted to declare any cash distribution on our outstanding common shares, or purchase any such shares, unless, at the time of such declaration or purchase, we have asset coverage of at least 200% after deducting the amount of such distribution or purchase price. If this ratio declines below 200%, we may not be able to incur additional debt and may need to sell a portion of our investments to repay some debt when it is disadvantageous to do so, and we may not be able to make distributions. Legislation introduced in the U.S. House of Representatives during the 114th Congress proposed to modify this section of the 1940 Act and increase the amount of debt that business development companies may incur by modifying the asset coverage percentage from 200% to 150%. If such legislation is passed, we may be able to incur additional indebtedness in the future and, therefore, your risk of an investment in our securities may increase.

As of December 31, 2017 our asset coverage ratio under our regulatory requirements as a business development company was 236.7% excluding our SBIC debentures as a result of our exemptive order from the SEC that allows us to exclude all SBA leverage from our asset coverage ratio and was 204.3% when including all SBA leverage.

Based on assumed leverage equal to 95.5% of our net assets as of December 31, 2017, our investment portfolio would have been required to experience an annual return of at least 2.9% to cover annual interest payments on our additional indebtedness.

Illustration. The following table illustrates the effect of leverage on returns from an investment in our common stock assuming various annual returns, net of expenses. The calculations in the table below are hypothetical and actual returns may be higher or lower than those appearing below.

	Annual Return on Our Portfolio (Net of Expenses)				
	-10%	-5%	0%	5%	10%
Corresponding return to stockholder(1)	(25.31%)	(15.48%)	(5.64%)	4.20%	14.04%

(1) Assumes $1.7 billion in total assets, $802.9 million in debt outstanding, $841.0 million in stockholders' equity, and an average cost of funds of 5.9%, which is the approximate average cost of borrowed funds, including our SBA debentures, 2022 Notes, 2024 Notes, 2021 Asset-Backed Notes, 2022 Convertible Notes, and Credit Facilities for the period ended December 31, 2017. Actual interest payments may be different.

It is likely that the terms of any current or future long-term or revolving credit or warehouse facility we may enter into in the future could constrain our ability to grow our business.

Under our borrowings and our Credit Facilities, current lenders have, and any future lender or lenders may have, fixed dollar claims on our assets that are senior to the claims of our stockholders and, thus, will have a preference over our stockholders with respect to our assets pledged as collateral under the Credit Facilities. Our Credit Facilities and borrowings also subject us to various financial and operating covenants, including, but not limited to, maintaining certain financial ratios and minimum tangible net worth amounts. Future credit facilities and borrowings will likely subject us to similar or additional covenants. In addition, we may grant a security interest in our assets in connection with any such credit facilities and borrowings.

Our Credit Facilities generally contain customary default provisions such as a minimum net worth amount, a profitability test, and a restriction on changing our business and loan quality standards. In addition, our Credit Facilities require or are expected to require the repayment of all outstanding debt on the maturity which may disrupt our business and potentially the business of our portfolio companies that are financed through the facilities. An event of default under these facilities would likely result, among other things, in termination of the availability of further funds under the facilities and accelerated maturity dates for all amounts outstanding under the facilities, which would likely disrupt our business and, potentially, the business of the portfolio companies whose loans we finance through the facilities. This could reduce our revenues and, by delaying any cash payment allowed to us under our facilities until the lender has been paid in full, reduce our liquidity and cash flow and impair our ability to grow our business and our ability to make distributions sufficient to maintain our ability to be subject to tax as a RIC.

The terms of future available financing may place limits on our financial and operation flexibility. If we are unable to obtain sufficient capital in the future, we may be forced to reduce or discontinue our operations, not be able to make new investments, or otherwise respond to changing business conditions or competitive pressures.

In addition to regulatory requirements that restrict our ability to raise capital, our 2022 Notes, 2024 Notes, 2022 Convertible Notes, and Credit Facilities contain various covenants which, if not complied with, could require accelerated repayment under the facility or require us to repurchase the 2022 Notes, 2024 Notes, 2022 Convertible Notes thereby materially and adversely affecting our liquidity, financial condition, results of operations and ability to pay distributions.

The credit agreements governing our 2022 Notes, 2024 Notes, 2022 Convertible Notes, and Credit Facilities require us to comply with certain financial and operational covenants. These covenants require us to, among other things, maintain certain financial ratios, including asset coverage, debt to equity and interest coverage. Our ability to continue to comply with these covenants in the future depends on many factors, some of which are beyond our control. There are no assurances that we will be able to comply with these covenants. Failure to comply with these covenants would result in a default which, if we were unable to obtain a waiver from the lenders under our Credit Facilities and could accelerate repayment under the facilities or the 2022 Notes, 2024 Notes or 2022 Convertible Notes and thereby have a material adverse impact on our liquidity, financial condition, results of operations and ability to pay a sufficient amount of distributions and maintain our ability to be subject to tax as a RIC. We may not have enough available cash or be able to obtain financing at the time we are required to make repurchases. See "Management's Discussion and Analysis of Financial Condition of Results of Operations—Borrowings."

Acquisitions or investments that we may pursue could be unsuccessful, consume significant resources and require the incurrence of additional indebtedness.

We may consider acquisitions and investments that complement our existing business. These possible acquisitions and investments involve or may involve significant cash expenditures, debt incurrence, operating losses and expenses that could have a material effect on our financial condition and operating results.

In particular, if we incur additional debt, our liquidity and financial stability could be impaired as a result of using a significant portion of available cash or borrowing capacity to finance an acquisition. Moreover, we may face an increase in interest expense or financial leverage if additional debt is incurred to finance an acquisition, which may, among other things, adversely affect our various financial ratios and our compliance with the conditions of our existing indebtedness. In addition, such additional indebtedness may be secured by liens on our assets.

Acquisitions involve numerous other risks, including:

- diversion of management time and attention;
- failures to identify material problems and liabilities of acquisition targets or to obtain sufficient indemnification rights to fully offset possible liabilities related to the acquired businesses;
- difficulties integrating the operations, technologies and personnel of the acquired businesses;
- inefficiencies and complexities that may arise due to unfamiliarity with new assets, businesses or markets;
- disruptions to our ongoing business;
- inaccurate estimates of fair value made in the accounting for acquisitions and amortization of acquired intangible assets which would reduce future reported earnings;
- the inability to obtain required financing for the new acquisition or investment opportunities and our existing business;
- the need or obligation to divest portions of an acquired business;
- challenges associated with operating in new geographic regions;
- difficulties in achieving anticipated cost savings, synergies, business opportunities and growth prospects;
- potential loss of our or the acquired business' key employees, contractual relationships, suppliers or customers; and
- inability to obtain required regulatory approvals.

To the extent we pursue an acquisition that causes us to incur unexpected costs or that fails to generate expected returns, our financial position, results of operations and cash flows may be adversely affected, and our ability to service indebtedness, including our outstanding notes, may be negatively impacted.

In addition, we may fail in our pursuit of an acquisition and, instead, one of our competitors may successfully obtain the target and deprive us of an important opportunity and allow them to grow larger giving them the ability to have a lower cost of capital and competitive advantage in the market (including by being able to offer better pricing and larger loans) and, as a larger company, potentially giving them more valuable equity currency to do other transactions.

We may be unable to obtain debt capital on favorable terms or at all, in which case we would not be able to use leverage to increase the return on our investments.

If we are unable to obtain debt capital, then our equity investors will not benefit from the potential for increased returns on equity resulting from leverage to the extent that our investment strategy is successful and we may be limited in our ability to make new commitments or fundings to our portfolio companies. An inability to obtain debt capital may also limit our ability to refinance existing indebtedness, particularly during periods of adverse credit market conditions when refinancing indebtedness may not be available under interest rates and other terms acceptable to us or at all.

The Wells Facility and the Union Bank Facility mature in August 2019 and May 2020, respectively, and any inability to renew, extend or replace our Credit Facilities could adversely impact our liquidity and ability to find new investments or maintain distributions to our stockholders.

As of December 31, 2017, we had two available secured credit facilities, the Wells Facility and the Union Bank Facility, which mature in August 2019 and May 2020, respectively. There can be no assurance that we will be able to renew, extend or replace our Credit Facilities upon maturity on terms that are favorable to us, if at all. Our ability to renew, extend or replace the Credit Facility will be constrained by then-current economic conditions affecting the credit markets. In the event that we are not able to renew, extend or replace either Credit Facility at the time of its maturity, this could have a material adverse effect on our liquidity and ability to fund new investments, our ability to make distributions to our stockholders and our ability to qualify as a RIC.

We are subject to certain risks as a result of our interests in connection with the 2014 Debt Securitization and our equity interest in the 2014 Securitization Issuer.

On November 13, 2014, in connection with the 2014 Debt Securitization and the offering of the 2021 Asset-Backed Notes by Hercules Capital Funding Trust 2014-1 (the "2014 Securitization Issuer"), we sold and/or contributed to Hercules Capital Funding 2014-1 LLC, as trust depositor (the "2014 Trust Depositor"), certain senior loans made to certain of our portfolio companies (the "2014 Loans"), which the 2014 Trust Depositor in turn sold and/or contributed to the 2014 Securitization Issuer in exchange for 100% of the equity interest in the 2014 Securitization Issuer, cash proceeds and other consideration. Following these transfers, the 2014 Securitization Issuer, and not the 2014 Trust Depositor or us, held all of the ownership interest in the 2014 Loans.

As a result of the 2014 Debt Securitization, we hold, indirectly through the 2014 Trust Depositor, 100% of the equity interests in the 2014 Securitization Issuer. As a result, we consolidate the financial statements of the 2014 Trust Depositor and the 2014 Securitization Issuer, as well as our other subsidiaries, in our consolidated financial statements. Because the 2014 Trust Depositor and the 2014 Securitization Issuer is disregarded as an entity separate from its owners for U.S. federal income tax purposes, the sale or contribution by us to the 2014 Trust Depositor, and by the 2014 Trust Depositor to the 2014 Securitization Issuer, as applicable, did not constitute a taxable event for U.S. federal income tax purposes. If the U.S. Internal Revenue Service ("IRS") were to take a contrary position, there could be a material adverse effect on our business, financial condition, results of operations or cash flows.

Further, a failure of the 2014 Securitization Issuer to be treated as a disregarded entity for U.S. federal income tax purposes would constitute an event of default pursuant to the indenture under the 2014 Debt Securitization, upon which the trustee under the 2014 Debt Securitization (the "2014 Trustee"), may and will at the direction of a supermajority of the holders of the 2021 Asset-Backed Notes (the "2021 Noteholders"), declare the 2021 Asset-Backed Notes, to be immediately due and payable and exercise remedies under the applicable indenture, including (i) to institute proceedings for the collection of all amounts then payable on the 2021 Asset-Backed Notes, or under the applicable indenture, enforce any judgment obtained, and collect from the 2014 Securitization Issuer and any other obligor upon the 2021 Asset-Backed Notes monies adjudged due; (ii) institute proceedings from time to time for the complete or partial foreclosure of the applicable indenture with respect to the property of the 2014 Securitization Issuer; (iii) exercise any remedies as a secured party under the relevant Uniform Commercial Code and take other appropriate action under applicable law to protect and enforce the rights and remedies of the 2014 Trustee and the 2021 Noteholders; or (iv) sell the property of the 2014 Securitization Issuer or any portion thereof or rights or interest therein at one or more public or private sales called and conducted in any matter permitted by law. Any such exercise of remedies could have a material adverse effect on our business, financial condition, results of operations or cash flows.

An event of default in connection with the 2014 Debt Securitization could give rise to a cross-default under our other material indebtedness.

The documents governing our other material indebtedness contain customary cross-default provisions that could be triggered if an event of default occurs in connection with the 2014 Debt Securitization. An event of default with respect to our other indebtedness could lead to the acceleration of such indebtedness and the exercise of other remedies as provided in the documents governing such other indebtedness. This could have a material adverse effect on our business, financial condition, results of operations and cash flows and may result in our inability to make distributions sufficient to maintain our ability to be subject to tax as a RIC.

We may not receive cash distributions in respect of our indirect ownership interests in the 2014 Securitization Issuer.

Apart from fees payable to us in connection with our role as servicer of the 2014 Loans and the reimbursement of related amounts under the documents governing the 2014 Debt Securitization, we receive cash in connection with the 2014 Debt Securitization only to the extent that the 2014 Trust Depositor receives payments in respect of its equity interests in the 2014 Securitization Issuer. The respective holders of the equity interests in the 2014 Securitization Issuer are the residual claimants on distributions, if any, made by the 2014 Securitization Issuer after the respective 2021 Noteholders and other claimants have been paid in full on each payment date or upon maturity of the 2021 Asset-Backed Notes, subject to the priority of payments under the 2014 Debt Securitization documents governing the 2014 Debt Securitization. To the extent that the value of a 2014 Securitization Issuer's portfolio of loans is reduced as a result of conditions in the credit markets (relevant in the event of a liquidation event), other macroeconomic factors, distressed or defaulted loans or the failure of individual portfolio companies to otherwise meet their obligations in respect of the loans, or for any other reason, the ability of the 2014 Securitization Issuer to make cash distributions in respect of the 2014 Trust Depositor's equity interests would be negatively affected and consequently, the value of the equity interests in the 2014 Securitization Issuer would also be reduced. In the event that we fail to receive cash indirectly from the 2014 Securitization Issuer, we could be unable to make distributions, if at all, in amounts sufficient to maintain our ability to be subject to tax as a RIC.

The interests of the 2021 Noteholders may not be aligned with our interests.

The 2021 Asset-Backed Notes are debt obligations ranking senior in right of payment to the rights of the holder of the equity interests in the 2014 Securitization Issuer, as residual claimants in respect of distributions, if any, made by the 2014 Securitization Issuer. As such, there are circumstances in which the interests of the 2021 Noteholders may not be aligned with the interests of holders of the equity interests in the 2014 Securitization Issuer. For example, under the terms of the documents governing the 2014 Debt Securitization, the 2021 Noteholders have the right to receive payments of principal and interest prior to holders of the equity interests.

For as long as the 2021 Asset-Backed Notes remain outstanding, the respective 2021 Noteholders have the right to act in certain circumstances with respect to the 2014 Loans in ways that may benefit their interests but not the interests of the respective holders of the equity interests in the 2014 Securitization Issuer, including by exercising remedies under the documents governing the 2014 Debt Securitization.

If an event of default occurs, the 2021 Noteholders will be entitled to determine the remedies to be exercised, subject to the terms of the documents governing the 2014 Debt Securitization. For example, upon the occurrence of an event of default with respect to the 2021 Asset-Backed Notes, the 2014 Trustee may and will at the direction of the holders of a supermajority of the applicable 2021 Asset-Backed Notes declare the principal, together with any accrued interest, of the notes to be immediately due and payable. This would have the effect of accelerating the principal on such notes, triggering a repayment obligation on the part of the 2014 Securitization Issuer. The 2021 Asset-Backed Notes then outstanding will be paid in full before any further payment or distribution on the equity interest is made. There can be no assurance that there will be sufficient funds through collections on the 2014 Loans or through the proceeds of the sale of the 2014 Loans in the event of a bankruptcy or insolvency to repay in full the obligations under the 2021 Asset-Backed Notes, or to make any distribution to holders of the equity interests in the 2014 Securitization Issuer.

Remedies pursued by the 2021 Noteholders could be adverse to our interests as the indirect holder of the equity interests in the 2014 Securitization Issuer. The 2021 Noteholders have no obligation to consider any possible adverse effect on such other interests. Thus, there can be no assurance that any remedies pursued by the 2021 Noteholders will be consistent with the best interests of the 2014 Trust Depositor or that we will receive, indirectly through the 2014 Trust Depositor, any payments or distributions upon an acceleration of the 2021 Asset-Backed Notes. Any failure of the 2014 Securitization Issuer to make distributions in respect of the equity interests that we indirectly hold, whether as a result of an event of default and the acceleration of payments on the 2021 Asset-Backed Notes or otherwise, could have a material adverse effect on our business, financial condition, results of operations and cash flows and may result in our inability to make distributions sufficient to maintain our ability to be subject to tax as a RIC.

Certain events related to the performance of 2014 Loans could lead to the acceleration of principal payments on the 2021 Asset-Backed Notes.

The following constitute rapid amortization events (“Rapid Amortization Events”) under the documents governing the 2014 Debt Securitization: (i) the aggregate outstanding principal balance of delinquent 2014 Loans, and restructured 2014 Loans that would have been delinquent 2014 Loans had such loans not become restructured loans exceeds 10% of the current aggregate outstanding principal balance of the 2014 Loans for a period of three consecutive months; (ii) the aggregate outstanding principal balance of defaulted 2014 Loans exceeds 5% of the initial outstanding principal balance of the 2014 Loans determined as November 13, 2014 for a period of three consecutive months; (iii) the aggregate outstanding principal balance of the 2021 Asset-Backed Notes exceeds the borrowing base for a period of three consecutive months; (iv) the 2014 Securitization Issuer’s pool of 2014 Loans contains 2014 Loans to ten or fewer obligors; and (v) the occurrence of an event of default under the documents governing the 2014 Debt Securitization. After a Rapid Amortization Event has occurred, subject to the priority of payments under the documents governing the 2014 Debt Securitization, principal collections on the 2014 Loans will be used to make accelerated payments of principal on the 2021 Asset-Backed Notes until the principal balance of the 2021 Asset-Back Notes is reduced to zero. Such an event could delay, reduce or eliminate the ability of the 2014 Securitization Issuer to make distributions in respect of the equity interests that we indirectly hold, which could have a material adverse effect on our business, financial condition, results of operations and cash flows and may result in our inability to make distributions sufficient to maintain our ability to be subject to tax as a RIC.

We have certain repurchase obligations with respect to the 2014 Loans transferred in connection with the 2014 Debt Securitization.

As part of the 2014 Debt Securitization, we entered into a sale and contribution agreement and a sale and servicing agreement under which we would be required to repurchase any 2014 Loan (or participation interest therein) which was sold to the 2014 Securitization Issuer in breach of certain customary representations and warranty made by us or by the 2014 Trust Depositors with respect to such 2014 Loan or the legal structure of the 2014 Debt Securitization. To the extent that there is a breach of such representations and warranties and we fail to satisfy any such repurchase obligation, a 2014 Trustee may, on behalf of the 2014 Securitization Issuer, bring an action against us to enforce these repurchase obligations.

Our investments in a portfolio company, whether debt, equity, or a combination thereof, may lead to our receiving material non-public information ("MNPI") or obtaining 'control' of the target company. Our ability to exit an investment where we have MNPI or control could be limited and could result in a realized loss on the investment.

If we receive MNPI, or a controlling interest in a portfolio company, our ability to divest ourselves from a debt or equity investment could be restricted. Causes of such restriction could include market factors, such as liquidity in a private stock, or limited trading volume in a public company's securities, or regulatory factors, such as the receipt of MNPI or insider blackout periods, where we are under legal obligation not to sell. Additionally, we may choose not to take certain actions to protect a debt investment in a control investment portfolio company. As a result, we could experience a decrease in the value of our portfolio company holdings and potentially incur a realized loss on the investment.

Regulations governing our operations as a business development company may affect our ability to, and the manner in which, we raise additional capital, which may expose us to risks.

Our business will require a substantial amount of capital. We may acquire additional capital from the issuance of senior securities, including borrowings, securitization transactions or other indebtedness, or the issuance of additional shares of our common stock. However, we may not be able to raise additional capital in the future on favorable terms or at all. We may issue debt securities, other evidences of indebtedness or preferred stock, and we may borrow money from banks or other financial institutions, which we refer to collectively as "senior securities," up to the maximum amount permitted by the 1940 Act. Under the 1940 Act, we are not permitted to incur indebtedness unless immediately after such borrowing we have an asset coverage for total borrowings of at least 200% (i.e., the amount of debt may not exceed 50% of the value of our assets). In addition, we may not be permitted to declare any cash distribution on our outstanding common shares, or purchase any such shares, unless, at the time of such declaration or purchase, we have asset coverage of at least 200% after deducting the amount of such distribution or purchase price. Our ability to pay distributions or issue additional senior securities would be restricted if our asset coverage ratio were not at least 200%. Legislation introduced in the U.S. House of Representatives during the 114th Congress proposed to modify this section of the 1940 Act and increase the amount of debt that business development companies may incur by modifying the asset coverage percentage from 200% to 150%. If such legislation is passed, we may be able to incur additional indebtedness in the future and, therefore, your risk of an investment in our securities may increase.

If the value of our assets declines, we may be unable to satisfy this test. If that happens, we may be required to liquidate a portion of our investments and repay a portion of our indebtedness at a time when such transaction may be disadvantageous. As a result of issuing senior securities, we would also be exposed to risks associated with leverage, including an increased risk of loss. If we issue preferred stock, the preferred stock would rank "senior" to common stock in our capital structure, preferred stockholders would have separate voting rights and might have rights, preferences, or privileges more favorable than those of our common stockholders and the issuance of preferred stock could have the effect of delaying, deferring, or preventing a transaction or a change of control that might involve a premium price for holders of our common stock or otherwise be in your best interest. It is likely that any senior securities or other indebtedness we issue will be governed by an indenture or other instrument containing covenants restricting our operating flexibility. Additionally, some of these securities or other indebtedness may be rated by rating agencies, and in obtaining a rating for such securities and other indebtedness, we may be required to abide by operating and investment guidelines that further restrict operating and financial flexibility.

To the extent that we are constrained in our ability to issue debt or other senior securities, we will depend on issuances of common stock to finance operations. Other than in certain limited situations such as rights offerings, as a business development company, we are generally not able to issue our common stock at a price below NAV without first obtaining required approvals from our stockholders and our independent directors. If we raise additional funds by issuing more common stock or senior securities convertible into, or exchangeable for, our common stock, then the percentage ownership of our stockholders at that time will decrease, and you might experience dilution. Moreover, we can offer no assurance that we will be able to issue and sell additional equity securities in the future, on favorable terms or at all.

When we are a debt or minority equity investor in a portfolio company, we may not be in a position to control the entity, and management of the company may make decisions that could decrease the value of our portfolio holdings.

We make both debt and minority equity investments; therefore, we are subject to the risk that a portfolio company may make business decisions with which we disagree, and the stockholders and management of such company may take risks or otherwise act in ways that do not serve our interests. As a result, a portfolio company may make decisions that could decrease the value of our portfolio holdings.

If we do not invest a sufficient portion of our assets in qualifying assets, we could fail to qualify as a business development company or be precluded from investing according to our current business strategy.

As a business development company, we may not acquire any assets other than "qualifying assets" as defined under the 1940 Act, unless, at the time of and after giving effect to such acquisition, at least 70% of our total assets are qualifying assets. See "Item 1. Business –Regulation."

We believe that most of the senior loans we make will constitute qualifying assets. However, we may be precluded from investing in what we believe are attractive investments if such investments are not qualifying assets for purposes of the 1940 Act. If we do not invest a sufficient portion of our assets in qualifying assets, we could lose our status as a business development company, which would have a material adverse effect on our business, financial condition and results of operations. In addition, a rise in the equity markets may result in increased market valuations of certain of our existing and prospective portfolio companies, which may lead to new investments with such companies being qualified as non-eligible portfolio company assets and would require we invest in qualified assets or risk losing our status as a business development company. Similarly, these rules could prevent us from making follow-on investments in existing portfolio companies (which could result in the dilution of our position) or could require us to dispose of investments at inopportune times in order to comply with the 1940 Act. If we need to dispose of such investments quickly, it would be difficult to dispose of such investments on favorable terms. For example, we may have difficulty in finding a buyer and, even if we do find a buyer, we may have to sell the investments at a substantial loss.

A failure on our part to maintain our qualification as a business development company would significantly reduce our operating flexibility.

If we fail to continuously qualify as a business development company, we might be subject to regulation as a registered closed-end investment company under the 1940 Act, which would significantly decrease our operating flexibility, and lead to situations where we might have to restrict our borrowings, reduce our leverage, sell securities and pursue other activities that we are allowed to engage in as a business development company. In addition, failure to comply with the requirements imposed on business development companies by the 1940 Act could cause the SEC to bring an enforcement action against us. For additional information on the qualification requirements of a business development company, see "Item 1. Business – Regulation."

To the extent OID and PIK interest constitute a portion of our income, we will be exposed to risks associated with such income being required to be included in taxable and accounting income prior to receipt of cash representing such income.

Our investments may include OID instruments and contractual PIK interest arrangements, which represents contractual interest added to a loan balance and due at the end of such loan's term. To the extent OID or PIK interest constitute a portion of our income, we are exposed to risks associated with such income being required to be included in taxable and accounting income prior to receipt of cash, including the following:

- The higher interest rates of OID and PIK instruments reflect the payment deferral and increased credit risk associated with these instruments, and OID and PIK instruments generally represent a significantly higher credit risk than coupon loans.
- Even if the accounting conditions for income accrual are met, the borrower could still default when our actual collection is supposed to occur at the maturity of the obligation, which could lead to future losses.
- OID and PIK instruments may have unreliable valuations because their continuing accruals require continuing judgments about the collectability of the deferred payments and the value of any associated collateral. OID and PIK income may also create uncertainty about the source of our cash distributions.
- For accounting purposes, any cash distributions to stockholders representing OID and PIK income are not treated as coming from paid-in capital, even though the cash to pay them comes from the offering proceeds. As a result, despite the fact that a distribution representing OID and PIK income could be paid out of amounts invested by our stockholders, the 1940 Act does not require that stockholders be given notice of this fact by reporting it as a return of capital.
- The deferral of PIK interest may have a negative impact on our liquidity as it represents non-cash income that may require cash distributions to our stockholders in order to maintain our ability to be subject to tax as a RIC.
- Recent tax legislation requires that income be recognized for tax purposes no later than when recognized for financial reporting purposes.

If we are unable to satisfy Code requirements for qualification as a RIC, then we will be subject to corporate-level income tax, which would adversely affect our results of operations and financial condition.

We elected to be treated as a RIC for U.S. federal income tax purposes with the filing of our federal corporate income tax return for 2006. We will not qualify for the tax treatment allowable to RICs if we are unable to comply with the source of income, asset diversification and distribution requirements contained in Subchapter M of the Code, or if we fail to maintain our election to be regulated as a business development company under the 1940 Act. If we fail to qualify as a RIC for any reason and become subject to a corporate-level income tax, the resulting taxes could substantially reduce our net assets, the amount of income available for distribution to our stockholders and the actual amount of our distributions. Such a failure would have a material adverse effect on us, the NAV of our common stock and the total return, if any, earned from your investment in our common stock.

We may have difficulty paying our required distributions under applicable tax rules if we recognize income before or without receiving cash representing such income.

In accordance with U.S. federal tax requirements, we are required to include in income for tax purposes certain amounts that we have not yet received in cash, such as OID and contractual PIK interest arrangements, which represent contractual interest added to a loan balance and due at the end of such loan's term. In addition to the cash yields received on our loans, in some instances, our loans generally include one or more of the following: exit fees, balloon payment fees, commitment fees, success fees or prepayment fees. In some cases our loans also include contractual PIK interest arrangements. The increases in loan balances as a result of contractual PIK arrangements are included in income for the period in which such PIK interest was accrued, which is often in advance of receiving cash payment, and are separately identified on our statements of cash flows. We also may be required to include in income for tax purposes certain other amounts prior to receiving the related cash. Also, recent tax legislation requires that income be recognized for tax purposes no later than when recognized for financial reporting purposes.

Any warrants that we receive in connection with our debt investments will generally be valued as part of the negotiation process with the particular portfolio company. As a result, a portion of the aggregate purchase price for the debt investments and warrants will be allocated to the warrants that we receive. This will generally result in OID for tax purposes, which we must recognize as ordinary income, increasing the amount that we are required to distribute in order to be subject to tax as a RIC. Because these warrants generally will not produce distributable cash for us at the same time as we are required to make distributions in respect of the related OID, if ever, we would need to obtain cash from other sources or to pay a portion of our distributions using shares of newly issued common stock, consistent with IRS guidelines and the Code, to satisfy such distribution requirements.

Other features of the debt instruments that we hold may also cause such instruments to generate OID in excess of current cash interest received. Since in certain cases we may recognize income before or without receiving cash representing such income, we may have difficulty meeting the RIC tax requirement to make distributions each taxable year to our stockholders treated as dividends for U.S. federal income tax purposes generally of an amount equal to at least 90% of our investment company taxable income, determined without regard to any deduction for dividends paid. Under such circumstances, we may have to sell some of our assets, raise additional debt or equity capital or reduce new investment originations to meet these distribution requirements. If we are unable to obtain cash from other sources and are otherwise unable to satisfy such distribution requirements, we may fail to qualify to be subject to tax as a RIC and, thus, become subject to a corporate-level income tax on all our taxable income (including any net realized securities gains).

Furthermore, we may invest in the equity securities of non-U.S. corporations (or other non-U.S. entities classified as corporations for U.S. federal income tax purposes) that could be treated under the Code and U.S. Treasury regulations as "passive foreign investment companies" ("PFICs") and/or "controlled foreign corporations" ("CFCs"). The rules relating to investment in these types of non-U.S. entities are designed to ensure that U.S. taxpayers are either, in effect, taxed currently (or on an accelerated basis with respect to corporate level events) or taxed at increased tax rates at distribution or disposition. In certain circumstances, these rules also could require us to recognize taxable income or gains where we do not receive a corresponding payment in cash. Furthermore, under recently proposed Treasury Regulations, certain income derived by us either from a PFIC with respect to which we have made a certain U.S. tax election or from a CFC would generally constitute qualifying income for purposes of determining our ability to be subject to tax as a RIC only to the extent the PFIC or CFC respectively makes distributions of that income to us. As such, we may be restricted in our ability to make QEF elections with respect to our holdings in issuers that could either be treated as PFICs or CFCs in order to limit our tax liability or maximize our after-tax return from these investments.

Our portfolio investments may present special tax issues.

Investments in below-investment grade debt instruments and certain equity securities may present special tax issues for us. U.S. federal income tax rules are not entirely clear about issues such as when we may cease to accrue interest, OID or market discount, when and to what extent deductions may be taken for bad debts or worthless debt in equity securities, how payments received on obligations in default should be allocated between principal and interest income, as well as whether exchanges of debt instruments in a bankruptcy or workout context are taxable. Such matters could cause us to recognize taxable income for U.S. federal income tax purposes, even in the absence of cash or economic gain, and require us to make taxable distributions to our stockholders to maintain our RIC status or preclude the imposition of either U.S. federal corporate income or excise taxation. Additionally, because such taxable income may not be matched by corresponding cash received by us, we may be required to borrow money or dispose of other investments to be able to make distributions to our stockholders. These and other issues will be considered by us, to the extent determined necessary, in order that we minimize the level of any U.S. federal income or excise tax that we would otherwise incur. See "Certain United States Federal Income Tax Considerations—Taxation as a Regulated Investment Company."

FATCA withholding may apply to payments made to certain foreign entities.

The Foreign Account Tax Compliance Act provisions of the Code and the related Treasury Regulations and other administrative guidance promulgated thereunder (collectively, "FATCA") generally requires us to withhold U.S. tax (at a 30% rate) on payments of interest and taxable dividends as well as, effective January 1, 2019, redemption proceeds and certain capital gain dividends made to a foreign financial institution or non-financial foreign entity (including such an institution or entity acting as an intermediary) unless the foreign financial institution or non-financial foreign entity complies with certain information reporting, withholding, identification, certification and related requirements imposed by FATCA. Persons located in jurisdictions that have entered into an intergovernmental agreement with the United States to implement FATCA may be subject to different rules. Stockholders may be requested to provide additional information to enable us to determine whether such withholding is required.

Legislative or regulatory tax changes could adversely affect you.

At any time, the U.S. federal income tax laws governing RICs or the administrative interpretations of those laws or regulations may be amended. Any of those new laws, regulations or interpretations may take effect retroactively and could adversely affect the taxation of us or of you as a stockholder. Therefore, changes in tax laws, regulations or administrative interpretations or any amendments thereto could diminish the value of an investment in our shares or the value or the resale potential of our investments.

There is a risk that you may not receive distributions or that our distributions may not grow over time.

We intend to make distributions on a quarterly basis to our stockholders. We cannot assure you that we will achieve investment results, or our business may not perform in a manner that will allow us to make a specified level of distributions or year-to-year increases in cash distributions. In addition, due to the asset coverage test applicable to us as a business development company, we may be limited in our ability to make distributions. Also, our Credit Facilities limit our ability to declare distributions to our stockholders if we default under certain provisions of our Credit Facilities. Furthermore, while we may have undistributed earnings, those earnings may not yield distributions because we may incur unrealized losses or otherwise be unable to distribute such earnings.

We have and may in the future choose to pay distributions in our own stock, in which case you may be required to pay tax in excess of the cash you receive.

Under applicable Treasury regulations and other general guidelines issued by the IRS, RICs are permitted to treat certain distributions payable in their stock, as taxable dividends that will satisfy their annual distribution obligations for U.S. federal income tax and excise tax purposes provided that stockholders have the opportunity to elect to receive all or a portion of such distribution in cash. Taxable stockholders receiving distributions will be required to include the full amount of such distributions as ordinary income (or as long-term capital gain to the extent such distribution is properly reported as a capital gain dividend) to the extent of our current and accumulated earnings and profits for U.S. federal income tax purposes. As a result, a U.S. stockholder may be required to pay tax with respect to such distributions in excess of any cash received. If a U.S. stockholder sells the stock it receives as a distribution in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the distribution, depending on the market price of our stock at the time of the sale. Furthermore, with respect to non-U.S. stockholders, we may be required to withhold U.S. federal income tax with respect to such distributions, including in respect of all or a portion of such distribution that is payable in stock. In addition, if a significant number of our stockholders determine to sell shares of our stock in order to pay taxes owed on such distributions, then such sales may put downward pressure on the trading price of our stock. We may in the future determine to distribute taxable distributions that are partially payable in our common stock.

We are exposed to risks associated with changes in interest rates, including fluctuations in interest rates which could adversely affect our profitability or the value of our portfolio

General interest rate fluctuations may have a substantial negative impact on our investments and investment opportunities, and, accordingly, may have a material adverse effect on our investment objective and rate of return on investment capital. A portion of our income will depend upon the difference between the rate at which we borrow funds and the interest rate on the debt securities in which we invest. Because we will borrow money to make investments and may issue debt securities, preferred stock or other securities, our net investment income is dependent upon the difference between the rate at which we borrow funds or pay interest or dividends on such debt securities, preferred stock or other securities and the rate at which we invest these funds. Typically, we anticipate that our interest-earning investments will accrue and pay interest at both variable and fixed rates, and that our interest-bearing liabilities will generally accrue interest at fixed rates.

A significant increase in market interest rates could harm our ability to attract new portfolio companies and originate new loans and investments. In addition to potentially increasing the cost of our debt, increasing interest rates may also have a negative impact on our portfolio companies' ability to repay or service their loans, which could enhance the risk of loan defaults. We expect that most of our current initial investments in debt securities will be at floating rate with a floor. However, in the event that we make investments in debt securities at variable rates, a significant increase in market interest rates could also result in an increase in our non-performing assets and a decrease in the value of our portfolio because our floating-rate loan portfolio companies may be unable to meet higher payment obligations. As of December 31, 2017, approximately 96.4% of our loans were at floating rates or floating rates with a floor and 3.6% of the loans were at fixed rates.

In periods of rising interest rates, our cost of funds would increase, resulting in a decrease in our net investment income. In addition, a decrease in interest rates may reduce net income, because new investments may be made at lower rates despite the increased demand for our capital that the decrease in interest rates may produce. We may, but will not be required to, hedge against the risk of adverse movement in interest rates in our short-term and long-term borrowings relative to our portfolio of assets. If we engage in hedging activities, it may limit our ability to participate in the benefits of lower interest rates with respect to the hedged portfolio. Adverse developments resulting from changes in interest rates or hedging transactions could have a material adverse effect on our business, financial condition, and results of operations.

Additionally, in July 2017, the head of the United Kingdom Financial Conduct Authority announced that it will no longer persuade or compel banks to submit rates for the calculation of LIBOR after 2021. At this time, it is not possible to predict the effect of this announcement as there is no definitive information regarding the future utilization of LIBOR or of any particular replacement rate.

We may expose ourselves to risks if we engage in hedging transactions.

If we engage in hedging transactions, we may expose ourselves to risks associated with such transactions. We may utilize instruments such as forward contracts, currency options and interest rate swaps, caps, collars and floors to seek to hedge against fluctuations in the relative values of our portfolio positions from changes in currency exchange rates and market interest rates. Hedging against a decline in the values of our portfolio positions does not eliminate the possibility of fluctuations in the values of such positions or prevent losses if the values of such positions decline. However, such hedging can establish other positions designed to gain from those same developments, thereby offsetting the decline in the value of such portfolio positions. Such hedging transactions may also limit the opportunity for gain if the values of the underlying portfolio positions should increase. It may not be possible to hedge against an exchange rate or interest rate fluctuation that is so generally anticipated that we are not able to enter into a hedging transaction at an acceptable price. Moreover, for a variety of reasons, we may not seek to establish a perfect correlation between such hedging instruments and there can be no assurance that any such hedging arrangements will achieve the desired effect. During the year ended December 31, 2017, we did not engage in any hedging activities.

Legislation may allow us to incur additional leverage.

As a business development company, under the 1940 Act generally we are not permitted to incur indebtedness unless immediately after such borrowing we have an asset coverage for total borrowings of at least 200% (i.e., the amount of debt may not exceed 50% of the value of our assets). If recent legislation introduced in the U.S. House of Representatives is passed, or similar legislation is introduced, it would modify this section of the 1940 Act and increase the amount of debt that business development companies may incur. As a result, we may be able to incur additional indebtedness in the future and therefore your risk of an investment in us may increase. However, the ultimate form and likely outcome of such legislation or any similar legislation cannot be predicted.

Two of our wholly-owned subsidiaries are licensed by the U.S. SBA, and as a result, we will be subject to SBA regulations, which could limit our capital or investment decisions.

Our wholly-owned subsidiaries HT II and HT III are licensed to act as SBICs and are regulated by the SBA. HT II and HT III hold approximately $111.8 million and $284.0 million in assets, respectively, and they accounted for approximately 5.4% and 13.8% of our total assets, respectively, prior to consolidation at December 31, 2017. The SBIC licenses allow our SBIC subsidiaries to obtain leverage by issuing SBA-guaranteed debentures, subject to the issuance of a capital commitment by the SBA and other customary procedures.

The SBA regulations require that a licensed SBIC be periodically examined and audited by the SBA to determine its compliance with the relevant SBA regulations. The SBA prohibits, without prior SBA approval, a "change of control" of an SBIC or transfers that would result in any person (or a group of persons acting in concert) owning 10.0% or more of a class of capital stock of a licensed SBIC. If either HT II or HT III fail to comply with applicable SBA regulations, the SBA could, depending on the severity of the violation, limit or prohibit HT II's or HT III's use of debentures, declare outstanding debentures immediately due and payable, and/ or limit HT II or HT III from making new investments. Such actions by the SBA would, in turn, negatively affect us because HT II and HT III are our wholly owned subsidiaries.

HT II and HT III were in compliance with the terms of the SBIC's leverage as of December 31, 2017 as a result of having sufficient capital as defined under the SBA regulations. Compliance with SBA requirements may cause HT II and HT III to forego attractive investment opportunities that are not permitted under SBA regulations. See "Item 1. Business — Regulation—Small Business Administration Regulations."

SBA regulations limit the outstanding dollar amount of SBA guaranteed debentures that may be issued by an SBIC or group of SBICs under common control.

The SBA regulations currently limit the dollar amount of SBA-guaranteed debentures that can be issued by any one SBIC to $150.0 million or to a group of SBICs under common control to $350.0 million.

An SBIC may not borrow an amount in excess of two times (and in certain cases, up to three times) its regulatory capital. As of December 31, 2017, we have issued $190.2 million in SBA-guaranteed debentures in our SBIC subsidiaries, which is the maximum combined capacity for our SBIC subsidiaries under our existing licenses. During times that we reach the maximum dollar amount of SBA-guaranteed debentures permitted, and if we require additional capital, our cost of capital is likely to increase, and there is no assurance that we will be able to obtain additional financing on acceptable terms.

Moreover, the current status of our SBIC subsidiaries as SBICs does not automatically assure that our SBIC subsidiaries will continue to receive SBA-guaranteed debenture funding. Receipt of SBA leverage funding is dependent upon our SBIC subsidiaries continuing to be in compliance with SBA regulations and policies and available SBA funding. The amount of SBA leverage funding available to SBICs is dependent upon annual Congressional authorizations and in the future may be subject to annual Congressional appropriations. There can be no assurance that there will be sufficient debenture funding available at the times desired by our SBIC subsidiaries.

The debentures guaranteed by the SBA have a maturity of ten years and require semi-annual payments of interest. HT II and HT III have debentures outstanding that become due starting in March 2019, and September 2020, respectively. Our SBIC subsidiaries will need to generate sufficient cash flow to make required interest payments on the debentures. If our SBIC subsidiaries are unable to meet their financial obligations under the debentures, the SBA, as a creditor, will have a superior claim to our SBIC subsidiaries' assets over our stockholders in the event we liquidate our SBIC subsidiaries or the SBA exercises its remedies under such debentures as the result of a default by us.

Our wholly-owned SBIC subsidiaries may be unable to make distributions to us that will enable us to maintain RIC status, which could result in the imposition of an entity-level tax.

In order for us to continue to qualify for RIC tax treatment and to minimize corporate-level taxes, we will be required to distribute substantially all of our investment company taxable income, determined without regard to any deduction for dividends paid, and net capital gains, including income from certain of our subsidiaries, which includes the income from our SBIC subsidiaries. We will be partially dependent on our SBIC subsidiaries for cash distributions to enable us to meet the RIC distribution requirements. Our SBIC subsidiaries may be limited by the Small Business Investment Act of 1958, as amended, and SBA regulations governing SBICs, from making certain distributions to us that may be necessary to maintain our ability to be subject to tax as a RIC. We may have to request a waiver of the SBA's restrictions for our SBIC subsidiaries to make certain distributions to maintain our ability to be subject to tax as a RIC. We cannot assure you that the SBA will grant such waiver. If our SBIC subsidiaries are unable to obtain a waiver, compliance with the SBA regulations may result in loss of RIC tax treatment and a consequent imposition of an entity-level tax on us.

If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results or prevent fraud. As a result, stockholders could lose confidence in our financial and other public reporting, which would harm our business and the trading price of our common stock.

Effective internal controls over financial reporting are necessary for us to provide reliable financial reports and, together with adequate disclosure controls and procedures, are designed to prevent fraud. Any failure to implement required new or improved controls, or difficulties encountered in their implementation could cause us to fail to meet our reporting obligations. In addition, any testing by us conducted in connection with Section 404 of the Sarbanes-Oxley Act of 2002, as amended, or the Sarbanes-Oxley Act, or the subsequent testing by our independent registered public accounting firm (when undertaken, as noted below), may reveal deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses or that may require prospective or retroactive changes to our consolidated financial statements or identify other areas for further attention or improvement. Inferior internal controls could also cause investors and lenders to lose confidence in our reported financial information, which could have a negative effect on the trading price of our common stock.

Our Board of Directors may change our investment objective, operating policies and strategies without prior notice or stockholder approval, the effects of which may be adverse.

Our Board of Directors has the authority, except as otherwise provided in the 1940 Act, to modify or waive certain of our operating policies and strategies without prior notice and without stockholder approval. However, absent stockholder approval, we may not change the nature of our business so as to cease to be, or withdraw our election as, a business development company. We cannot predict the effect any changes to our current operating policies and strategies would have on our business, operating results and the market price of our common stock. Nevertheless, any such changes could materially and adversely affect our business and impair our ability to make distributions to our stockholders.

Significant U.S. federal tax legislation was recently enacted and the impact of this new legislation on us and on entities in which we may invest is uncertain.

Significant U.S. federal tax reform legislation was recently enacted that, among many other changes, permanently reduces the maximum federal corporate income tax rate, reduces the maximum individual income tax rate (effective for taxable years 2018 through 2025), restricts the deductibility of business interest expense, changes the rules regarding the calculation of net operating loss deductions that may be used to offset taxable income, and, under certain circumstances, requires accrual method taxpayers to recognize income for U.S. federal income tax purposes no later than the income is taken into account as revenue in an applicable financial statement. The new legislation also makes extensive changes to the U.S. international tax system. The impact of this new legislation on us and on entities in which we may invest is uncertain. Prospective investors are urged to consult their tax advisors regarding the effects of the new legislation on an investment in us.

Changes in laws or regulations governing our business could negatively affect the profitability of our operations.

Changes in the laws or regulations, or the interpretations of the laws and regulations, which govern business development companies, SBICs, RICs or non-depository commercial lenders could significantly affect our operations and our cost of doing business. We are subject to federal, state and local laws and regulations, in addition to applicable foreign and international laws and regulations, and are subject to judicial and administrative decisions that affect our operations, including our loan originations maximum interest rates, fees and other charges, disclosures to portfolio companies, the terms of secured transactions, collection and foreclosure procedures, and other trade practices. If these laws, regulations or decisions change, or if we expand our business into jurisdictions that have adopted more stringent requirements than those in which we currently conduct business, then we may have to incur significant expenses in order to comply or we may have to restrict our operations. In addition, if we do not comply with applicable laws, regulations and decisions, then we may lose licenses needed for the conduct of our business and be subject to civil fines and criminal penalties, any of which could have a material adverse effect upon our business results of operations or financial condition.

Our business is subject to increasingly complex corporate governance, public disclosure and accounting requirements that could adversely affect our business and financial results.

We are subject to changing rules and regulations of federal and state government as well as the stock exchange on which our common stock is listed. These entities, including the Public Company Accounting Oversight Board, the SEC and the New York Stock Exchange (“NYSE”) have issued a significant number of new and increasingly complex requirements and regulations over the course of the last several years and continue to develop additional regulations and requirements in response to laws enacted by Congress. The Dodd-Frank Wall Street Reform and Protection Act, as amended, or the Dodd-Frank Act, contains significant corporate governance and executive compensation-related provisions, and the SEC has adopted, and will continue to adopt, additional rules and regulations that may impact us. Our efforts to comply with these requirements have resulted in, and are likely to continue to result in, an increase in expenses and a diversion of management’s time from other business activities.

In addition, our failure to maintain compliance with such rules, or for our management to appropriately address issues relating to our compliance with such rules fully and in a timely manner, exposes us to an increasing risk of inadvertent non-compliance. While our management team takes reasonable efforts to ensure that we are in full compliance with all laws applicable to its operations, the increasing rate and extent of regulatory change increases the risk of a failure to comply, which may result in our ability to operate our business in the ordinary course or may subject us to potential fines, regulatory findings or other matters that may materially impact our business.

Many of the requirements called for in the Dodd-Frank Act are expected to be implemented over time, most of which will likely be subject to implementing regulations over the course of several years. However, the new presidential administration has announced its intention to repeal, amend, or replace certain portions of the Dodd-Frank Act and the regulations implemented thereunder. Given the uncertainty associated with the manner in which and whether the provisions of the Dodd-Frank Act will be implemented, repealed, amended or replaced, the full impact such requirements will have on our business, results of operations or financial condition is unclear. The changes resulting from the Dodd-Frank Act or any changes to the regulations already implemented thereunder may require us to invest significant management attention and resources to evaluate and make necessary changes in order to comply with new statutory and regulatory requirements. Failure to comply with any such laws, regulations or principles, or changes thereto, may negatively impact our business, results of operations and financial condition. While we cannot predict what effect any changes in the laws or regulations or their interpretations would have on our business as a result of recent financial reform legislation, these changes could be materially adverse to us and our stockholders.

We incur significant costs as a result of being a publicly traded company.

As a publicly traded company, we incur legal, accounting and other expenses, including costs associated with the periodic reporting requirements applicable to a company whose securities are registered under the Exchange Act as well as additional corporate governance requirements, including requirements under the Sarbanes-Oxley Act and other rules implemented by the SEC.

Results may fluctuate and may not be indicative of future performance.

Our operating results may fluctuate and, therefore, you should not rely on current or historical period results to be indicative of our performance in future reporting periods. Factors that could cause operating results to fluctuate include, but are not limited to, variations in the investment origination volume and fee income earned, changes in the accrual status of our debt investments, variations in timing of prepayments, variations in and the timing of the recognition of net realized gains or losses and changes in unrealized appreciation or depreciation, the level of our expenses, the degree to which we encounter competition in our markets, and general economic conditions.

We face cyber-security risks and the failure in cyber security systems, as well as the occurrence of events unanticipated in our disaster recovery systems and management continuity planning could impair our ability to conduct business effectively.

Our business operations rely upon secure information technology systems for data processing, storage and reporting. Despite careful security and controls design, implementation and updating, our information technology systems could become subject to cyber-attacks. Network, system, application and data breaches could result in operational disruptions or information misappropriation, which could have a material adverse effect on our business, results of operations and financial condition.

The occurrence of a disaster such as a cyber-attack, a natural catastrophe, an industrial accident, a terrorist attack or war, events unanticipated in our disaster recovery systems, or a support failure from external providers, could have an adverse effect on our ability to conduct business and on our results of operations and financial condition, particularly if those events affect our computer-based data processing, transmission, storage, and retrieval systems or destroy data. If a significant number of our managers were unavailable in the event of a disaster, our ability to effectively conduct our business could be severely compromised.

We depend heavily upon computer systems to perform necessary business functions. Despite our implementation of a variety of security measures, our computer systems could be subject to cyber-attacks and unauthorized access, such as physical and electronic break-ins or unauthorized tampering. Like other companies, we may experience threats to our data and systems, including malware and computer virus attacks, unauthorized access, system failures and disruptions. If one or more of these events occurs, it could potentially jeopardize the confidential, proprietary and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our operations, which could result in damage to our reputation, financial losses, litigation, increased costs, regulatory penalties and/or customer dissatisfaction or loss.

Terrorist attacks, acts of war or natural disasters may affect any market for our securities, impact the businesses in which we invest and harm our business, operating results and financial condition.

Terrorist acts, acts of war or natural disasters may disrupt our operations, as well as the operations of the businesses in which we invest. Such acts have created, and continue to create, economic and political uncertainties and have contributed to global economic instability. Future terrorist activities, military or security operations, or natural disasters could further weaken the domestic/global economies and create additional uncertainties, which may negatively impact the businesses in which we invest directly or indirectly and, in turn, could have a material adverse impact on our business, operating results and financial condition. Losses from terrorist attacks and natural disasters are generally uninsurable.

We are dependent on information systems and systems failures could significantly disrupt our business, which may, in turn, negatively affect the market price of our common stock and our ability to pay distributions.

Our business is dependent on our and third parties' communications and information systems. Any failure or interruption of those systems, including as a result of the termination of an agreement with any third-party service providers, could cause delays or other problems in our activities. Our financial, accounting, data processing, backup or other operating systems and facilities may fail to operate properly or become disabled or damaged as a result of a number of factors including events that are wholly or partially beyond our control and adversely affect our business. There could be:

- sudden electrical or telecommunication outages;
- natural disasters such as earthquakes, tornadoes and hurricanes;
- disease pandemics;
- events arising from local or larger scale political or social matters, including terrorist acts; and
- cyber-attacks.

These events, in turn, could have a material adverse effect on our operating results and negatively affect the market price of our common stock and our ability to pay distributions to our stockholders.

We may be subject to restrictions on our ability to make distributions to our stockholders.

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 make the required distributions to our stockholders in order to be subject to tax 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 tax as a RIC, there can be no assurance that such actions can be effected in time or in a manner to satisfy the requirements set forth in the Code.

Further downgrades of the U.S. credit rating, automatic spending cuts or another government shutdown could negatively impact our liquidity, financial condition and earnings.

Recent U.S. debt ceiling and budget deficit concerns have increased the possibility of additional credit-rating downgrades and economic slowdowns, or a recession in the U.S. Although U.S. lawmakers passed legislation to raise the federal debt ceiling on multiple occasions, ratings agencies have lowered or threatened to lower the long-term sovereign credit rating on the United States. The impact of this or any further downgrades to the U.S. government's sovereign credit rating or its perceived creditworthiness could adversely affect the U.S. and global financial markets and economic conditions. These developments could cause interest rates and borrowing costs to rise, which may negatively impact our ability to access the debt markets on favorable terms. In addition, disagreement over the federal budget has caused the U.S. federal government to shut down for periods of time. Continued adverse political and economic conditions could have a material adverse effect on our business, financial condition and results of operations.

Risks Related to Current Economic and Market Conditions

Capital markets may experience periods of disruption and instability and we cannot predict when these conditions will occur. Such market conditions could materially and adversely affect debt and equity capital markets in the United States and abroad, which could have a negative impact on our business, financial condition and results of operations.

The global capital markets have experienced a period of disruption as evidenced by a lack of liquidity in the debt capital markets, write-offs in the financial services sector, the re-pricing of credit risk and the failure of certain major financial institutions. While the capital markets have improved, these conditions could deteriorate again in the future. During such market disruptions, we may have difficulty raising debt or equity capital, especially as a result of regulatory constraints.

Market conditions may in the future make it difficult to extend the maturity of or refinance our existing indebtedness and any failure to do so could have a material adverse effect on our business. The illiquidity of our investments may make it difficult for us to sell such investments if required. As a result, we may realize significantly less than the value at which we have recorded our investments. In addition, significant changes in the capital markets, including the disruption and volatility, have had, and may in the future have, a negative effect on the valuations of our investments and on the potential for liquidity events involving our investments. An inability to raise capital, and any required sale of our investments for liquidity purposes, could have a material adverse impact on our business, financial condition and results of operations.

Various social and political tensions in the United States and around the world, including in the Middle East, Eastern Europe North Korea, and Russia, may continue to contribute to increased market volatility, may have long-term effects on the United States and worldwide financial markets, and may cause further economic uncertainties or deterioration in the United States and worldwide. In addition, uncertainty regarding the United Kingdom referendum decision to leave the European Union (“Brexit”), continuing signs of deteriorating sovereign debt conditions in Europe and an economic slowdown in China create uncertainty that could lead to further disruptions, instability and weakening consumer, corporate and financial confidence. We may in the future have difficulty accessing debt and equity capital markets, and a severe disruption in the global financial markets, deterioration in credit and financing conditions or uncertainty regarding U.S. government spending and deficit levels, Brexit, European sovereign debt, Chinese economic slowdown or other global economic conditions could have a material adverse effect on our business, financial condition and results of operations.

The broader fundamentals of the United States economy remain mixed. In the event that the United States economy contracts, it is likely that the financial results of small to mid-sized companies, like many of our portfolio companies, could experience deterioration or limited growth from current levels, which could ultimately lead to difficulty in meeting their debt service requirements and an increase in defaults. In addition, declines in oil and natural gas prices could adversely affect the credit quality of our debt investments and the underlying operating performance of our equity investments in energy-related businesses. In addition, volatility in the equity markets could impact our portfolio companies’ access to the debt and equity capital markets, which could ultimately limit their ability to grow, satisfy existing financing and other arrangements and impact their ability to perform. Volatility in the equity markets could also impact our ability to liquidate or achieve value from warrants and other equity investments we have in our portfolio companies. Consequently, we can provide no assurance that the performance of certain portfolio companies will not be negatively impacted by economic cycles, industry cycles or other conditions, which could also have a negative impact on our future results.

These market and economic disruptions affect, and these and other similar market and economic disruptions may in the future affect, the U.S. capital markets, which could adversely affect our business and that of our portfolio companies. We cannot predict the duration of the effects related to these or similar events in the future on the United States economy and securities markets or on our investments. We monitor developments and seek to manage our investments in a manner consistent with achieving our investment objective, but there can be no assurance that we will be successful in doing so.

Depending on funding requirements, we may need to raise additional capital to meet our unfunded commitments either through equity offerings or through additional borrowings.

As of December 31, 2017, we had approximately $73.6 million of unfunded commitments, including undrawn revolving facilities, which were available at the request of the portfolio company and unencumbered by milestones.

Our unfunded contractual commitments may be significant from time to time. A portion of these unfunded contractual commitments are dependent upon the portfolio company reaching certain milestones before the debt commitment becomes available. Furthermore, our credit agreements contain customary lending provisions which allow us relief from funding obligations for previously made commitments in instances where the underlying company experiences materially adverse events that affect the financial condition or business outlook for the company. These commitments will be subject to the same underwriting and ongoing portfolio maintenance as are the on-balance sheet financial instruments that we hold. Since these commitments may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. Closed commitments generally fund 70-80% of the committed amount in aggregate over the life of the commitment. We believe that our assets provide adequate cover to satisfy all of our unfunded comments and we intend to use cash flow from normal and early principal repayments and proceeds from borrowings and notes to fund these commitments. However, there can be no assurance that we will have sufficient capital available to fund these commitments as they come due.

Our ability to secure additional financing and satisfy our financial obligations under indebtedness outstanding from time to time will depend upon our future operating performance, which is subject to the prevailing general economic and credit market conditions, including interest rate levels and the availability of credit generally, and financial, business and other factors, many of which are beyond our control. The prolonged continuation or worsening of current economic and capital market conditions could have a material adverse effect on our ability to secure financing on favorable terms, if at all.

Changes relating to the LIBOR calculation process may adversely affect the value of our portfolio of the LIBOR-indexed, floating-rate debt securities.

In the recent past, concerns have been publicized that some of the member banks surveyed by the British Bankers' Association ("BBA") in connection with the calculation of the London Interbank Offered Rate, or LIBOR, across a range of maturities and currencies may have been under-reporting or otherwise manipulating the inter-bank lending rate applicable to them in order to profit on their derivatives positions or to avoid an appearance of capital insufficiency or adverse reputational or other consequences that may have resulted from reporting inter-bank lending rates higher than those they actually submitted. A number of BBA member banks entered into settlements with their regulators and law enforcement agencies with respect to alleged manipulation of LIBOR, and investigations by regulators and governmental authorities in various jurisdictions are ongoing.

Actions by the BBA, regulators or law enforcement agencies as a result of these or future events, may result in changes to the manner in which LIBOR is determined. Potential changes, or uncertainty related to such potential changes may adversely affect the market for LIBOR-based securities, including our portfolio of LIBOR-indexed, floating-rate debt securities. In addition, any further changes or reforms to the determination or supervision of LIBOR may result in a sudden or prolonged increase or decrease in reported LIBOR, which could have an adverse impact on the market for LIBOR-based securities or the value of our portfolio of LIBOR-indexed, floating-rate debt securities.

Risks Related to Our Investments

Our investments are concentrated in certain industries and in a number of technology-related companies, which subjects us to the risk of significant loss if any of these companies default on their obligations under any of their debt securities that we hold, or if any of the technology-related industry sectors experience a downturn.

We have invested and intend to continue investing in a limited number of technology-related companies and, we have recently seen an increase in the number of investments representing approximately 5% or more of our net asset value. A consequence of this limited number of investments is that the aggregate returns we realize may be significantly adversely affected if a small number of investments perform poorly or if we need to write down the value of any one investment. Beyond the asset diversification requirements to which we are subject as a business development company and a RIC, we do not have fixed guidelines for diversification or limitations on the size of our investments in any one portfolio company and our investments could be concentrated in relatively few issuers. In addition, we have invested in and intend to continue investing, under normal circumstances, at least 80% of the value of our total assets (including the amount of any borrowings for investment purposes) in technology-related companies.

As of December 31, 2017, approximately 74.9% of the fair value of our portfolio was composed of investments in five industries: 23.9% was composed of investments in the drug discovery and development industry, 23.4% was composed of investments in the software industry, 10.0% was composed of investments in the internet consumer and business services industry, 9.9% was composed of investments in the media/content/info industry and 7.7% was composed of investments in the sustainable and renewable technology industry.

As a result, a downturn in technology-related industry sectors and particularly those in which we are heavily concentrated could materially adversely affect our financial condition.

We are a non-diversified investment company within the meaning of the 1940 Act, and therefore we generally are not limited with respect to the proportion of our assets that may be invested in securities of a single issuer.

We are classified as a non-diversified investment company within the meaning of the 1940 Act, which means that we are not limited by the 1940 Act with respect to the proportion of our assets that we may invest in securities of a single issuer, excluding limitations on investments in other investment companies. To the extent that we assume large positions in the securities of a small number of issuers, our NAV may fluctuate to a greater extent than that of a diversified investment company as a result of changes in the financial condition or the market's assessment of the issuer. We may also be more susceptible to any single economic or regulatory occurrence than a diversified investment company. Beyond the asset diversification requirements to which we are subject as a business development company and a RIC, we do not have fixed guidelines for portfolio diversification, and our investments could be concentrated in relatively few portfolio companies or industries.

Our financial results could be negatively affected if a significant portfolio investment fails to perform as expected.

Our total investment in companies may be significant individually or in the aggregate. As a result, if a significant investment in one or more companies fails to perform as expected, our financial results could be more negatively affected and the magnitude of the loss could be more significant than if we had made smaller investments in more companies.

The following table shows the fair value of the totals of investments held in portfolio companies at December 31, 2017 that represent greater than 5% of our net assets:

	December 31, 2017	
(in thousands)	**Fair Value**	**Percentage of Net Assets**
Machine Zone, Inc.	$ 110,384	13.1 %
Paratek Pharmaceuticals, Inc. (p.k.a. Transcept Pharmaceuticals, Inc.)	61,261	7.3 %
Insmed, Incorporated	57,117	6.8 %
Axovant Sciences Ltd.	54,155	6.4 %
Fuze, Inc.	50,473	6.0 %
Emma, Inc.	48,565	5.8 %
Snagajob.com, Inc.	42,293	5.0 %

- 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.
- Paratek Pharmaceuticals, Inc. is a biopharmaceutical company focused on the development and commercialization of innovative therapies based upon its expertise in novel tetracycline chemistry
- Insmed, Incorporated is a biopharmaceutical company that focuses on the development of inhaled pharmaceuticals for the site-specific treatment of serious lung diseases.
- Axovant Sciences Ltd. is a clinical-stage biopharmaceutical company focused on acquiring, developing and commercializing novel therapeutics for the treatment of dementia.
- Fuze, Inc. is a technology company that provides a cloud-based unified communications-as-a-service platform to server message block, mid-market, and small enterprise customers worldwide.
- Emma, Inc. is a technology company that offers software to enable organizations to create, send and track email marketing campaigns and online surveys.
- Snagajob.com, Inc. is a technology company that offers an array of services designed to simplify the hourly job recruiting process for both job seekers and employers.

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

Our investments may be in portfolio companies that have limited operating histories and resources.

We expect that our portfolio will continue to consist of investments that may have relatively limited operating histories. These companies may be particularly vulnerable to U.S. and foreign economic downturns may have more limited access to capital and higher funding costs, may have a weaker financial position and may need more capital to expand or compete. These businesses also may experience substantial variations in operating results. They may face intense competition, including from larger, more established companies with greater financial, technical and marketing resources. Furthermore, some of these companies do business in regulated industries and could be affected by changes in government regulation applicable to their given industry. Accordingly, these factors could impair their cash flow or result in other events, such as bankruptcy, which could limit their ability to repay their obligations to us, and may adversely affect the return on, or the recovery of, our investment in these companies. We cannot assure you that any of our investments in our portfolio companies will be successful. We may lose our entire investment in any or all of our portfolio companies.

Investing in publicly traded companies can involve a high degree of risk and can be speculative.

We have invested, and expect to continue to invest, a portion of our portfolio in publicly traded companies or companies that are in the process of completing their initial public offering, ("IPO"). As publicly traded companies, the securities of these companies may not trade at high volumes, and prices can be volatile, particularly during times of general market volatility, which may restrict our ability to sell our positions and may have a material adverse impact on us.

Our ability to invest in public companies may be limited in certain circumstances.

To maintain our status as a business development company, we are not permitted to acquire any assets other than "qualifying assets" specified in the 1940 Act unless, at the time the acquisition is made, at least 70% of our total assets are qualifying assets (with certain limited exceptions). Subject to certain exceptions for follow-on investments and distressed companies, an investment in an issuer that has outstanding securities listed on a national securities exchange may be treated as a qualifying asset only if such issuer has a market capitalization that is less than $250 million at the time of such investment and meets the other specified requirements.

Our investment strategy focuses on technology-related companies, which are subject to many risks, including volatility, intense competition, shortened product life cycles, changes in regulatory and governmental programs and periodic downturns, and you could lose all or part of your investment.

We have invested and will continue investing primarily in technology-related companies, many of which may have narrow product lines and small market shares, which tend to render them more vulnerable to competitors' actions and market conditions, as well as to general economic downturns. The revenues, income (or losses), and valuations of technology-related companies can and often do fluctuate suddenly and dramatically. In addition, technology-related industries are generally characterized by abrupt business cycles and intense competition. Overcapacity in technology-related industries, together with cyclical economic downturns, may result in substantial decreases in the market capitalization of many technology-related companies. Such decreases in market capitalization may occur again, and any future decreases in technology-related company valuations may be substantial and may not be temporary in nature. Therefore, our portfolio companies may face considerably more risk of loss than do companies in other industry sectors.

Because of rapid technological change, the average selling prices of products and some services provided by technology-related companies have historically decreased over their productive lives. As a result, the average selling prices of products and services offered by technology-related companies may decrease over time, which could adversely affect their operating results, their ability to meet obligations under their debt securities and the value of their equity securities. This could, in turn, materially adversely affect our business, financial condition and results of operations.

Our investments in sustainable and renewable technology companies are subject to substantial operational risks, such as underestimated cost projections, unanticipated operation and maintenance expenses, loss of government subsidies, and inability to deliver cost-effective alternative energy solutions compared to traditional energy products. In addition, sustainable and renewable technology companies employ a variety of means of increasing cash flow, including increasing utilization of existing facilities, expanding operations through new construction or acquisitions, or securing additional long-term contracts. Thus, some energy companies may be subject to construction risk, acquisition risk or other risks arising from their specific business strategies. Furthermore, production levels for solar, wind and other renewable energies may be dependent upon adequate sunlight, wind, or biogas production, which can vary from market to market and period to period, resulting in volatility in production levels and profitability. Demand for sustainable and renewable technology is also influenced by the available supply and prices for other energy products, such as coal, oil and natural gases. A change in prices in these energy products could reduce demand for alternative energy.

A natural disaster may also impact the operations of our portfolio companies, including our technology-related portfolio companies. The nature and level of natural disasters cannot be predicted and may be exacerbated by global climate change. A portion of our technology-related portfolio companies rely on items assembled or produced in areas susceptible to natural disasters, and may sell finished goods into markets susceptible to natural disasters. A major disaster, such as an earthquake, tsunami, flood or other catastrophic event could result in disruption to the business and operations of our technology-related portfolio companies.

We will invest in technology-related companies that are reliant on U.S. and foreign regulatory and governmental programs. Any material changes or discontinuation, due to change in administration or U.S. Congress or otherwise could have a material adverse effect on the operations of a portfolio company in these industries and, in turn, impair our ability to timely collect principal and interest payments owed to us to the extent applicable.

We have invested in and may continue investing in technology-related companies that do not have venture capital or private equity firms as equity investors, and these companies may entail a higher risk of loss than do companies with institutional equity investors, which could increase the risk of loss of your investment.

Our portfolio companies will often require substantial additional equity financing to satisfy their continuing working capital and other cash requirements and, in most instances, to service the interest and principal payments on our investment. Portfolio companies that do not have venture capital or private equity investors may be unable to raise any additional capital to satisfy their obligations or to raise sufficient additional capital to reach the next stage of development. Portfolio companies that do not have venture capital or private equity investors may be less financially sophisticated and may not have access to independent members to serve on their boards, which means that they may be less successful than portfolio companies sponsored by venture capital or private equity firms. Accordingly, financing these types of companies may entail a higher risk of loss than would financing companies that are sponsored by venture capital or private equity firms.

Sustainable and renewable technology companies are subject to extensive government regulation and certain other risks particular to the sectors in which they operate and our business and growth strategy could be adversely affected if government regulations, priorities and resources impacting such sectors change or if our portfolio companies fail to comply with such regulations.

As part of our investment strategy, we plan to invest in portfolio companies in sustainable and renewable technology sectors that may be subject to extensive regulation by foreign, U.S. federal, state and/or local agencies. Changes in existing laws, rules or regulations, or judicial or administrative interpretations thereof, or new laws, rules or regulations could have an adverse impact on the business and industries of our portfolio companies. In addition, changes in government priorities or limitations on government resources could also adversely impact our portfolio companies. We are unable to predict whether any such changes in laws, rules or regulations will occur and, if they do occur, the impact of these changes on our portfolio companies and our investment returns. Furthermore, if any of our portfolio companies fail to comply with applicable regulations, they could be subject to significant penalties and claims that could materially and adversely affect their operations, which would also impact our ability to realize value since our exit from the investment may be subject to the portfolio company obtaining the necessary regulatory approvals. Our portfolio companies may be subject to the expense, delay and uncertainty of the regulatory approval process for their products and, even if approved, these products may not be accepted in the marketplace.

In addition, there is considerable uncertainty about whether foreign, U.S., state and/or local governmental entities will enact or maintain legislation or regulatory programs that mandate reductions in greenhouse gas emissions or provide incentives for sustainable and renewable technology companies. Without such regulatory policies, investments in sustainable and renewable technology companies may not be economical and financing for sustainable and renewable technology companies may become unavailable, which could materially adversely affect the ability of our portfolio companies to repay the debt they owe to us. Any of these factors could materially and adversely affect the operations and financial condition of a portfolio company and, in turn, the ability of the portfolio company to repay the debt they owe to us.

Cyclicality within the energy sector may adversely affect some of our portfolio companies.

Industries within the energy sector are cyclical with fluctuations in commodity prices and demand for, and production of commodities driven by a variety of factors. The highly cyclical nature of the industries within the energy sector may lead to volatile changes in commodity prices, which may adversely affect the earnings of energy companies in which we may invest and the performance and valuation of our portfolio.

Depressed oil and natural gas prices for a prolonged period of time could have a material adverse effect on us.

Depressed oil and natural gas prices could adversely affect (i) the credit quality of our debt investments in certain of our portfolio companies and (ii) the underlying operating performance of our portfolio companies' business that are heavily dependent upon the prices of, and demand for, oil and natural gas. A decrease in credit quality and the operating performance would, in turn, negatively affect the fair value of these investments, which would consequently negatively affect our net asset value. Declines in oil and natural gas prices may adversely impact the ability of these portfolio companies to satisfy financial or operating covenants imposed by us or other lenders, thereby negatively impacting their financial condition and their ability to satisfy their debt service and other obligations to us. Likewise, declines in oil and natural gas prices may adversely impact our energy-related portfolio companies' and other affected companies' cash flow and their profit generating capacities would also be adversely affected thereby negatively impacting their ability to pay us dividends or distributions on our equity investments.

Our investments in the life sciences industry are subject to extensive government regulation, litigation risk and certain other risks particular to that industry.

We have invested and plan to continue investing in companies in the life sciences industry that are subject to extensive regulation by the Food and Drug Administration, or the FDA, and to a lesser extent, other federal, state and other foreign agencies. If any of these portfolio companies fail to comply with applicable regulations, they could be subject to significant penalties and claims that could materially and adversely affect their operations. Portfolio companies that produce medical devices or drugs are subject to the expense, delay and uncertainty of the regulatory approval process for their products and, even if approved, these products may not be accepted in the marketplace. In addition, governmental budgetary constraints effecting the regulatory approval process, new laws, regulations or judicial interpretations of existing laws and regulations might adversely affect a portfolio company in this industry. Portfolio companies in the life sciences industry may also have a limited number of suppliers of necessary components or a limited number of manufacturers for their products, and therefore face a risk of disruption to their manufacturing process if they are unable to find alternative suppliers when needed. Any of these factors could materially and adversely affect the operations of a portfolio company in this industry and, in turn, impair our ability to timely collect principal and interest payments owed to us.

Our investments in the drug discovery industry are subject to numerous risks, including competition, extensive government regulation, product liability and commercial difficulties.

Our investments in the drug discovery industry are subject to numerous risks. The successful and timely implementation of the business model of our drug discovery portfolio companies depends on their ability to adapt to changing technologies and introduce new products. As competitors continue to introduce competitive products, the development and acquisition of innovative products and technologies that improve efficacy, safety, patient's and clinician's ease of use and cost-effectiveness are important to the success of such portfolio companies. The success of new product offerings will depend on many factors, including the ability to properly anticipate and satisfy customer needs, obtain regulatory approvals on a timely basis, develop and manufacture products in an economic and timely manner, obtain or maintain advantageous positions with respect to intellectual property, and differentiate products from those of competitors. Failure by our portfolio companies to introduce planned products or other new products or to introduce products on schedule could have a material adverse effect on our business, financial condition and results of operations.

Further, the development of products by drug discovery companies requires significant research and development, clinical trials and regulatory approvals. The results of product development efforts may be affected by a number of factors, including the ability to innovate, develop and manufacture new products, complete clinical trials, obtain regulatory approvals and reimbursement in the U.S. and abroad, or gain and maintain market approval of products. In addition, regulatory review processes by U.S. and foreign agencies may extend longer than anticipated as a result of decreased funding and tighter fiscal budgets. Further, patents attained by others can preclude or delay the commercialization of a product. There can be no assurance that any products now in development will achieve technological feasibility, obtain regulatory approval, or gain market acceptance. Failure can occur at any point in the development process, including after significant funds have been invested. Products may fail to reach the market or may have only limited commercial success because of efficacy or safety concerns, failure to achieve positive clinical outcomes, inability to obtain necessary regulatory approvals, failure to achieve market adoption, limited scope of approved uses, excessive costs to manufacture, the failure to establish or maintain intellectual property rights, or the infringement of intellectual property rights of others.

Future legislation, and/or regulations and policies adopted by the FDA or other U.S. or foreign regulatory authorities may increase the time and cost required by some of our portfolio companies to conduct and complete clinical trials for the product candidates that they develop, and there is no assurance that these companies will obtain regulatory approval to market and commercialize their products in the U.S. and in foreign countries.

The FDA has established regulations, guidelines and policies to govern the drug development and approval process, as have foreign regulatory authorities, which affect some of our portfolio companies. Any change in regulatory requirements due to the adoption by the FDA and/or foreign regulatory authorities of new legislation, regulations, or policies may require some of our portfolio companies to amend existing clinical trial protocols or add new clinical trials to comply with these changes. Such amendments to existing protocols and/or clinical trial applications or the need for new ones, may significantly impact the cost, timing and completion of the clinical trials.

In addition, increased scrutiny by the U.S. Congress of the FDA's and other authorities approval processes may significantly delay or prevent regulatory approval, as well as impose more stringent product labeling and post-marketing testing and other requirements. Foreign regulatory authorities may also increase their scrutiny of approval processes resulting in similar delays. Increased scrutiny and approvals processes may limit the ability of our portfolio companies to market and commercialize their products in the U.S. and in foreign countries.

Life sciences companies, including drug development companies, device manufacturers, service providers and others, are also subject to material pressures when there are changes in the outlook for healthcare insurance markets. The ability for individuals, along with private and public insurers, to account for the costs of paying for healthcare insurance can place strain on the ability of new technology, devices and services to enter those markets, particularly when they are new or untested. As a result, it is not uncommon for changes in the insurance market place to lead to a slower rate of adoption, price pressure and other forces that may materially limit the success of companies bringing such technologies to market. Changes in the health insurance sector might then have an impact on the value of companies in our portfolio or our ability to invest in the sector generally.

Changes in healthcare laws and other regulations, or the enforcement or interpretation of such laws or regulations, applicable to some of our portfolio companies' businesses may constrain their ability to offer their products and services.

Changes in healthcare or other laws and regulations, or the enforcement or interpretation of such laws or regulations, applicable to the businesses of some of our portfolio companies may occur that could increase their compliance and other costs of doing business, require significant systems enhancements, or render their products or services less profitable or obsolete, any of which could have a material adverse effect on their results of operations. There has also been an increased political and regulatory focus on healthcare laws in recent years, and new legislation could have a material effect on the business and operations of some of our portfolio companies.

Additionally, because of the continued uncertainty surrounding the healthcare industry under the Trump Administration, including the potential for further legal challenges or repeal of existing legislation, we cannot quantify or predict with any certainty the likely impact on our portfolio companies, our business model, prospects, financial condition or results of operations. We also anticipate that Congress, state legislatures, and third-party payors may continue to review and assess alternative healthcare delivery and payment systems and may in the future propose and adopt legislation or policy changes or implementations effecting additional fundamental changes in the healthcare delivery system. We cannot assure you as to the ultimate content, timing, or effect of changes, nor is it possible at this time to estimate the impact of any such potential legislation on certain of our portfolio companies, our business model, prospects, financial condition or results of operations.

Price declines and illiquidity in the corporate debt markets could adversely affect the fair value of our portfolio investments, reducing our NAV through increased net unrealized depreciation.

As a business development company, we are required to carry our investments at market value or, if no market value is ascertainable, at fair market value as determined in good faith by or under the direction of our Board of Directors. As part of the valuation process, we may take into account the following types of factors, if relevant, in determining the fair value of our investments: the enterprise value of a portfolio company (an estimate of the total fair value of the portfolio company's debt and equity), the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business, a comparison of the portfolio company's securities to similar publicly traded securities, changes in the interest rate environment and the credit markets generally that may affect the price at which similar investments may be made in the future and other relevant factors. When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, we use the pricing indicated by the external event to corroborate our valuation. While most of our investments are not publicly traded, applicable accounting standards require us to assume as part of our valuation process that our investments are sold in a principal market to market participants (even if we plan on holding an investment through its maturity). As a result, volatility in the capital markets can also adversely affect our investment valuations. Decreases in the market values or fair values of our investments are recorded as unrealized depreciation. The effect of all of these factors on our portfolio can reduce our NAV by increasing net unrealized depreciation in our portfolio.

Depending on market conditions, we could incur substantial realized losses and may suffer substantial unrealized depreciation in future periods, which could have a material adverse impact on our business, financial condition and results of operations.

Economic recessions or slowdowns could impair the ability of our portfolio companies to repay loans, which, in turn, could increase our non-performing assets, decrease the value of our portfolio, reduce our volume of new loans and have a material adverse effect on our results of operations.

Many of our portfolio companies may be susceptible to economic slowdowns or recessions in both the U.S. and foreign countries, and may be unable to repay our loans during such periods. Therefore, during such periods, our non-performing assets are likely to increase and the value of our portfolio is likely to decrease. Adverse economic conditions also may decrease the value of collateral securing some of our loans and the value of our equity investments. Economic slowdowns or recessions could lead to financial losses in our portfolio and a decrease in revenues, net income and assets. Unfavorable economic conditions also could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. These events could prevent us from increasing investments and harm our operating results.

In particular, intellectual property owned or controlled by our portfolio companies may constitute an important portion of the value of the collateral of our loans to our portfolio companies. Adverse economic conditions may decrease the demand for our portfolio companies' intellectual property and consequently its value in the event of a bankruptcy or required sale through a foreclosure proceeding. As a result, our ability to fully recover the amounts owed to us under the terms of the loans may be impaired by such events.

A portfolio company's failure to satisfy financial or operating covenants imposed by us or other lenders could lead to defaults and, potentially, termination of the portfolio company's loans and foreclosure on its secured assets, which could trigger cross-defaults under other agreements and jeopardize the portfolio company's ability to meet its obligations under the debt securities that we hold. We may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms with a defaulting portfolio company.

Our portfolio companies may be unable to repay or refinance outstanding principal on their loans at or prior to maturity, and rising interests rates may make it more difficult for portfolio companies to make periodic payments on their loans.

Our portfolio companies may be unable to repay or refinance outstanding principal on their loans at or prior to maturity. This risk and the risk of default is increased to the extent that the loan documents do not require the portfolio companies to pay down the outstanding principal of such debt prior to maturity. In addition, if general interest rates rise, there is a risk that our portfolio companies will be unable to pay escalating interest amounts, which could result in a default under their loan documents with us. Any failure of one or more portfolio companies to repay or refinance its debt at or prior to maturity or the inability of one or more portfolio companies to make ongoing payments following an increase in contractual interest rates could have a material adverse effect on our business, financial condition, results of operations and cash flows.

The disposition of our investments may result in contingent liabilities.

We currently expect that a portion of our investments will involve private securities. In connection with the disposition of an investment in private securities, we may be required to make representations about the business and financial affairs of the portfolio company typical of those made in connection with the sale of a business. We may also be required to indemnify the purchasers of such investment to the extent that any such representations turn out to be inaccurate or with respect to certain potential liabilities. These arrangements may result in contingent liabilities that ultimately yield funding obligations that must be satisfied through our return of certain distributions previously made to us.

The health and performance of our portfolio companies could be adversely affected by political and economic conditions in the countries in which they conduct business.

Some of the products of our portfolio companies are developed, manufactured, assembled, tested or marketed outside the U.S. Any conflict or uncertainty in these countries, including due to natural disasters, public health concerns, political unrest or safety concerns, among other things, could harm their business, financial condition and results of operations. In addition, if the government of any country in which their products are developed, manufactured or sold sets technical or regulatory standards for products developed or manufactured in or imported into their country that are not widely shared, it may lead some of their customers to suspend imports of their products into that country, require manufacturers or developers in that country to manufacture or develop products with different technical or regulatory standards and disrupt cross-border manufacturing, marketing or business relationships which, in each case, could harm their businesses.

Any unrealized depreciation we experience on our investment portfolio may be an indication of future realized losses, which could reduce our income available for distribution and could impair our ability to service our borrowings.

As a business development company, we are required to carry our investments at market value or, if no market value is ascertainable, at fair value as determined in good faith by our Board of Directors. Decreases in the market values or fair values of our investments will be recorded as unrealized depreciation. Any unrealized depreciation in our investment portfolio could be an indication of a portfolio company's inability to meet its repayment obligations to us with respect to the affected investments. This could result in realized losses in the future and ultimately in reductions of our income available for distribution in future periods and could materially adversely affect our ability to service our outstanding borrowings.

A lack of IPO or merger and acquisition opportunities may cause companies to stay in our portfolio longer, leading to lower returns, unrealized depreciation, or realized losses.

A lack of IPO or merger and acquisition ("M&A") opportunities for venture capital-backed companies could lead to companies staying longer in our portfolio as private entities still requiring funding. This situation may adversely affect the amount of available funding for early-stage companies in particular as, in general, venture-capital firms are being forced to provide additional financing to late-stage companies that cannot complete an IPO or M&A transaction. In the best case, such stagnation would dampen returns, and in the worst case, could lead to unrealized depreciation and realized losses as some companies run short of cash and have to accept lower valuations in private fundings or are not able to access additional capital at all. A lack of IPO or M&A opportunities for venture capital-backed companies can also cause some venture capital firms to change their strategies, leading some of them to reduce funding of their portfolio companies and making it more difficult for such companies to access capital and to fulfill their potential, which can result in unrealized depreciation and realized losses in such companies by other companies such as ourselves who are co-investors in such companies.

The majority of our portfolio companies will need multiple rounds of additional financing to repay their debts to us and continue operations. Our portfolio companies may not be able to raise additional financing, which could harm our investment returns.

The majority of our portfolio companies will often require substantial additional equity financing to satisfy their continuing working capital and other cash requirements and, in most instances, to service the interest and principal payments on our investment. Each round of venture financing is typically intended to provide a company with only enough capital to reach the next stage of development. We cannot predict the circumstances or market conditions under which our portfolio companies will seek additional capital. It is possible that one or more of our portfolio companies will not be able to raise additional financing or may be able to do so only at a price or on terms unfavorable to us, either of which would negatively impact our investment returns. Some of these companies may be unable to obtain sufficient financing from private investors, public capital markets or traditional lenders. This may have a significant impact if the companies are unable to obtain certain federal, state or foreign agency approval for their products or the marketing thereof, of if regulatory review processes extend longer than anticipated, and the companies need continued funding for their operations during these times. Accordingly, financing these types of companies may entail a higher risk of loss than would financing companies that are able to utilize traditional credit sources.

If the assets securing the loans that we make decrease in value, then we may lack sufficient collateral to cover losses.

To attempt to mitigate credit risks, we will typically take a security interest in the available assets of our portfolio companies. There is no assurance that we will obtain or properly perfect our liens.

There is a risk that the collateral securing our loans may decrease in value over time, may be difficult to sell in a timely manner, may be difficult to appraise and may fluctuate in value based upon the success of the business and market conditions, including as a result of the inability of a portfolio company to raise additional capital. In some circumstances, our lien could be subordinated to claims of other creditors. Consequently, the fact that a loan is secured does not guarantee that we will receive principal and interest payments according to the loan's terms, or that we will be able to collect on the loan should we be forced to enforce our remedies.

In addition, because we invest in technology-related companies, a substantial portion of the assets securing our investment may be in the form of intellectual property, if any, inventory and equipment and, to a lesser extent, cash and accounts receivable. Intellectual property, if any, that is securing our loan could lose value if, among other things, the company's rights to the intellectual property are challenged or if the company's license to the intellectual property is revoked or expires, the technology fails to achieve its intended results or a new technology makes the intellectual property functionally obsolete. Inventory may not be adequate to secure our loan if our valuation of the inventory at the time that we made the loan was not accurate or if there is a reduction in the demand for the inventory.

Similarly, any equipment securing our loan may not provide us with the anticipated security if there are changes in technology or advances in new equipment that render the particular equipment obsolete or of limited value, or if the company fails to adequately maintain or repair the equipment. Any one or more of the preceding factors could materially impair our ability to recover earned interest and principal in a foreclosure.

At December 31, 2017, approximately 45.1% of our portfolio company debt investments were secured by a first priority security in all of the assets of the portfolio company, including their intellectual property, 34.8% 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. Another 19.8% of our debt investments were secured by a second priority security interest in all of the portfolio company's assets, other than intellectual property, and 0.3% of our portfolio company debt investments were unsecured as a result of the terms of the acquisition of one of our portfolio companies during the period. At December 31, 2017 we had no equipment only liens on any of our portfolio companies.

We may suffer a loss if a portfolio company defaults on a loan and the underlying collateral is not sufficient.

In the event of a default by a portfolio company on a secured loan, we will only have recourse to the assets collateralizing the loan. If the underlying collateral value is less than the loan amount, we will suffer a loss. In addition, we sometimes make loans that are unsecured, which are subject to the risk that other lenders may be directly secured by the assets of the portfolio company. In the event of a default, those collateralized lenders would have priority over us with respect to the proceeds of a sale of the underlying assets. In cases described above, we may lack control over the underlying asset collateralizing our loan or the underlying assets of the portfolio company prior to a default, and as a result the value of the collateral may be reduced by acts or omissions by owners or managers of the assets.

In the event of bankruptcy of a portfolio company, we may not have full recourse to its assets in order to satisfy our loan, or our loan may be subject to "equitable subordination." This means that depending on the facts and circumstances, including the extent to which we actually provided significant "managerial assistance," if any, to that portfolio company, a bankruptcy court might re-characterize our debt holding and subordinate all or a portion of our claim to that of other creditors. In addition, certain of our loans are subordinate to other debt of the portfolio company. If a portfolio company defaults on our loan or on debt senior to our loan, or in the event of a portfolio company bankruptcy, our loan will be satisfied only after the senior debt receives payment. Where debt senior to our loan exists, the presence of intercreditor arrangements may limit our ability to amend our loan documents, assign our loans, accept prepayments, exercise our remedies (through "standstill" periods) and control decisions made in bankruptcy proceedings relating to the portfolio company. Bankruptcy and portfolio company litigation can significantly increase collection losses and the time needed for us to acquire the underlying collateral in the event of a default, during which time the collateral may decline in value, causing us to suffer losses.

If the value of collateral underlying our loan declines or interest rates increase during the term of our loan, a portfolio company may not be able to obtain the necessary funds to repay our loan at maturity through refinancing. Decreasing collateral value and/or increasing interest rates may hinder a portfolio company's ability to refinance our loan because the underlying collateral cannot satisfy the debt service coverage requirements necessary to obtain new financing. If a borrower is unable to repay our loan at maturity, we could suffer a loss which may adversely impact our financial performance.

The inability of our portfolio companies to commercialize their technologies or create or develop commercially viable products or businesses would have a negative impact on our investment returns.

The possibility that our portfolio companies will not be able to commercialize their technology, products or business concepts presents significant risks to the value of our investment. Additionally, although some of our portfolio companies may already have a commercially successful product or product line when we invest, technology-related products and services often have a more limited market- or life-span than have products in other industries. Thus, the ultimate success of these companies often depends on their ability to continually innovate, or raise additional capital, in increasingly competitive markets. Their inability to do so could affect our investment return. In addition, the intellectual property held by our portfolio companies often represents a substantial portion of the collateral, if any, securing our investments. We cannot assure you that any of our portfolio companies will successfully acquire or develop any new technologies, or that the intellectual property the companies currently hold will remain viable. Even if our portfolio companies are able to develop commercially viable products, the market for new products and services is highly competitive and rapidly changing. Neither our portfolio companies nor we have any control over the pace of technology development. Commercial success is difficult to predict, and the marketing efforts of our portfolio companies may not be successful.

An investment strategy focused on privately-held companies presents certain challenges, including the lack of available information about these companies, a dependence on the talents and efforts of only a few key portfolio company personnel and a greater vulnerability to economic downturns.

We invest primarily in privately-held companies. Generally, very little public information exists about these companies, and we are required to rely on the ability of our management and investment teams to obtain adequate information to evaluate the potential returns from investing in these companies. Such small, privately held companies as we routinely invest in may also lack quality infrastructures, thus leading to poor disclosure standards or control environments. If we are unable to uncover all material information about these companies, then we may not make a fully informed investment decision, and we may not receive the expected return on our investment or lose some or all of the money invested in these companies.

Also, privately-held companies frequently have less diverse product lines and a smaller market presence than do larger competitors. Privately-held companies are, thus, generally more vulnerable to economic downturns and may experience more substantial variations in operating results than do larger competitors. These factors could affect our investment returns and our results of operations and financial condition.

In addition, our success depends, in large part, upon the abilities of the key management personnel of our portfolio companies, who are responsible for the day-to-day operations of our portfolio companies. Competition for qualified personnel is intense at any stage of a company’s development, and high turnover of personnel is common in technology-related companies. The loss of one or more key managers can hinder or delay a company’s implementation of its business plan and harm its financial condition. Our portfolio companies may not be able to attract and retain qualified managers and personnel. Any inability to do so may negatively impact our investment returns and our results of operations and financial condition.

If our portfolio companies are unable to protect their intellectual property rights, or are required to devote significant resources to protecting their intellectual property rights, then our investments could be harmed.

Our future success and competitive position depend in part upon the ability of our portfolio companies to obtain and maintain proprietary technology used in their products and services, which will often represent a significant portion of the collateral, if any, securing our investment. The portfolio companies will rely, in part, on patent, trade secret and trademark law to protect that technology, but competitors may misappropriate their intellectual property, and disputes as to ownership of intellectual property may arise. Portfolio companies may, from time to time, be required to institute litigation in order to enforce their patents, copyrights or other intellectual property rights, to protect their trade secrets, to determine the validity and scope of the proprietary rights of others or to defend against claims of infringement. Such litigation could result in substantial costs and diversion of resources. Similarly, if a portfolio company is found to infringe upon or misappropriate a third party’s patent or other proprietary rights, that portfolio company could be required to pay damages to such third party, alter its own products or processes, obtain a license from the third party and/or cease activities utilizing such proprietary rights, including making or selling products utilizing such proprietary rights. Any of the foregoing events could negatively affect both the portfolio company’s ability to service our debt investment and the value of any related debt and equity securities that we own, as well as any collateral securing our investment.

We generally will not control our portfolio companies.

In some instances, we may control our portfolio companies or provide our portfolio companies with significant managerial assistance. However, we generally do not, and do not expect to, control the decision making in many of our portfolio companies, even though we may have board representation or board observation rights, and our debt agreements may contain certain restrictive covenants. As a result, we are subject to the risk that a portfolio company in which we invest will make business decisions with which we disagree and the management of such company, as representatives of the holders of their common equity, will take risks or otherwise act in ways that do not serve our interests as debt investors. Due to the lack of liquidity for our investments in non-traded companies, we may not be able to dispose of our interests in our portfolio companies as readily as we would like or at an appropriate valuation. As a result, a portfolio company may make decisions that would decrease the value of our portfolio holdings.

Our financial condition, results of operations and cash flows could be negatively affected if we are unable to recover our principal investment as a result of a negative pledge or lack of a security interest on the intellectual property of our venture growth stage companies.

In some cases, we collateralize our loans with a secured collateral position in a portfolio company's assets, which may include a negative pledge or, to a lesser extent, no security on their intellectual property. In the event of a default on a loan, the intellectual property of the portfolio company will most likely be liquidated to provide proceeds to pay the creditors of the company. There can be no assurance that our security interest, if any, in the proceeds of the intellectual property will be enforceable in a court of law or bankruptcy court or that there will not be others with senior or *pari passu* credit interests.

Our relationship with certain portfolio companies may expose us to our portfolio companies' trade secrets and confidential information which may require us to be parties to non-disclosure agreements and restrict us from engaging in certain transactions.

Our relationship with some of our portfolio companies may expose us to our portfolio companies' trade secrets and confidential information (including transactional data and personal data about their employees and clients) which may require us to be parties to non-disclosure agreements and restrict us from engaging in certain transactions. Unauthorized access or disclosure of such information may occur, resulting in theft, loss or other misappropriation. Any theft, loss, improper use, such as insider trading or other misappropriation of confidential information could have a material adverse impact on our competitive positions, our relationship with our portfolio companies and our reputation and could subject us to regulatory inquiries, enforcement and fines, civil litigation (which may cause us to incur significant expense or expose us to losses) and possible financial liability or costs.

Portfolio company litigation could result in additional costs, the diversion of management time and resources and have an adverse impact on the fair value of our investment.

To the extent that litigation arises with respect to any of our portfolio companies, we may be named as a defendant, which could result in additional costs and the diversion of management time and resources. Furthermore, if we are providing managerial assistance to the portfolio company or have representatives on the portfolio company's board of directors, our costs and diversion of our management's time and resources in assessing the portfolio company could be substantial in light of any such litigation regardless of whether we are named as a defendant. In addition, litigation involving a portfolio company may be costly and affect the operations of the portfolio company's business, which could in turn have an adverse impact on the fair value of our investment in such company.

We may not be able to realize our entire investment on equipment-based loans, if any, in the case of default.

We may from time-to-time provide loans that will be collateralized only by equipment of the portfolio company. If the portfolio company defaults on the loan we would take possession of the underlying equipment to satisfy the outstanding debt. The residual value of the equipment at the time we would take possession may not be sufficient to satisfy the outstanding debt and we could experience a loss on the disposition of the equipment. At December 31, 2017, we had no equipment-based loans.

Our investments in foreign securities may involve significant risks in addition to the risks inherent in U.S. investments.

Our investment strategy contemplates that a portion of our investments may be in securities of foreign companies. Our total investments at value in foreign companies were approximately $138.0 million or 8.9% of total investments at December 31, 2017. Investing in foreign companies may expose us to additional risks not typically associated with investing in U.S. companies. These risks include changes in exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than is generally the case in the U.S., higher transaction costs, less government supervision of exchanges, brokers and issuers, less developed bankruptcy laws, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility, among other things.

If our investments do not meet our performance expectations, you may not receive distributions.

We intend to make distributions on a quarterly basis to our stockholders. We may not be able to achieve operating results that will allow us to make distributions at a specific level or to increase the amount of these distributions from time to time. In addition, due to the asset coverage test applicable to us as a business development company, we may be limited in our ability to make distributions. Also, restrictions and provisions in any future credit facilities may limit our ability to make distributions. As a RIC, if we do not distribute at least a certain percentage of our income each taxable year as dividends for U.S. federal income tax purposes to our stockholders, we will suffer adverse tax consequences, including the inability to be subject to tax as a RIC. We cannot assure you that you will receive distributions at a particular level or at all.

We may not have sufficient funds to make follow-on investments. Our decision not to make a follow-on investment may have a negative impact on a portfolio company in need of such an investment or may result in a missed opportunity for us.

After our initial investment in a portfolio company, we may be called upon from time to time to provide additional funds to such company or have the opportunity or need to increase our investment in a successful situation or attempt to preserve or enhance the value of our initial investment, for example, the exercise of a warrant to purchase common stock, or a negative situation, to protect an existing investment. We have the discretion to make any follow-on investments, subject to the availability of capital resources and regulatory considerations. We may elect not to make follow-on investments or otherwise lack sufficient funds to make those investments. Any decision we make not to make a follow-on investment or any inability on our part to make such an investment may have a negative impact on a portfolio company in need of such an investment or may result in a missed opportunity for us to increase our participation in a successful operation and may dilute our equity interest or otherwise reduce the expected yield on our investment. Moreover, a follow-on investment may limit the number of companies in which we can make initial investments. In determining whether to make a follow-on investment, our management will exercise its business judgment and apply criteria similar to those used when making the initial investment. There is no assurance that we will make, or will have sufficient funds to make, follow-on investments and this could adversely affect our success and result in the loss of a substantial portion or all of our investment in a portfolio company.

The lack of liquidity in our investments may adversely affect our business and, if we need to sell any of our investments, we may not be able to do so at a favorable price. As a result, we may suffer losses.

We generally invest in debt securities with terms of up to seven years and hold such investments until maturity, and we do not expect that our related holdings of equity securities will provide us with liquidity opportunities in the near-term. We invest and expect to continue investing in companies whose securities have no established trading market and whose securities are and will be subject to legal and other restrictions on resale or whose securities are and will be less liquid than are publicly-traded securities. The illiquidity of these investments may make it difficult for us to sell these investments when desired. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we had previously recorded these investments. As a result, we do not expect to achieve liquidity in our investments in the near-term. However, to maintain our qualification as a business development company and as a RIC, we may have to dispose of investments if we do not satisfy one or more of the applicable criteria under the respective regulatory frameworks.

Our portfolio companies may incur debt or issue equity securities that rank equally with, or senior to, our investments in such companies.

We invest primarily in debt securities issued by our portfolio companies. In some cases, portfolio companies will be permitted to incur other debt, or issue other equity securities, that rank equally with, or senior to, our investment. Such instruments may provide that the holders thereof are entitled to receive payment of distributions, interest or principal on or before the dates on which we are entitled to receive payments in respect of our investments. These debt instruments would usually prohibit the portfolio companies from paying interest on or repaying our investments in the event and during the continuance of a default under such debt. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio company, holders of securities ranking senior to our investment in that portfolio company would typically be entitled to receive payment in full before we receive any distribution in respect of our investment. After repaying such holders, the portfolio company might not have any remaining assets to use for repaying its obligation to us. In the case of securities ranking equally with our investments, we would have to share on a pari passu basis any distributions with other security holders in the event of an insolvency, liquidation, dissolution, reorganization or bankruptcy of the relevant portfolio company.

The rights we may have with respect to the collateral securing any junior priority loans we make to our portfolio companies may also be limited pursuant to the terms of one or more intercreditor agreements that we enter into with the holders of senior debt. Under such an intercreditor agreement, at any time that senior obligations are outstanding, we may forfeit certain rights with respect to the collateral to the holders of the senior obligations. These rights may include the right to commence enforcement proceedings against the collateral, the right to control the conduct of such enforcement proceedings, the right to approve amendments to collateral documents, the right to release liens on the collateral and the right to waive past defaults under collateral documents. We may not have the ability to control or direct such actions, even if as a result our rights as junior lenders are adversely affected.

Our warrant and equity-related investments are highly speculative, and we may not realize gains from these investments. If our warrant and equity-related investments do not generate gains, then the return on our invested capital will be lower than it would otherwise be, which could result in a decline in the value of shares of our common stock.

When we invest in debt securities, we generally expect to acquire warrants or other equity-related securities as well. Our goal is ultimately to dispose of these equity interests and realize gains upon disposition of such interests. Over time, the gains that we realize on these equity interests may offset, to some extent, losses that we experience on defaults under debt securities that we hold. However, the equity interests that we receive may not appreciate in value and, in fact, may decline in value. Accordingly, we may not be able to realize gains from our equity interests, and any gains that we do realize on the disposition of any equity interests may not be sufficient to offset any other losses that we experience. In addition, we anticipate that approximately 50% of our warrants may not realize and exit or generate any returns. Furthermore, because of the financial reporting requirements under U.S. GAAP, of those approximately 50% of warrants that we do not realize and exit, the assigned costs to the initial warrants may lead to realized write-offs when the warrants either expire or are not exercised.

Prepayments of our debt investments by our portfolio companies could adversely impact our results of operations and reduce our return on equity.

During the year ended December 31, 2017, we received debt investment early principal repayments and pay down of working capital debt investments of approximately $625.1 million. We are subject to the risk that the investments we make in our portfolio companies may be repaid prior to maturity. When this occurs, we will generally reinvest these proceeds in temporary investments, pending their future investment in new portfolio companies. These temporary investments will typically have substantially lower yields than the debt being prepaid and we could experience significant delays in reinvesting these amounts. Any future investment in a new portfolio company may also be at lower yields than the debt that was repaid. As a result, our results of operations could be materially adversely affected if one or more of our portfolio companies elect to prepay amounts owed to us. Additionally, prepayments could negatively impact our return on equity, which could result in a decline in the market price of our common stock.

We may choose to waive or defer enforcement of covenants in the debt securities held in our portfolio, which may cause us to lose all or part of our investment in these companies.

We structure the debt investments in our portfolio companies to include business and financial covenants placing affirmative and negative obligations on the operation of the company's business and its financial condition. However, from time to time we may elect to waive breaches of these covenants, including our right to payment, or waive or defer enforcement of remedies, such as acceleration of obligations or foreclosure on collateral, depending upon the financial condition and prospects of the particular portfolio company. These actions may reduce the likelihood of receiving the full amount of future payments of interest or principal and be accompanied by a deterioration in the value of the underlying collateral as many of these companies may have limited financial resources, may be unable to meet future obligations and may go bankrupt. This could negatively impact our ability to pay distributions, could adversely affect our results of operation and financial condition and cause the loss of all or part of your investment.

We may also be subject to lender liability claims for actions taken by us with respect to a borrower's business or instances where we exercise control over the borrower. It is possible that we could become subject to a lender's liability claim, including as a result of actions taken in rendering significant managerial assistance or actions to compel and collect payments from the borrower outside the ordinary course of business.

Our loans could be subject to equitable subordination by a court which would increase our risk of loss with respect to such loans or we could be subject to lender liability claims.

Courts may apply the doctrine of equitable subordination to subordinate the claim or lien of a lender against a borrower to claims or liens of other creditors of the borrower, when the lender or its affiliates is found to have engaged in unfair, inequitable or fraudulent conduct. The courts have also applied the doctrine of equitable subordination when a lender or its affiliates is found to have exerted inappropriate control over a client, including control resulting from the ownership of equity interests in a client or providing of significant managerial assistance. We have made direct equity investments or received warrants in connection with loans. These investments represent approximately 8.2% of the outstanding value of our investment portfolio as of December 31, 2017. Payments on one or more of our loans, particularly a loan to a client in which we also hold an equity interest, may be subject to claims of equitable subordination. If we were deemed to have the ability to control or otherwise exercise influence over the business and affairs of one or more of our portfolio companies resulting in economic hardship to other creditors of that company, this control or influence may constitute grounds for equitable subordination and a court may treat one or more of our loans as if it were unsecured or common equity in the portfolio company. In that case, if the portfolio company were to liquidate, we would be entitled to repayment of our loan on a pro-rata basis with other unsecured debt or, if the effect of subordination was to place us at the level of common equity, then on an equal basis with other holders of the portfolio company's common equity only after all of its obligations relating to its debt and preferred securities had been satisfied.

In addition to these risks, in the event we elect to convert our debt position to equity, or otherwise take control of a portfolio company (such as through placing a member of our management team on its board of directors), as part of a restructuring, we face additional risks acting in that capacity. It is not uncommon for unsecured, or otherwise unsatisfied creditors, to sue parties that elect to use their debt positions to later control a company following a restructuring or bankruptcy. Apart from lawsuits, key customers and suppliers might act in a fashion contrary to the interests of a portfolio company if they were left unsatisfied in a restructuring or bankruptcy. Any combination of these factors might lead to the loss in value of a company subject to such activity and may divert the time and attention of our management team and investment team to help to address such issues in a portfolio company.

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. Additionally, President Trump has taken actions and made statements that suggest he plans to seek repeal of all or portions of the Affordable Care Act, or the ACA. In May 2017, the House of Representatives voted to pass the American Health Care Act, or the AHCA. As proposed, the AHCA would repeal many provisions of the ACA. The Senate is expected to consider an alternative version of the AHCA and it is expected that Congress will continue to consider this or similar legislation to repeal and replace some or all elements of the ACA. There is currently uncertainty with respect to the impact any such repeal may have and any resulting changes may take time to unfold, which could have an impact on coverage and reimbursement for healthcare items and services covered by plans that were authorized by the ACA. We cannot predict the ultimate content, timing or effect of any such legislation or executive action or the impact of potential legislation or executive action on us. 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.

Risks Related to Our Securities

Investing in shares of our common stock involves an above average degree of risk.

The investments we make in accordance with our investment objective may result in a higher amount of risk, volatility or loss of principal than alternative investment options. Our investments in portfolio companies may be highly speculative and aggressive, and therefore, an investment in our common stock may not be suitable for investors with lower risk tolerance.

Our common stock may trade below its NAV per share, which limits our ability to raise additional equity capital.

If our common stock is trading below its NAV per share, we will generally not be able to issue additional shares of our common stock at its market price without first obtaining the approval for such issuance from our stockholders and our independent directors. If our common stock trades below NAV, the higher cost of equity capital may result in it being unattractive to raise new equity, which may limit our ability to grow. The risk of trading below NAV is separate and distinct from the risk that our NAV per share may decline. We cannot predict whether shares of our common stock will trade above, at or below our NAV.

Provisions of our charter and bylaws could deter takeover attempts and have an adverse impact on the price of our common stock.

Our charter and bylaws contain provisions that may have the effect of discouraging, delaying, or making difficult a change in control of our company or the removal of our incumbent directors. Under our charter, our Board of Directors is divided into three classes serving staggered terms, which will make it more difficult for a hostile bidder to acquire control of us. In addition, our Board of Directors may, without stockholder action, authorize the issuance of shares of stock in one or more classes or series, including preferred stock. Subject to compliance with the 1940 Act, our Board of Directors may, without stockholder action, amend our charter to increase the number of shares of stock of any class or series that we have authority to issue. The existence of these provisions, among others, may have a negative impact on the price of our common stock and may discourage third party bids for ownership of our company. These provisions may prevent any premiums being offered to you for shares of our common stock in connection with a takeover.

Sales of substantial amounts of our common stock in the public market may have an adverse effect on the market price of our common stock.

Sales of substantial amounts of our common stock, or the availability of such common stock for sale (including as a result of the conversion of our 2022 Convertible Notes, issued in January 2017, into common stock), could adversely affect the prevailing market prices for our common stock, which may also lead to further dilution of our earnings per share. If this occurs and continues, it could impair our ability to raise additional capital through the sale of securities should we desire to do so.

We may periodically obtain the approval of our stockholders to issue shares of our common stock at prices below the then current NAV per share of our common stock. If we receive such approval from the stockholders, we may issue shares of our common stock at a price below the then current NAV per share of common stock. Any such issuance could materially dilute your interest in our common stock and reduce our NAV per share.

We may periodically obtain the approval of our stockholders to issue shares of our common stock at prices below the then current NAV per share of our common stock. Such approval has allowed and may again allow us to access the capital markets in a way that we typically are unable to do as a result of restrictions that, absent stockholder approval, apply to business development companies under the 1940 Act. Any decision to sell shares of our common stock below the then current NAV per share of our common stock is subject to the determination by our Board of Directors that such issuance and sale is in our and our stockholders' best interests.

Any sale or other issuance of shares of our common stock at a price below NAV per share has resulted and will continue to result in an immediate dilution to your interest in our common stock and a reduction of our NAV per share. This dilution would occur as a result of a proportionately greater decrease in a stockholder's interest in our earnings and assets and voting interest in us than the increase in our assets resulting from such issuance. Because the number of future shares of common stock that may be issued below our NAV per share and the price and timing of such issuances are not currently known, we cannot predict the actual dilutive effect of any such issuance. We also cannot determine the resulting reduction in our NAV per share of any such issuance at this time. We caution you that such effects may be material, and we undertake to describe all the material risks and dilutive effects of any offering that we make at a price below our then current NAV in the future in a prospectus supplement issued in connection with any such offering. We cannot predict whether shares of our common stock will trade above, at or below our NAV.

If we conduct an offering of our common stock at a price below NAV, investors are likely to incur immediate dilution upon the closing of the offering.

We are not generally able to issue and sell our common stock at a price below NAV per share. We may, however, sell our common stock, at a price below the current NAV of the common stock, or sell warrants, options or other rights to acquire such common stock, at a price below the current NAV of the common stock if our Board of Directors determines that such sale is in our best interests and the best interests of our stockholders and our stockholders have approved the practice of making such sales.

In connection with the receipt of such stockholder approval, we will limit the number of shares that it issues at a price below NAV pursuant to this authorization so that the aggregate dilutive effect on our then outstanding shares will not exceed 20%. Our Board of Directors, subject to its fiduciary duties and regulatory requirements, has the discretion to determine the amount of the discount, and as a result, the discount could be up to 100% of NAV per share. If we were to issue shares at a price below NAV, such sales would result in an immediate dilution to existing common stockholders, which would include a reduction in the NAV per share as a result of the issuance. This dilution would also include a proportionately greater decrease in a stockholder's interest in our earnings and assets and voting interest in us than the increase in our assets resulting from such issuance.

In addition, if we determined to conduct additional offerings in the future there may be even greater dilution if we determine to conduct such offerings at prices below NAV. As a result, investors will experience further dilution and additional discounts to the price of our common stock. Because the number of shares of common stock that could be so issued and the timing of any issuance is not currently known, the actual dilutive effect of an offering cannot be predicted. We did not sell any of our securities at a price below NAV during the year ended December 31, 2017.

We may allocate the net proceeds from an offering in ways with which you may not agree.

We have significant flexibility in investing the net proceeds of an offering and may use the net proceeds from an offering in ways with which you may not agree or for purposes other than those contemplated at the time of the offering.

If we issue preferred stock, debt securities or convertible debt securities, the NAV and market value of our common stock may become more volatile.

We cannot assure you that the issuance of preferred stock and/or debt securities would result in a higher yield or return to the holders of our common stock. The issuance of preferred stock, debt securities or convertible debt would likely cause the NAV and market value of our common stock to become more volatile. If the distribution rate on the preferred stock, or the interest rate on the debt securities, were to approach the net rate of return on our investment portfolio, the benefit of leverage to the holders of our common stock would be reduced. If the distribution rate on the preferred stock, or the interest rate on the debt securities, were to exceed the net rate of return on our portfolio, the use of leverage would result in a lower rate of return to the holders of common stock than if we had not issued the preferred stock or debt securities. Any decline in the NAV of our investment would be borne entirely by the holders of our common stock. Therefore, if the market value of our portfolio were to decline, the leverage would result in a greater decrease in NAV to the holders of our common stock than if we were not leveraged through the issuance of preferred stock. This decline in NAV would also tend to cause a greater decline in the market price for our common stock.

There is also a risk that, in the event of a sharp decline in the value of our net assets, we would be in danger of failing to maintain required asset coverage ratios which may be required by the preferred stock, debt securities, convertible debt or units or of a downgrade in the ratings of the preferred stock, debt securities, convertible debt or our current investment income might not be sufficient to meet the distribution requirements on the preferred stock or the interest payments on the debt securities. If we do not maintain our required asset coverage ratios, we may not be permitted to declare dividend distributions. In order to counteract such an event, we might need to liquidate investments in order to fund redemption of some or all of the preferred stock, debt securities or convertible debt. In addition, we would pay (and the holders of our common stock would bear) all costs and expenses relating to the issuance and ongoing maintenance of the preferred stock, debt securities, convertible debt or any combination of these securities. Holders of preferred stock, debt securities or convertible debt may have different interests than holders of common stock and may at times have disproportionate influence over our affairs.

Holders of any preferred stock that we may issue will have the right to elect members of the Board of Directors and have class voting rights on certain matters.

The 1940 Act requires that holders of shares of preferred stock must be entitled as a class to elect two directors at all times and to elect a majority of the directors if distributions on such preferred stock are in arrears by two years or more, until such arrearage is eliminated. In addition, certain matters under the 1940 Act require the separate vote of the holders of any issued and outstanding preferred stock, including changes in fundamental investment restrictions and conversion to open-end status and, accordingly, preferred stockholders could veto any such changes. Restrictions imposed on the declarations and payment of dividends or other distributions to the holders of our common stock and preferred stock, both by the 1940 Act and by requirements imposed by rating agencies, might impair our ability to maintain our ability to be subject to tax as a RIC.

Terms relating to redemption may materially adversely affect your return on any debt securities that we may issue.

If your debt securities are redeemable at our option, we may choose to redeem your debt securities at times when prevailing interest rates are lower than the interest rate paid on your debt securities. In addition, if your debt securities are subject to mandatory redemption, we may be required to redeem your debt securities also at times when prevailing interest rates are lower than the interest rate paid on your debt securities. In this circumstance, you may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as your debt securities being redeemed.

On October 24, 2017, our Board of Directors approved a redemption of $75.0 million of the outstanding aggregate principal amount of the 2024 Notes, which were redeemed on November 23, 2017. Additionally, we may redeem the remaining 2024 Notes at any time prior to maturity and the 2022 Notes after September 23, 2022 at a redemption price of 100% of the outstanding principal amount thereof plus accrued and unpaid interest payments. If we choose to redeem the 2022 Notes or 2024 Notes when the fair market value of the 2022 Notes or 2024 Notes is above par value, you would experience a loss of any potential premium.

Our shares may trade at discounts from NAV or at premiums that are unsustainable over the long term.

Shares of business development companies may trade at a market price that is less than the NAV that is attributable to those shares. Our shares have historically traded above and below our NAV. The possibility that our shares of common stock will trade at a discount from NAV or at a premium that is unsustainable over the long term is separate and distinct from the risk that our NAV may decrease. It is not possible to predict whether our shares will trade at, above or below NAV in the future.

Our credit ratings may not reflect all risks of an investment in our debt securities.

Our credit ratings are an assessment by third parties of our ability to pay our obligations. Consequently, real or anticipated changes in our credit ratings will generally affect the market value of our debt securities. Our credit ratings, however, may not reflect the potential impact of risks related to market conditions generally or other factors discussed herein on the market value of or trading market for the publicly issued debt securities.

A downgrade, suspension or withdrawal of the credit rating assigned by a rating agency to us or our debt securities, if any, or change in the debt markets could cause the liquidity or market value of our debt securities to decline significantly.

Our credit ratings are an assessment by rating agencies of our ability to pay our debts when due. Consequently, real or anticipated changes in our credit ratings will generally affect the market value of our outstanding debt and equity securities. These credit ratings may not reflect the potential impact of risks relating to the structure or marketing of such debt and equity securities. Credit ratings are not a recommendation to buy, sell or hold any security, and may be revised or withdrawn at any time by the issuing organization in its sole discretion.

Neither we nor any underwriter undertakes any obligation to maintain our credit ratings or to advise holders of our debt and equity securities of any changes in our credit ratings. There can be no assurance that a credit rating will remain for any given period of time or that such credit ratings will not be lowered or withdrawn entirely if future circumstances relating to the basis of the credit rating, such as adverse changes in our company, so warrant. An increase in the competitive environment, inability to cover distributions, or increase in leverage could lead to a downgrade in our credit ratings and limit our access to the debt and equity markets capability impairing our ability to grow the business. The conditions of the financial markets and prevailing interest rates have fluctuated in the past and are likely to fluctuate in the future.

Investors in offerings of our common stock will likely incur immediate dilution upon the closing of an offering.

We generally expect the public offering price of any offering of shares of our common stock to be higher than the book value per share of our outstanding common stock (unless we offer shares pursuant to a rights offering or after obtaining prior approval for such issuance from our stockholders and our independent directors). Accordingly, investors purchasing shares of common stock in offerings may pay a price per share that exceeds the tangible book value per share after such offering.

Our stockholders may experience dilution upon the conversion of our 2022 Convertible Notes.

Our 2022 Convertible Notes, issued in January 2017, are convertible into shares of our common stock beginning on August 1, 2021 or, under certain circumstances, earlier. Upon conversion of the 2022 Convertible Notes, we have the choice to pay or deliver, as the case may be, at our election, cash, shares of our common stock or a combination of cash and shares of our common stock. The initial conversion price of the 2022 Convertible Notes is $16.41, subject to adjustment in certain circumstances. If we elect to deliver shares of common stock upon a conversion at the time our NAV per share exceeds the conversion price in effect at such time, our stockholders may incur dilution. In addition, our stockholders will experience dilution in their ownership percentage of common stock upon our issuance of common stock in connection with the conversion of the 2022 Convertible Notes and any distributions paid on our common stock will also be paid on shares issued in connection with such conversion after such issuance.

Our stockholders will experience dilution in their ownership percentage if they opt out of our dividend reinvestment plan.

All distributions in cash payable to stockholders that are participants in our dividend reinvestment plan are automatically reinvested in shares of our common stock. As a result, our stockholders that opt out of our dividend reinvestment plan will experience dilution in their ownership percentage of our common stock over time.

Our distribution proceeds may exceed our earnings. Therefore, portions of the distributions that we make may represent a return of capital to stockholders, which will lower their tax basis in their shares.

The tax treatment and characterization of our distributions may vary significantly from time to time due to the nature of our investments. The ultimate tax characterization of our distributions made during a taxable year generally will not finally be determined until after the end of that taxable year. We may make distributions during a taxable year that exceed our investment company taxable income, determined without regard to any deduction for dividends paid, and net capital gains for that taxable year. In such a situation, the amount by which our total distributions exceed investment company taxable income, determined without regard to any deduction for dividends paid, and net capital gains generally would be treated as a return of capital up to the amount of a stockholder's tax basis in the shares, with any amounts exceeding such tax basis generally treated as a gain from the sale or exchange of such shares. A return of capital generally is a return of a stockholder's investment rather than a return of earnings or gains derived from our investment activities. Moreover, we may pay all or a substantial portion of our distributions from the proceeds of the sale of shares of our common stock or from borrowings in anticipation of future cash flow, which could constitute a return of stockholders' capital and will lower such stockholders' tax basis in our shares, which may result in increased tax liability to stockholders when they sell such shares. The tax liability to stockholders upon the sale of shares may increase even if such shares are sold at a loss.

Our common stock price has been and continues to be volatile and may decrease substantially.

As with any company, the price of our common stock will fluctuate with market conditions and other factors, which include, but are not limited to, the following:

- price and volume fluctuations in the overall stock market from time to time;
- significant volatility in the market price and trading volume of securities of RICs, business development companies or other financial services companies;
- any inability to deploy or invest our capital;
- fluctuations in interest rates;
- any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;
- the financial performance of specific industries in which we invest in on a recurring basis;
- announcement of strategic developments, acquisitions, and other material events by us or our competitors, or operating performance of companies comparable to us;
- changes in regulatory policies or tax guidelines with respect to RICs, SBICs or business development companies;
- losing our ability to either qualify or be subject to U.S. federal income tax as a RIC;
- actual or anticipated changes in our earnings or fluctuations in our operating results, or changes in the expectations of securities analysts;
- changes in the value of our portfolio of investments;
- realized losses in investments in our portfolio companies;
- general economic conditions and trends;
- inability to access the capital markets;
- loss of a major funded source; or
- departure of key personnel.

In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been brought against that company. Due to the potential volatility of our stock price, we may be the target of securities litigation in the future. Securities litigation could result in substantial costs and could divert management's attention and resources from our business.

We may be unable to invest a significant portion of the net proceeds from an offering or from exiting an investment or other capital on acceptable terms, which could harm our financial condition and operating results.

Delays in investing the net proceeds raised in an offering or from exiting an investment or other capital may cause our performance to be worse than that of other fully invested business development companies or other lenders or investors pursuing comparable investment strategies. We cannot assure you that we will be able to identify any investments that meet our investment objective or that any investment that we make will produce a positive return. We may be unable to invest the net proceeds of any offering or from exiting an investment or other capital on acceptable terms within the time period that we anticipate or at all, which could harm our financial condition and operating results.

We anticipate that, depending on market conditions and the amount of the capital, it may take us a substantial period of time to invest substantially all the capital in securities meeting our investment objective. During this period, we will invest the capital primarily in cash equivalents, U.S. government securities and other high-quality debt investments that mature in one year or less or use the net proceeds from such offerings to reduce then-outstanding debt obligations, which may produce returns that are significantly lower than the returns which we expect to achieve when our portfolio is fully invested in securities meeting our investment objective. As a result, any distributions that we pay during such period may be substantially lower than the distributions that we may be able to pay when our portfolio is fully invested in securities meeting our investment objective. In addition, until such time as the net proceeds of any offering or from exiting an investment or other capital are invested in new securities meeting our investment objective, the market price for our securities may decline. Thus, the initial return on your investment may be lower than when, if ever, our portfolio is fully invested in securities meeting our investment objective.

Your interest in us may be diluted if you do not fully exercise your subscription rights in any rights offering. In addition, if the subscription price is less than our NAV per share, then you will experience an immediate dilution of the aggregate NAV of your shares.

In the event we issue subscription rights, stockholders who do not fully exercise their subscription rights should expect that they will, at the completion of a rights offering, own a smaller proportional interest in us than would otherwise be the case if they fully exercised their rights. We cannot state precisely the amount of any such dilution in share ownership because we do not know at this time what proportion of the shares will be purchased as a result of such rights offering.

In addition, if the subscription price is less than the NAV per share of our common stock, then our stockholders would experience an immediate dilution of the aggregate NAV of their shares as a result of the offering. The amount of any decrease in NAV is not predictable because it is not known at this time what the subscription price and NAV per share will be on the expiration date of a rights offering or what proportion of the shares will be purchased as a result of such rights offering. Such dilution could be substantial.

The trading market or market value of our publicly issued debt securities may fluctuate.

Our publicly issued debt securities may or may not have an established trading market. We cannot assure you that a trading market for our publicly issued debt securities will ever develop or be maintained if developed. In addition to our creditworthiness, many factors may materially adversely affect the trading market for, and market value of, our publicly issued debt securities. These factors include, but are not limited to, the following:

- the time remaining to the maturity of these debt securities;
- the outstanding principal amount of debt securities with terms identical to these debt securities;
- the ratings assigned by national statistical ratings agencies;
- the general economic environment;
- the supply of debt securities trading in the secondary market, if any;
- the redemption or repayment features, if any, of these debt securities;
- the level, direction and volatility of market interest rates generally; and
- market rates of interest higher or lower than rates borne by the debt securities. You should also be aware that there may be a limited number of buyers when you decide to sell your debt securities. This too may materially adversely affect the market value of the debt securities or the trading market for the debt securities.

The 2022 Notes, 2024 Notes and 2022 Convertible Notes are unsecured and therefore are effectively subordinated to any secured indebtedness we have currently incurred or may incur in the future.

The 2022 Notes, 2024 Notes and 2022 Convertible Notes are not secured by any of our assets or any of the assets of our subsidiaries. As a result, while the 2022 Notes, 2024 Notes and 2022 Convertible Notes remain senior in priority to our equity securities, they are effectively subordinated to any secured indebtedness we or our subsidiaries have currently incurred and may incur in the future (or any indebtedness that is initially unsecured to which we subsequently grant security) to the extent of the value of the assets securing such indebtedness. In any liquidation, dissolution, bankruptcy or other similar proceeding, the holders of any of our existing or future secured indebtedness and the secured indebtedness of our subsidiaries may assert rights against the assets pledged to secure that indebtedness in order to receive full payment of their indebtedness before the assets may be used to pay other creditors, including the holders of the 2022 Notes, 2024 Notes and 2022 Convertible Notes.

The 2022 Notes, 2024 Notes and 2022 Convertible Notes are structurally subordinated to the indebtedness and other liabilities of our subsidiaries.

The 2022 Notes, 2024 Notes and 2022 Convertible Notes are obligations exclusively of Hercules Capital, Inc. and not of any of our subsidiaries. None of our subsidiaries are or act as guarantors of the 2022 Notes, 2024 Notes and 2022 Convertible Notes and the 2022 Notes, 2024 Notes and 2022 Convertible Notes are not required to be guaranteed by any subsidiaries we may acquire or create in the future. Our secured indebtedness with respect to the SBA debentures is held through our SBIC subsidiaries. The assets of any such subsidiaries are not directly available to satisfy the claims of our creditors, including holders of the 2022 Notes, 2024 Notes and 2022 Convertible Notes.

Except to the extent we are a creditor with recognized claims against our subsidiaries, all claims of creditors (including holders of preferred stock, if any, of our subsidiaries) will have priority over our equity interests in such subsidiaries (and therefore the claims of our creditors, including holders of the 2022 Notes, 2024 Notes and 2022 Convertible Notes) with respect to the assets of such subsidiaries. Even if we are recognized as a creditor of one or more of our subsidiaries, our claims would still be structurally subordinated to any security interests in the assets of any such subsidiary and to any indebtedness or other liabilities of any such subsidiary senior to our claims. Consequently, the 2022 Notes, 2024 Notes and 2022 Convertible Notes are structurally subordinated to all indebtedness and other liabilities (including trade payables) of our subsidiaries and any subsidiaries that we may in the future acquire or establish as financing vehicles or otherwise. In addition, our subsidiaries may incur substantial additional indebtedness in the future, all of which would be structurally senior to the 2022 Notes, 2024 Notes and 2022 Convertible Notes.

The respective indentures under which the 2022 Notes, 2024 Notes and 2022 Convertible Notes were issued contains limited protections for the holders of the 2022 Notes, 2024 Notes and 2022 Convertible Notes.

The indenture under which 2022 Notes, 2024 Notes and 2022 Convertible Notes were issued offers limited protections to the holders of the 2022 Notes, 2024 Notes and 2022 Convertible Notes. The terms of the respective indentures and the 2022 Notes, 2024 Notes and 2022 Convertible Notes do not restrict our or any of our subsidiaries' ability to engage in, or otherwise be a party to, a variety of corporate transactions, circumstances or events that could have an adverse impact on an investment in the 2022 Notes, 2024 Notes or 2022 Convertible Notes. In particular, the terms of the respective indentures and the 2022 Notes, 2024 Notes and 2022 Convertible Notes do not place any restrictions on our or our subsidiaries' ability to:

- issue securities or otherwise incur additional indebtedness or other obligations, including (1) any indebtedness or other obligations that would be equal in right of payment to the 2022 Notes, 2024 Notes or 2022 Convertible Notes, (2) any indebtedness or other obligations that would be secured and therefore rank effectively senior in right of payment to the 2022 Notes, 2024 Notes or 2022 Convertible Notes to the extent of the values of the assets securing such debt, (3) indebtedness of ours that is guaranteed by one or more of our subsidiaries and which therefore would rank structurally senior to the 2022 Notes, 2024 Notes or 2022 Convertible Notes and (4) securities, indebtedness or other obligations issued or incurred by our subsidiaries that would be senior in right of payment to our equity interests in our subsidiaries and therefore would rank structurally senior in right of payment to the 2022 Notes, 2024 Notes or 2022 Convertible Notes with respect to the assets of our subsidiaries, in each case other than an incurrence of indebtedness or other obligation that would cause a violation of Section 18(a)(1)(A) of the 1940 Act as modified by Section 61(a)(1) of the 1940 Act or any successor provisions;
- pay distributions on, or purchase or redeem or make any payments in respect of, capital stock or other securities ranking junior in right of payment to the 2022 Notes, 2024 Notes or 2022 Convertible Notes, in each case other than distributions, purchases, redemptions or payments that would cause a violation of Section 18(a)(1)(B) of the 1940 Act as modified by Section 61(a)(1) of the 1940 Act or any successor provisions giving effect to any exemptive relief granted to us by the SEC (these provisions generally prohibit us from declaring any cash distributions upon any class of our capital stock, or purchasing any such capital stock if our asset coverage, as defined in the 1940 Act, is below 200% at the time of the declaration of the distribution or the purchase and after deducting the amount of such distribution or purchase);

- sell assets (other than certain limited restrictions on our ability to consolidate, merge or sell all or substantially all of our assets);
- enter into transactions with affiliates;
- create liens (including liens on the shares of our subsidiaries) or enter into sale and leaseback transactions;
- make investments; or
- create restrictions on the payment of distributions or other amounts to us from our subsidiaries.

The indenture and the 2024 Notes do not require us to offer to purchase the 2024 Notes in connection with a change of control or any other event.

Furthermore, the terms of the respective indentures and the 2022 Notes, 2024 Notes and 2022 Convertible Notes do not protect their respective holders in the event that we experience changes (including significant adverse changes) in our financial condition or results of operations, as they do not require that we or our subsidiaries adhere to any financial tests or ratios or specified levels of net worth, revenues, income, cash flow or liquidity, except as required under the 1940 Act.

Our ability to recapitalize, incur additional debt and take a number of other actions that are not limited by the terms of the 2022 Notes, 2024 Notes and 2022 Convertible Notes may have important consequences for their holders, including making it more difficult for us to satisfy our obligations with respect to the 2024 Notes or negatively affecting their trading value.

Certain of our current debt instruments include more protections for their respective holders than the indenture and 2022 Notes, 2024 Notes and 2022 Convertible Notes. In addition, other debt we issue or incur in the future could contain more protections for its holders than the respective indentures and the 2022 Notes, 2024 Notes and 2022 Convertible Notes, including additional covenants and events of default. The issuance or incurrence of any such debt with incremental protections could affect the market for and trading levels and prices of the 2022 Notes, 2024 Notes and 2022 Convertible Notes.

An active trading market for the 2024 Notes may not develop or be sustained, which could limit the market price of the 2024 Notes or your ability to sell them.

Although the 2024 Notes are listed on the NYSE under the symbol "HTGX," we cannot provide any assurances that an active trading market will develop or be sustained for the 2024 Notes or that the 2024 Notes will be able to be sold. At various times, the 2024 Notes may trade at a discount from their initial offering price depending on prevailing interest rates, the market for similar securities, our credit ratings, general economic conditions, our financial condition, performance and prospects and other factors. To the extent an active trading market is not sustained, the liquidity and trading price for the 2024 Notes may be harmed.

If we default on our obligations to pay our other indebtedness, we may not be able to make payments on the 2022 Notes, 2024 Notes or 2022 Convertible Notes.

Any default under the agreements governing our indebtedness, including a default under the Wells Facility, the Union Bank Facility or other indebtedness to which we may be a party that is not waived by the required lenders or holders, and the remedies sought by the holders of such indebtedness could make us unable to pay principal, premium, if any, and interest on the 2022 Notes, 2024 Notes or 2022 Convertible Notes and substantially decrease the market value of the 2022 Notes, 2024 Notes and 2022 Convertible Notes. If we are unable to generate sufficient cash flow and are otherwise unable to obtain funds necessary to meet required payments of principal, premium, if any, and interest on our indebtedness, or if we otherwise fail to comply with the various covenants, including financial and operating covenants, in the instruments governing our indebtedness, we could be in default under the terms of the agreements governing such indebtedness. In the event of such default, the holders of such indebtedness could elect to declare all the funds borrowed thereunder to be due and payable, together with accrued and unpaid interest, the lenders under the Wells Facility and the Union Bank Facility or other debt we may incur in the future could elect to terminate their commitments, cease making further loans and institute foreclosure proceedings against our assets, and we could be forced into bankruptcy or liquidation. If our operating performance declines, we may in the future need to seek to obtain waivers from the required lenders under the Wells Facility or Union Bank Facility or other debt that we may incur in the future to avoid being in default. If we breach our covenants under the Wells Facility or Union Bank Facility or other debt and seek a waiver, we may not be able to obtain a waiver from the required lenders or holders. If this occurs, we would be in default under the Wells Facility or Union Bank Facility or other debt, the lenders or holders could exercise their rights as described above, and we could be forced into bankruptcy or liquidation. If we are unable to repay debt, lenders having secured obligations, including the lenders under the Wells Facility and the Union Bank Facility, could proceed against the collateral securing the debt. Because the Wells Facility and the Union Bank Facility have, and any future credit facilities will likely have, customary cross-default provisions, if the indebtedness under the 2022 Notes, 2024 Notes, 2022 Convertible Notes, Wells Facility, Union Bank Facility or under any future credit facility is accelerated, we may be unable to repay or finance the amounts due.

Item 1B. ***Unresolved Staff Comments***

None.

Item 2. ***Properties***

Neither we nor any of our subsidiaries own any real estate or other physical properties materially important to our operation or any of our subsidiaries. Currently, we lease approximately 14,500 square feet of office space in Palo Alto, CA for our corporate headquarters. We also lease office space in Boston, MA, New York, NY, Washington, DC, Hartford, CT and San Diego, CA.

Item 3. ***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 4. ***Mine Safety Disclosures***

Not applicable.

PART II

Item 5. ***Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

PRICE RANGE OF COMMON STOCK

Our common stock is traded on the NYSE under the symbol "HTGC." The following table sets forth the range of high and low sales prices of our common stock for each fiscal quarter during the two most recently completed fiscal years as reported on the NYSE.

	Price Range			
Quarter Ended	**High**		**Low**	
March 31, 2016	$	12.39	$	10.03
June 30, 2016	$	12.43	$	11.74
September 30, 2016	$	14.00	$	12.42
December 31, 2016	$	14.25	$	12.90
March 31, 2017	$	15.43	$	14.12
June 30, 2017	$	15.56	$	12.66
September 30, 2017	$	13.50	$	12.04
December 31, 2017	$	13.94	$	12.44

The last reported price for our common stock on February 16, 2018 was $12.61 per share.

As of February 12, 2017, we had approximately 61,850 stockholders of record. Most of the shares of our common stock are held by brokers and other institutions on behalf of stockholders. There are currently approximately 82 additional beneficial holders of our common stock.

Shares of business development companies may trade at a market price that is less than the NAV per share. The possibilities that our shares of common stock will trade at a discount from NAV or at premiums that are unsustainable over the long term are separate and distinct from the risk that our NAV will decrease. At times, our shares of common stock have traded at a premium to NAV or at a significant discount to the NAV per share.

SALES OF UNREGISTERED SECURITIES

During 2017, 2016 and 2015, the Board of Directors elected to receive approximately $250,000, $250,000 and $300,000, respectively, of their compensation in the form of common stock and we issued 19,515, 18,600 and 27,132 shares, respectively, to the directors based on the closing prices of the common stock on the specified election dates.

During 2017, 2016 and 2015, we issued 163,584, 144,308, and 199,894 shares, respectively, of common stock to shareholders in connection with the dividend reinvestment plan. These issuances were not subject to the registration requirements of the Securities Act of 1933, as amended, or the Securities Act. The aggregate value of the shares of our common stock issued under our dividend reinvestment plan during the years ended December 31, 2017, 2016 and 2015 were approximately $2.2 million, $1.8 million and $2.4 million, respectively.

EQUITY COMPENSATION PLAN INFORMATION

See "Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters."

DISTRIBUTION POLICY

In order to be subject to tax as a RIC, we must distribute to our stockholders, in respect of each taxable year, dividends for U.S. federal income tax purposes of an amount generally at least equal to the Annual Distribution Requirement. Upon satisfying this requirement in respect of a taxable year, we generally will not be subject to corporate taxes on any income we distribute to our stockholders as dividends for U.S. federal income tax purposes.

However, as a RIC we will be subject to a 4% nondeductible U.S. federal excise tax on certain undistributed income and gains unless we make distributions treated as dividends for U.S. federal income tax purposes in a timely manner to our stockholders in respect of each calendar year of an amount at least equal to the Excise Tax Avoidance Requirement. We will not be subject to this excise tax on any amount on which we incurred U.S. federal corporate income tax (such as the tax imposed on a RIC's 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 distributions treated as dividends for U.S. federal income tax purposes 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 treated as dividends for U.S. federal income tax purposes 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, distributions declared and paid by us in a taxable year may differ from our taxable income for that taxable year as such 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. See "Item 1. Business— Regulation."

The following table summarizes our 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
Cumulative distributions declared and paid prior to January 1, 2016			$ 11.23
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 24, 2016	November 14, 2016	November 21, 2016	0.31
February 16, 2017	March 6, 2017	March 13, 2017	0.31
April 26, 2017	May 15, 2017	May 22, 2017	0.31
July 26, 2017	August 14, 2017	August 21, 2017	0.31
October 25, 2017	November 13, 2017	November 20, 2017	0.31
February 14, 2018	March 5, 2018	March 12, 2018	0.31
			$ 14.02

On February 14, 2018 the Board of Directors declared a cash distribution of $0.31 per share to be paid on March 12, 2018 to shareholders of record as of March 5, 2018. This distribution represents our fiftieth consecutive distribution since our initial public offering, bringing the total cumulative distribution to date to $14.02 per share.

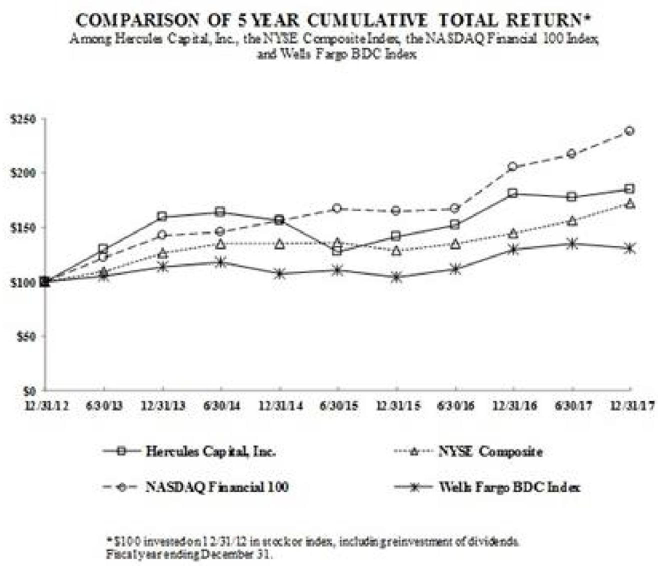
Our Board of Directors maintains a variable distribution policy with the objective of distributing four quarterly distributions in an amount that approximates 90 - 100% of our taxable quarterly income or potential annual income for a particular taxable year. In addition, at the end of our taxable year, our Board of Directors may choose to pay an additional special distribution, or fifth distribution, 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 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 generally 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. Of the distributions declared during the fiscal years ended December 31, 2017, 2016, and 2015, 100% were distributions derived from our current and accumulated earnings and profits. There can be no certainty to stockholders that this determination is representative of the tax attributes of the 2018 distributions that we anticipate would be made to stockholders.

We maintain an "opt-out" dividend reinvestment plan for our common stockholders. As a result, if we declare a distribution, cash distributions 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 distributions. During 2017, 2016, and 2015, we issued 163,584, 144,308 and 199,894 shares, respectively, of common stock to shareholders in connection with the dividend reinvestment plan.

PERFORMANCE GRAPH

The following stock performance graph compares the cumulative stockholder return assuming that, on December 31, 2012, a person invested $100 in each of our common stock, the NYSE Composite Index, the NASDAQ Financial 100 Index, and the Wells Fargo BDC Index. The graph measures total shareholder return, which takes into account both changes in stock price and distributions. It assumes that distributions paid are reinvested in like securities.



This graph and other information furnished under Part II. Item 5 of the Form 10-K shall not be deemed to be "soliciting material" or to be "filed" with the SEC or subject to Regulation 14A or 14C, or to the liabilities of Section 18 of the Exchange Act. The stock price performance included in the above graph is not necessarily indicative of future stock price performance.

Selected Consolidated Financial Data

The following consolidated financial data is derived from our audited consolidated financial statements. The selected consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and related notes included elsewhere herein. Historical data is not necessarily indicative of results to be expected for any future period.

	For the Year Ended December 31,				
(in thousands, except per share amounts)	**2017**	**2016**	**2015**	**2014**	**2013**
Balance sheet data:					
Investments, at value	$ 1,542,214	$ 1,423,942	$ 1,200,638	$ 1,020,737	$ 910,295
Cash and cash equivalents	91,309	13,044	95,196	227,116	268,368
Total assets	1,654,715	1,464,204	1,334,761	1,299,223	1,221,715
Total liabilities	813,748	676,260	617,627	640,359	571,708
Total net assets	840,967	787,944	717,134	658,864	650,007
Other Data:					
Total return (3)	1.47 %	26.87 %	(9.70 %)	(1.75 %)	58.49 %
Total debt investments, at value	1,415,984	1,328,803	1,110,209	923,906	821,988
Total warrant investments, at value	36,869	27,485	22,987	25,098	35,637
Total equity investments, at value	89,361	67,654	67,442	71,733	52,670
Unfunded Commitments(2)	73,604	59,683	75,402	147,689	69,091
Net asset value per share(1)	$ 9.96	$ 9.90	$ 9.94	$ 10.18	$ 10.51

(1) Based on common shares outstanding at period end.
(2) Amount represents unfunded commitments, including undrawn revolving facilities, which are available at the request of the portfolio company. Amount excludes unfunded commitments which are unavailable due to the borrower having not met certain milestones.
(3) The total return 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 issuance. The total return does not reflect any sales load that must be paid by investors.

	For the Year Ended December 31,				
(in thousands, except per share amounts)	**2017**	**2016**	**2015**	**2014**	**2013**
Investment income:					
Interest	$ 172,196	$ 158,727	$ 140,266	$ 126,618	$ 123,671
Fees	18,684	16,324	16,866	17,047	16,042
Total investment income	190,880	175,051	157,132	143,665	139,713
Operating expenses:					
Interest	37,857	32,016	30,834	28,041	30,334
Loan fees	8,728	5,042	6,055	5,919	4,807
General and administrative:					
Legal expenses	4,572	4,823	3,079	1,366	1,440
Other expenses	11,533	11,283	13,579	8,843	7,914
Total general and administrative	16,105	16,106	16,658	10,209	9,354
Employee Compensation:					
Compensation and benefits	24,555	22,500	20,713	16,604	16,179
Stock-based compensation	7,191	7,043	9,370	9,561	5,974
Total employee compensation	31,746	29,543	30,083	26,165	22,153
Total operating expenses	94,436	82,707	83,630	70,334	66,648
Other income (loss)	—	8,000	(1)	(1,581)	—
Net investment income	96,444	100,344	73,501	71,750	73,065
Net realized gain (loss) on investments	(26,711)	4,576	5,147	20,112	14,836
Net change in unrealized appreciation (depreciation) on investments	9,265	(36,217)	(35,732)	(20,674)	11,545
Total net realized and unrealized gain (loss)	(17,446)	(31,641)	(30,585)	(562)	26,381
Net increase in net assets resulting from operations	$ 78,998	$ 68,703	$ 42,916	$ 71,188	$ 99,446
Change in net assets per common share (basic)	$ 0.95	$ 0.91	$ 0.60	$ 1.12	$ 1.67
Distributions declared per common share:	$ 1.24	$ 1.24	$ 1.24	$ 1.24	$ 1.11

Item 7. ***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," "potential" or "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 current and future management structure;
- our future operating results;
- our business prospects and the prospects of our prospective portfolio companies;
- the impact of investments that we expect to make;
- our informal relationships with third parties including in the venture capital industry;
- the expected market for venture capital investments and our addressable market;
- the dependence of our future success on the general economy and its impact on the industries in which we invest;
- our ability to access debt markets and equity markets;
- the ability of our portfolio companies to achieve their objectives;
- our expected financings and investments;
- our regulatory structure and tax status;
- our ability to operate as a business development company, a SBIC and a RIC;
- the adequacy of our cash resources and working capital;
- the timing of cash flows, if any, from the operations of our portfolio companies;
- the timing, form and amount of any distributions;
- the impact of fluctuations in interest rates on our business;
- the valuation of any investments in portfolio companies, particularly those having no liquid trading market; and
- our ability to recover unrealized losses.

For a discussion of factors that could cause our actual results to differ from forward-looking statements contained in this report, please see the discussion under "Item 1A. Risk Factors." You should not place undue reliance on these forward-looking statements. The forward-looking statements made in this report relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statement to reflect events or circumstances occurring after the date of this report.

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" and "Forward-Looking Statements" of this Item 7.

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, Hartford, CT and San Diego, CA.

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

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

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

We also make investments in qualifying small businesses through our two wholly-owned SBICs. Our SBIC subsidiaries, HT II and HT III, hold approximately $111.8 million and $284.0 million in assets, respectively, and accounted for approximately 5.4% and 13.8% of our total assets, respectively, prior to consolidation at December 31, 2017. In aggregate, at December 31, 2017, with our net investment of $118.5 million, HT II and HT III have the capacity to issue a total of $190.2 million of SBA-guaranteed debentures, subject to SBA approval. At December 31, 2017, we have issued $190.2 million in SBA-guaranteed debentures in our SBIC subsidiaries.

We have qualified as and have elected to be treated for tax purposes as a RIC under Subchapter M of the Code. Pursuant to this election, we generally will not be subject to corporate-level taxes on any income and gains that we distribute as dividends for federal income tax purposes 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 during each taxable year from qualified sources, typically referred to as “good income,” as well as satisfy certain quarterly asset diversification and annual income distribution requirements.

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

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

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

Portfolio and Investment Activity

The total fair value of our investment portfolio was approximately $1.5 billion at December 31, 2017 as compared to approximately $1.4 billion at December 31, 2016. The fair value of our debt investment portfolio at December 31, 2017 was approximately $1.4 billion, compared to a fair value of approximately $1.3 billion at December 31, 2016. The fair value of the equity portfolio at December 31, 2017 was approximately $89.4 million, compared to a fair value of approximately $67.6 million at December 31, 2016. The fair value of the warrant portfolio at December 31, 2017 was approximately $36.8 million, compared to a fair value of approximately $27.5 million at December 31, 2016.

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 years ended December 31, 2017 and 2016 was comprised of the following:

(in millions)	**December 31, 2017**	**December 31, 2016**
Debt Commitments (1)		
New portfolio company	$ 773.2	$ 624.0
Existing portfolio company	98.8	171.8
Total	$ 872.0	$ 795.8
Funded and Restructured Debt Investments (2)		
New portfolio company	$ 578.9	$ 479.0
Existing portfolio company	175.9	181.5
Total	$ 754.8	$ 660.5
Funded Equity Investments		
New portfolio company	$ 7.1	$ 17.1
Existing portfolio company	2.9	3.1
Total	$ 10.0	$ 20.2
Unfunded Contractual Commitments (3)		
Total	$ 73.6	$ 59.7
Non-Binding Term Sheets		
New portfolio company	$ 122.0	$ 55.0
Existing portfolio company	—	—
Total	$ 122.0	$ 55.0

(1) Includes restructured loans and renewals in addition to new commitments.
(2) Funded amounts include borrowings on revolving facilities.
(3) 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.

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 year ended December 31, 2017, we received approximately $625.1 million in aggregate principal repayments. Of the approximately $625.1 million of aggregate principal repayments, approximately $119.5 million were scheduled principal payments, and approximately $505.6 million were early principal repayments related to 47 portfolio companies. Of the approximately $505.6 million early principal repayments, approximately $74.2 million were early repayments due to merger and acquisition transactions for seven portfolio companies.

Total portfolio investment activity (inclusive of unearned income and excluding activity related to taxes payable and escrow receivables) as of and for each of the years ended December 31, 2017 and 2016 was as follows:

(in millions)	December 31, 2017	December 31, 2016
Beginning portfolio	$ 1,423.9	$ 1,200.6
New fundings and restructures	764.8	680.7
Warrants not related to current period fundings	0.6	0.6
Principal payments received on investments	(119.5)	(111.2)
Early payoffs	(505.6)	(324.0)
Accretion of loan discounts and paid-in-kind principal	36.5	43.6
Net acceleration of loan discounts and loan fees due to early payoff or restructure	(8.1)	(6.3)
New loan fees	(9.8)	(10.1)
Warrants converted to equity	—	0.3
Sale of investments	(11.0)	(4.4)
Loss on investments due to write offs	(39.6)	(10.0)
Net change in unrealized depreciation	10.0	(35.9)
Ending portfolio	$ 1,542.2	$ 1,423.9

The following table shows the fair value of our investment portfolio by asset class as of December 31, 2017 and December 31, 2016:

	December 31, 2017		December 31, 2016	
(in thousands)	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
Senior Secured Debt with Warrants	$ 880,115	57.1 %	$ 1,078,779	75.7 %
Senior Secured Debt	572,738	37.1 %	277,509	19.5 %
Preferred Stock	40,683	2.6 %	39,418	2.8 %
Common Stock	48,678	3.2 %	28,236	2.0 %
Total	$ 1,542,214	100.0 %	$ 1,423,942	100.0 %

The increase in senior secured debt and the decrease in senior secured debt with warrants during the period is primarily due to an increase in new debt investments that do not include detachable equity enhancement features.

A summary of our investment portfolio at value by geographic location as of December 31, 2017 and December 31, 2016 is as follows:

	December 31, 2017		December 31, 2016	
(in thousands)	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
United States	$ 1,404,235	91.1 %	$ 1,362,223	95.6 %
United Kingdom	91,105	5.9 %	18,395	1.3 %
Netherlands	20,783	1.3 %	20,089	1.4 %
Cayman Islands	14,954	1.0 %	—	0.0 %
Switzerland	10,581	0.7 %	12,377	0.9 %
Canada	556	0.0 %	8,095	0.6 %
Israel	—	0.0 %	2,763	0.2 %
Total	$ 1,542,214	100.0 %	$ 1,423,942	100.0 %

As of December 31, 2017, we held warrants or equity positions in two companies that have filed registration statements on Form S-1 with the SEC in contemplation of potential IPOs. Both companies filed confidentially under the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. There can be no assurance that companies that have yet to complete their IPO will do so in a timely manner or at all.

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 $40.0 million, although we may make investments in amounts above or below that range. As of December 31, 2017, our debt investments have a term of between two and seven years and typically bear interest at a rate ranging from approximately 4.6% to approximately 13.0%. In addition to the cash yields received on our debt investments, in some instances, our debt investments may also include any of the following: exit fees, balloon payment fees, commitment fees, success fees, PIK provisions or prepayment fees which may be required to be included in income prior to receipt.

Interest on debt securities is generally payable monthly, with amortization of principal typically occurring over the term of the investment. In addition, 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 $33.3 million of unamortized fees at December 31, 2017, of which approximately $29.3 million was included as an offset to the cost basis of our current debt investments and approximately $4.0 million was deferred contingent upon the occurrence of a funding or milestone. At December 31, 2016, we had approximately $38.2 million of unamortized fees, of which approximately $35.8 million was included as an offset to the cost basis of our current debt investments and approximately $2.4 million was deferred contingent upon the occurrence of a funding or milestone.

Loan exit fees to be paid at the termination of the loan are accreted into interest income over the contractual life of the loan. At December 31, 2017, we had approximately $27.5 million in exit fees receivable, of which approximately $23.9 million was included as a component of the cost basis of our current debt investments and approximately $3.6 million was a deferred receivable related to expired commitments. At December 31, 2016, we had approximately $32.8 million in exit fees receivable, of which approximately $30.3 million was included as a component of the cost basis of our current debt investments and approximately $2.5 million was a deferred receivable related to expired commitments.

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 distributed 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 $10.0 million and $7.8 million in PIK income in the years ended December 31, 2017 and December 31, 2016, respectively.

The core yield on our debt investments, which excludes the effects of fee and income accelerations attributed to early payoffs, restructuring, loan modifications and other one-time events and includes income from expired commitments, was 12.4% and 13.1% during the years ended December 31, 2017 and 2016, 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 14.2% and 14.1% for the years ended December 31, 2017 and 2016, respectively. The effective yield is derived by dividing total investment income by the weighted average earning investment portfolio assets outstanding during the year, excluding non-interest earning assets such as warrants and equity investments. Both the core yield and effective yield may be higher than what our common stockholders may realize as the core yield and effective yield do not reflect our expenses and any sales load paid by our common stockholders.

The total return for our investors was approximately 1.5% and 26.9% during the years ended December 31, 2017 and 2016, respectively. The total return 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. 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 & development, software, internet consumer & business services, media/content/info, sustainable and renewable technology, medical devices & equipment, drug delivery, healthcare services, specialty pharmaceuticals, information services, consumer & business products, surgical devices, semiconductors, electronics & computer hardware, communications & networking, biotechnology tools and diagnostic industry sectors. These sectors are characterized by high margins, high growth rates, consolidation and product and market extension opportunities. Value for companies in these sectors is often vested in intangible assets and intellectual property.

As of December 31, 2017, approximately 74.9% of the fair value of our portfolio was composed of investments in five industries: 23.9% was composed of investments in the drug discovery and development industry, 23.4% was composed of investments in the software industry, 10.0% was composed of investments in the internet consumer and business services industry, 9.9% was composed of investments in the media/content/info industry and 7.7% was composed of investments in the sustainable and renewable technology industry.

The following table shows the fair value of our portfolio by industry sector at December 31, 2017 and December 31, 2016:

	December 31, 2017		December 31, 2016	
(in thousands)	**Investments at Fair Value**	**Percentage of Total Portfolio**	**Investments at Fair Value**	**Percentage of Total Portfolio**
Drug Discovery & Development	$ 369,173	23.9 %	$ 422,550	29.7 %
Software	360,123	23.4 %	219,559	15.4 %
Internet Consumer & Business Services	154,909	10.0 %	97,047	6.8 %
Media/Content/Info	152,998	9.9 %	137,567	9.7 %
Sustainable and Renewable Technology	118,432	7.7 %	154,406	10.9 %
Medical Devices & Equipment	94,595	6.1 %	107,695	7.6 %
Drug Delivery	91,214	5.9 %	109,834	7.7 %
Healthcare Services, Other	72,337	4.7 %	30,200	2.1 %
Specialty Pharmaceuticals	37,501	2.4 %	38,944	2.7 %
Information Services	24,618	1.6 %	6,091	0.4 %
Consumer & Business Products	19,792	1.3 %	42,713	3.0 %
Surgical Devices	13,161	0.9 %	12,553	0.9 %
Semiconductors	10,406	0.7 %	11,326	0.8 %
Electronics & Computer Hardware	9,982	0.6 %	7,664	0.5 %
Communications & Networking	6,649	0.4 %	18,019	1.3 %
Biotechnology Tools	5,604	0.4 %	7,200	0.5 %
Diagnostic	720	0.1 %	574	0.0 %
Total	$ 1,542,214	100.0 %	$ 1,423,942	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 warrant or equity interest is sold. Revenue recognition in any given year can be highly concentrated in several portfolio companies.

For the years ended December 31, 2017 and 2016, our ten largest portfolio companies represented approximately 34.6% and 34.0% of the total fair value of our investments in portfolio companies, respectively. At December 31, 2017 and December 31, 2016, we had seven investments that represented 5% or more of our net assets. At December 31, 2017 and December 31, 2016, we had nine and seven equity investments representing approximately 67.1% and 54.7%, respectively, of the total fair value of our equity investments, and each represented 5% or more of the total fair value of our equity investments. No single portfolio investment represents more than 10% of the fair value of our total investments as of December 31, 2017 and 2016.

As of December 31, 2017, approximately 96.4% of the debt investment portfolio was priced at floating interest rates or floating interest rates with a Prime or LIBOR-based interest rate floor. As a result, we believe we are well positioned to benefit should market interest rates continue to rise.

As of December 31, 2017, 79.9% of our debt investments were in a senior secured first lien position, 19.8% were secured by a senior second priority security interest in all of the portfolio company's assets, other than intellectual property, and the remaining 0.3% were unsecured as a result of the terms of the acquisition of one of our portfolio companies during the period. 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 December 31, 2017, of the approximately 79.9% of our debt investments in a senior secured first lien position, 45.1% were secured by a first priority security in all of the assets of the portfolio company, including its intellectual property and 34.8% 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. At December 31, 2017, we had no equipment only liens on material investments in our portfolio companies.

Our investments in senior secured debt with warrants have detachable equity enhancement features, typically in the form of warrants or other equity-related securities designed to provide us with an opportunity for capital appreciation. These features are treated as OID and are accreted into interest income over the term of the loan as a yield enhancement. Our warrant coverage generally ranges from 3% to 20% of the principal amount invested in a portfolio company, with a strike price generally equal to the most recent equity financing round. As of December 31, 2017, we held warrants in 137 portfolio companies, with a fair value of approximately $36.8 million. The fair value of our warrant portfolio increased by approximately $9.3 million, as compared to a fair value of $27.5 million at December 31, 2016, primarily related to the addition of warrants in 20 new and 8 existing portfolio companies during the year.

Our existing warrant holdings would require us to invest approximately $87.6 million to exercise such warrants as of December 31, 2017. 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 29.06x 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 gain and loss and changes in our unrealized appreciation and depreciation on control and affiliate investments for the years ended December 31, 2017, 2016, and affiliate investments for the year ended December 2015. We did not hold any control investments at December 31, 2015.

(in thousands)

			Year Ended December 31, 2017			
Portfolio Company	**Type**	**Fair Value at December 31, 2017**	**Investment Income**	**Net Change in Unrealized Appreciation/ (Depreciation)**	**Reversal of Unrealized Appreciation/ (Depreciation) (1)**	**Realized Gain/(Loss)**
Control Investments						
Achilles Technology Management Co II, Inc.	Control	$ 242	$ 155	$ (2,254)	$ —	$ (486)
HercGamma, Inc.	Control	—	—	(523)	523	(487)
SkyCross, Inc.	Control	—	—	1,842	15,452	(15,452)
Tectura Corporation	Control	19,219	1,827	(1,079)	51	(51)
Second Time Around (Simplify Holdings, LLC)	Control	—	—	140	—	—
Total Control Investments		$ 19,461	$ 1,982	$ (1,874)	$ 16,026	$ (16,476)
Affiliate Investments						
Optiscan BioMedical, Corp.	Affiliate	$ 6,291	$ —	$ 1,419	$ —	$ —
Stion Corporation	Affiliate	—	2	—	—	—
Solar Spectrum Holdings LLC (p.k.a. Sungevity, Inc.)	Affiliate	25,004	842	(50,102)	—	—
Total Affiliate Investments		$ 31,295	$ 844	$ (48,683)	$ —	$ —
Total Control & Affiliate Investments		$ 50,756	$ 2,826	$ (50,557)	$ 16,026	$ (16,476)

(in thousands)

			Year Ended December 31, 2016			
Portfolio Company	**Type**	**Fair Value at December 31, 2016**	**Investment Income**	**Net Change in Unrealized Appreciation/ (Depreciation)**	**Reversal of Unrealized Appreciation/ (Depreciation) (1)**	**Realized Gain/(Loss)**
Control Investments						
SkyCross, Inc.	Control	$ —	$ —	$ (3,421)	$ —	$ —
Achilles Technology Management Co II, Inc.	Control	4,700	84	(604)	—	—
Total Control Investments		$ 4,700	$ 84	$ (4,025)	$ —	$ —
Affiliate Investments						
Optiscan BioMedical, Corp.	Affiliate	$ 4,699	$ 12	$ (3,409)	$ —	$ —
Stion Corporation	Affiliate	333	148	539	648	—
Total Affiliate Investments		$ 5,032	$ 160	$ (2,870)	$ 648	$ —
Total Control & Affiliate Investments		$ 9,732	$ 244	$ (6,895)	$ 648	$ —

(in thousands)

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

(1) Represents reversals of prior period net unrealized depreciation upon being realized as a loss due to write off or reversals of prior period collateral based impairments.

In July 2017, we acquired the primary assets of Second Time Around (Simplify Holdings, LLC) as part of an article 9 consensual foreclosure and public auction. These assets represent the remaining possible recovery on our debt and as such this investment became classified as a control investment as of September 30, 2017.

In June 2017, we acquired 100% ownership of the equity in HercGamma, Inc. and classified it as a control investment in accordance with the requirements of the 1940 Act. In June 2017, HercGamma, Inc. acquired the assets of a medical device company that develops advanced digital imaging to detect breast cancer, as part of an article 9 consensual foreclosure and public auction for consideration with an estimated fair value of $1.2 million. In September 2017, we reduced the cost basis of our equity position by $646,000 with net proceeds from an asset sale and by $36,000 from a final distribution in October 2017. Subsequent to the distributions, our investments were deemed wholly worthless and written off for a realized loss.

In April 2017, our investment in Solar Spectrum Holdings LLC (p.k.a. Sungevity, Inc.) became classified as a control investment as a result of obtaining more than 25% of the portfolio company's voting securities. In April 2017, under Section 363 of the Bankruptcy Code, Sungevity, Inc. entered into a $50.0 million asset purchase agreement and DIP financing facility with a group of investors, led by Northern Pacific Group and including us. On April 7, 2017, the U.S. Bankruptcy Court approved the DIP financing facility and on April 17, the U.S. Bankruptcy Court approved the asset purchase agreement. On April 26, 2017, Solar Spectrum Holdings LLC, a new company backed by the investment group, announced that it had acquired certain assets of Sungevity, Inc. as part of the bankruptcy court-approved sale. As a result, the cost basis of our debt investment in Sungevity, Inc. was converted to an equity position in Solar Spectrum Holdings LLC and our warrant and equity positions in Sungevity, Inc. were written off for a realized loss.

In August 2017, our ownership in Solar Spectrum Holdings LLC was diluted below 25% as a result of additional equity contributions by other investors to fund the acquisition of Horizon Solar Power, Inc. by Solar Spectrum Holdings LLC. We made a $15.0 million debt investment to fund the acquisition. Accordingly, our equity and new debt investment in Solar Spectrum Holdings LLC became classified as affiliate investments as of September 30, 2017.

In January 2017, our investment in Tectura Corporation became classified as a control investment as a result of obtaining more than 50% representation on the portfolio company's board. In March 2017, our warrants in Tectura Corporation expired and were written off for a realized loss.

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 September 2017, our investments were deemed wholly worthless and written off for a realized loss.

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 and November 2016 we made a $1.0 million and $250,000 debt investment, respectively, in Achilles Technology Management II, Inc. to provide working capital under the terms of a loan servicing agreement.

In August 2017, our debt investment in Achilles Technology Management II, Inc. was fully repaid by net proceeds from sales of the portfolio company's assets. In addition, our equity investment in Achilles Technology Management II, Inc. was reduced by $900,000 in lieu of a success fee on the repayment of our debt investment. The remaining equity investment in Achilles Technology Management II, Inc. is carried on the consolidated statement of assets and liabilities at fair value.

Portfolio Grading

We use an investment grading system, which grades each debt investment on a scale of 1 to 5, to characterize and monitor our expected level of risk on the debt investments in our portfolio with 1 being the highest quality. See "Item 1. Business—Investment Process—Loan and Compliance Administration." The following table shows the distribution of our outstanding debt investments on the 1 to 5 investment grading scale at fair value as of December 31, 2017 and 2016, respectively:

(in thousands)	**December 31, 2017**			**December 31, 2016**		
Investment Grading	**Number of Companies**	**Debt Investments at Fair Value**	**Percentage of Total Portfolio**	**Number of Companies**	**Debt Investments at Fair Value**	**Percentage of Total Portfolio**
1	12	$ 345,191	24.4 %	15	$ 275,832	20.8 %
2	32	583,017	41.2 %	32	590,547	44.4 %
3	32	443,775	31.3 %	25	329,393	24.8 %
4	4	41,744	2.9 %	8	58,874	4.4 %
5	5	2,257	0.2 %	8	74,157	5.6 %
	85	$ 1,415,984	100.0 %	88	$ 1,328,803	100.0 %

As of December 31, 2017, our debt investments had a weighted average investment grading of 2.17, as compared to 2.41 at December 31, 2016. Our policy is to lower the grading on our portfolio companies as they approach the point in time when they will require additional equity capital. Additionally, we may downgrade our portfolio companies if they are not meeting our financing criteria or are underperforming relative to their respective business plans. Various companies in our portfolio will require additional funding in the near term or have not met their business plans and therefore have been downgraded until their funding is complete or their operations improve.

The improvement in weighted average investment grading at December 31, 2017 from December 31, 2016 is primarily due to the upgrade of Machine Zone, Inc. from a credit rating 2 to a credit rating 1 as well as the conversion of our debt investment in Sungevity Inc. to an equity position in Solar Spectrum Holdings LLC during the period. This position was rated 5 and represented $44.6 million of the rated 5 debt investment fair value at December 31, 2016. In addition, four positions that were rated 5 as of December 31, 2016 were sold or liquidated during the period.

At December 31, 2017, we had five debt investments on non-accrual with a cumulative investment cost and fair value of approximately $14.8 million and $340,000, respectively. At December 31, 2016, we had five debt investments on non-accrual with a cumulative investment cost and fair value of approximately $43.9 million and $6.2 million, respectively. The decrease in the cumulative cost and fair value of debt investments on non-accrual between December 31, 2017 and December 31, 2016 is the result of the liquidation of two debt investments that were on non-accrual at December 31, 2016, offset by placing two new debt investments on non-accrual status during the period. For the year ended December 31, 2017, we recognized a realized loss of approximately $24.2 million on the write off of two debt investments that were on non-accrual at December 31, 2016 and one investment placed on non-accrual and written-off during 2017.

Results of Operations

Comparison of periods ended December 31, 2017 and 2016

Investment Income

Interest Income

Total investment income for the year ended December 31, 2017 was approximately $190.9 million as compared to approximately $175.1 million for the year ended December 31, 2016.

Interest income for the year ended December 31, 2017 totaled approximately $172.2 million as compared to approximately $158.7 million for the year ended December 31, 2016. The increase in interest income for the year ended December 31, 2017 as compared to the year ended December 31, 2016 is primarily attributable to debt investment portfolio growth and an increase in the weighted average principal outstanding between the periods, the acceleration of income due to early repayments and other one-time events during the period and changes in various interest rates, including LIBOR and Prime rates, to the extent our debt investments include variable interest rates. As of December 31, 2017, approximately, 96.4% of the loans in our portfolio had variable rates based on floating Prime or LIBOR rates with a floor.

Of the $172.2 million in interest income for the year ended December 31, 2017, approximately $160.3 million represents recurring income from the contractual servicing of our loan portfolio and approximately $11.9 million represents income related to the acceleration of income due to early loan repayments and other one-time events during the period. Income from the contractual servicing of our loan portfolio and the acceleration of interest income due to early loan repayments and other one-time events represented $152.1 million and $6.6 million, respectively, of the $158.7 million interest income for the year ended December 31, 2016.

The following table shows the PIK-related activity, for the years ended December 31, 2017 and 2016, at cost:

	Year Ended December 31,	
(in thousands)	**2017**	**2016**
Beginning PIK interest receivable balance	$ 9,930	$ 5,149
PIK interest income during the period	9,960	7,825
PIK accrued (capitalized) to principal but not recorded as income during the period	129	(2,146)
Payments received from PIK loans	(2,349)	(632)
Realized loss	(2,183)	(266)
Ending PIK interest receivable balance	$ 15,487	$ 9,930

The increase in PIK interest income during the year ended December 31, 2017 as compared to the year ended December 31, 2016 is due to overall portfolio growth, or more specifically, an increase in the weighted average principal outstanding for loans which bear PIK interest. PIK receivable represents approximately 1% of total debt investments as of December 31, 2017 and December 31, 2016, respectively.

Fee Income

Income from commitment, facility and loan related fees for the year ended December 31, 2017 totaled approximately $18.7 million as compared to approximately $16.3 million for the year ended December 31, 2016. The increase in fee income is primarily attributable to an increase in the acceleration of unamortized fees due to early repayments and one-time fees during the period.

Of the $18.7 million in income from commitment, facility and loan related fees for the year ended December 31, 2017, approximately $6.4 million represents income from recurring fee amortization and approximately $12.3 million represents income related to the acceleration of unamortized fees during the period. Income from recurring fee amortization and the acceleration of unamortized fees due to early loan repayments represented $9.5 million and $6.8 million, respectively, of the $16.3 million income for the year ended December 31, 2016.

In certain investment transactions, we may earn income from advisory services; however, we had no income from advisory services in the years ended December 31, 2017 and 2016, respectively.

Operating Expenses

Our operating expenses are comprised of interest and fees on our borrowings, general and administrative expenses and employee compensation and benefits. Operating expenses totaled approximately $94.4 million and $82.7 million during the years ended December 31, 2017 and 2016, respectively.

Interest and Fees on our Borrowings

Interest and fees on our borrowings totaled approximately $46.6 million and $37.1 million for the years ended December 31, 2017 and 2016, respectively. Interest and fee expense for the year ended December 31, 2017 as compared to December 31, 2016 increased primarily due to higher weighted average principal balances outstanding due to the issuance of our 2022 Convertible Notes and 2022 Notes. The increase in interest and fee expense was partially offset by a reduction in the weighted average principal balance outstanding on our 2019 Notes, which were fully redeemed in February 2017, and on our 2021 Asset Backed Notes, which are amortizing. The increase was further offset by a partial redemption of our 2024 Notes in November 2017.

We had a weighted average cost of debt, comprised of interest and fees, of approximately 5.9% and 5.8% for the years ended December 31, 2017 and 2016, respectively. The slight increase between comparative periods was primarily driven by an increase in the weighted average principal outstanding compared to the prior period, specifically the issuance of our 2022 Convertible Notes and 2022 Notes, partially offset by the accelerations of unamortized deferred financing costs from the full and partial redemptions on our 2019 Notes, and 2024 Notes, and the principal amortization of our 2021 Asset Backed Notes, respectively, during the period.

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 were $16.1 million for both the years ended December 31, 2017 and 2016, respectively.

Employee Compensation

Employee compensation and benefits totaled approximately $24.6 million for the year ended December 31, 2017 as compared to approximately $22.5 million for the year ended December 31, 2016. The increase between comparative periods was primarily due to changes in variable incentive compensation related to the achievement of origination and strategic corporate objectives.

Employee stock-based compensation totaled approximately $7.2 million for the year ended December 31, 2017 as compared to approximately $7.0 million for the year ended December 31, 2016. The increase between comparative periods was primarily related to the number and amount of restricted stock award vesting.

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

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

A summary of realized gains and losses for the years ended December 31, 2017 as and 2016 is as follows:

	Year Ended December 31,	
(in thousands)	**2017**	**2016**
Realized gains	$ 14,163	$ 15,202
Realized losses	(40,874)	(10,626)
Net realized gains (losses)	$ (26,711)	$ 4,576

During the year ended December 31, 2017, we recognized net realized losses of approximately $26.7 million on the portfolio. These net realized losses included gross realized losses of approximately $40.9 million, primarily from the liquidation or write off of our debt investments in five portfolio companies and our warrant and equity investments in twenty-one portfolio companies. These losses were offset by gross realized gains of approximately $14.2 million, primarily from the sale of investments in five portfolio companies.

During the year ended December 31, 2016, we recognized net realized gains of approximately $4.6 million on the portfolio. These net realized gains included gross realized gains of approximately $15.2 million from the sale of investments in six portfolio companies. These gains were partially offset by gross realized losses of approximately $10.6 million, primarily from the liquidation or write off of our warrant and equity investments in eight portfolio companies and our debt investments in five portfolio companies, including the settlement of our outstanding debt investment in one portfolio company.

The net unrealized appreciation and depreciation of our investments is based on the fair value of each investment determined in good faith by our Board of Directors. The following table summarizes the change in net unrealized appreciation/depreciation of investments for the years ended December 31, 2017, and 2016:

	Year Ended December 31,	
(in thousands)	**2017**	**2016**
Gross unrealized appreciation on portfolio investments	$ 130,272	$ 75,264
Gross unrealized depreciation on portfolio investments	(148,345)	(115,867)
Reversal of prior period net unrealized appreciation upon a realization event	42,967	(8,525)
Reversal of prior period net unrealized depreciation upon a realization event	(14,925)	13,186
Net unrealized appreciation (depreciation) on debt, equity, and warrant investments	9,969	(35,942)
Other net unrealized appreciation (depreciation)	(704)	(275)
Net unrealized appreciation (depreciation) on portfolioinvestments	$ 9,265	$ (36,217)

During the year ended December 31, 2017, we recorded approximately $9.3 million of net unrealized appreciation, of which $10.0 million is net unrealized appreciation from our debt, equity and warrant investments. We recorded $32.1 million of net unrealized appreciation on our debt investments, which primarily relates to the reversal of $53.7 million of prior period collateral based impairments on four portfolio companies and the reversal of $31.0 million of prior period unrealized depreciation upon payoff or liquidation of our debt investments, offset by $49.6 million of unrealized depreciation for collateral based impairments on eight portfolio companies during the period.

We recorded $32.8 million of net unrealized depreciation on our equity investments, which primarily relates to $51.9 million of unrealized depreciation for collateral based impairments on two portfolio companies, offset by $9.7 million and $6.6 million of unrealized appreciation on our public and private equity portfolios, respectively, related to portfolio company and industry performance.

Finally, we recorded $10.7 million of unrealized appreciation on our warrant investments, which primarily relates to $9.4 million and $5.2 million of unrealized appreciation on our private and public portfolio companies, respectively, related to portfolio company and industry performance. This unrealized appreciation was offset by the reversal of $3.4 million of unrealized appreciation upon being recognized as a gain or loss due to the acquisition or liquidation of our warrant investments.

During the year ended December 31, 2016, we recorded approximately $36.2 million of net unrealized depreciation, of which $35.9 million is net unrealized depreciation from our debt, equity and warrant investments. Of the $35.9 million, approximately $14.0 million is attributed to net unrealized depreciation on our debt investments which primarily relates to $50.0 million unrealized depreciation for collateral based impairments on eight portfolio companies, offset by the reversal of prior period collateral based impairments of $17.3 million on six portfolio companies and the reversal of $13.1 million of prior period unrealized depreciation upon payoff or settling of our debt investments. Approximately $22.2 million is attributed to net unrealized depreciation on our equity investments which primarily relates to approximately $7.4 million of unrealized depreciation for collateral based impairments on two portfolio companies, $6.6 million of unrealized depreciation on our public equity portfolio, with the largest concentration in our investment in Box, Inc. and the reversal of $5.4 million of prior period net unrealized appreciation upon being realized as a gain for our sale of shares of Box, Inc. This unrealized depreciation was partially offset by approximately $245,000 of unrealized appreciation on our warrant investments, which primarily related to $4.8 million of unrealized appreciation on our private portfolio companies, offset by $2.9 million unrealized depreciation on our public portfolio companies related to individual portfolio company performance.

The following table summarizes the change in net unrealized appreciation (depreciation) in the investment portfolio by investment type, excluding other net unrealized appreciation (depreciation), for the years ended December 31, 2017 and December 31, 2016:

	Year Ended December 31, 2017			
(in millions)	**Debt**	**Equity**	**Warrants**	**Total**
Collateral Based Impairments (1)	$ (49.6)	$ (51.9)	$ (0.6)	$ (102.1)
Reversals of Prior Period Collateral Based Impairments	53.7	—	0.1	53.8
Reversals due to Debt Payoffs & Warrant/Equity Sales	31.0	2.8	(3.4)	30.4
Fair Value Market/Yield Adjustments (2)				
Level 1 & 2 Assets	—	9.7	5.2	14.9
Level 3 Assets	(3.0)	6.6	9.4	13.0
Total Fair Value Market/Yield Adjustments	(3.0)	16.3	14.6	27.9
Total Unrealized Appreciation (Depreciation)	$ 32.1	$ (32.8)	$ 10.7	$ 10.0

	Year Ended December 31, 2016			
(in millions)	**Debt**	**Equity**	**Warrants**	**Total**
Collateral Based Impairments (1)	$ (50.0)	$ (7.4)	$ (1.1)	$ (58.5)
Reversals of Prior Period Collateral Based Impairments	17.3	—	0.5	17.8
Reversals due to Debt Payoffs & Warrant/Equity Sales	13.1	(5.4)	(1.0)	6.7
Fair Value Market/Yield Adjustments (2)				
Level 1 & 2 Assets	(1.3)	(6.6)	(2.9)	(10.8)
Level 3 Assets	6.9	(2.8)	4.8	8.9
Total Fair Value Market/Yield Adjustments	5.6	(9.4)	1.9	(1.9)
Total Unrealized Appreciation (Depreciation)	$ (14.0)	$ (22.2)	$ 0.3	$ (35.9)

(1) The unrealized appreciation (depreciation) attributable to collateral based impairments include all changes in estimated fair value on positions whose fair value remains impaired relative to cost as of the period end date. As such, this may include current period improvements in estimated fair value that do not represent reversals to prior period collateral based impairments.

(2) 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 ASC Topic 740, Income Taxes, under which income taxes are provided for amounts currently payable and for amounts deferred based upon the estimated future tax effects of differences between the financial statements 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 100% of our spillover earnings from ordinary income for our taxable year ended December 31, 2017 to our stockholders during 2018.

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

For the years ended December 31, 2017 and 2016, we had a net increase in net assets resulting from operations totaling approximately $79.0 million and approximately $68.7 million, respectively.

The basic and fully diluted net change in net assets per common share for the year ended December 31, 2017 was $0.95, whereas the basic and fully diluted net change in net assets per common share for the year ended December 31, 2016 was $0.91.

For the purpose of calculating diluted earnings per share for year ended December 31, 2017, the dilutive effect of the 2022 Convertible Notes, outstanding options and restricted stock units under the treasury stock method was considered. The effect of the 2022 Convertible Notes was excluded from these calculations for the year ended December 31, 2017 as our share price was less than the conversion price in effect which results in anti-dilution.

Comparison of periods ended December 31, 2016 and 2015

Investment Income

Interest Income

Total investment income for the year ended December 31, 2016 was approximately $175.1 million as compared to approximately $157.1 million for the year ended December 31, 2015.

Interest income for the year ended December 31, 2016 totaled approximately $158.7 million as compared to approximately $140.3 million for the year ended December 31, 2015. The increase in interest income for the year ended December 31, 2016 as compared to the year ended December 31, 2015 is primarily attributable to debt investment portfolio growth, specifically an increase in the weighted average principal outstanding between the periods, slightly offset by a reduction in the acceleration of income due to early repayments and other one-time events during the period.

Of the $158.7 million in interest income for the year ended December 31, 2016, approximately $152.1 million represents recurring income from the contractual servicing of our loan portfolio and approximately $6.6 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 $130.4 million and $9.9 million, respectively, of the $140.3 million interest income for the year ended December 31, 2015.

The following table shows the PIK-related activity, for the years ended December 31, 2016 and 2015, at cost:

	Year Ended December 31,	
(in thousands)	**2016**	**2015**
Beginning PIK interest receivable balance	$ 5,149	$ 6,250
PIK interest income during the period	7,825	4,658
PIK accrued (capitalized) to principal but not recorded as income during the period	(2,146)	—
Payments received from PIK loans	(632)	(5,483)
Realized loss	(266)	(276)
Ending PIK interest receivable balance	$ 9,930	$ 5,149

The increase in PIK interest income during the year ended December 31, 2016 as compared to the year ended December 31, 2015 is due to overall portfolio growth, or more specifically, an increase in the weighted average principal outstanding for loans which bear PIK interest and a decrease in the number of PIK loans which paid-off during the period. PIK receivable represents less than 1% of total debt investments as of December 31, 2016 and December 31, 2015, respectively

Fee Income

Income from commitment, facility and loan related fees for the year ended December 31, 2016 totaled approximately $16.3 million as compared to approximately $16.9 million for the year ended December 31, 2015. The decrease in fee income is primarily attributable to a decrease in the acceleration of unamortized fees due to early repayments and one-time fees during the period.

Of the $16.3 million in income from commitment, facility and loan related fees for the year ended December 31, 2016, approximately $9.5 million represents income from recurring fee amortization and approximately $6.8 million represents income related to the acceleration of unamortized fees during the period. Income from recurring fee amortization and the acceleration of unamortized fees due to early loan repayments represented $5.8 million and $11.1 million, respectively, of the $16.9 million income for the year ended December 31, 2015.

In certain investment transactions, we may earn income from advisory services; however, we had no income from advisory services in the years ended December 31, 2016 and 2015, respectively.

Operating Expenses

Our operating expenses are comprised of interest and fees on our borrowings, general and administrative expenses and employee compensation and benefits. Operating expenses totaled approximately $82.7 million and $83.6 million during the years ended December 31, 2016 and 2015, respectively.

Interest and Fees on our Borrowings

Interest and fees on our borrowings totaled approximately $37.1 million and $36.9 million for the years ended December 31, 2016 and 2015, respectively. Interest and fee expense for the year ended December 31, 2016 as compared to December 31, 2015 increased primarily due to higher weighted average principal balances outstanding on our 2024 Notes related to the issuance of $149.9 million of aggregate principal during the period. The increase in interest and fee expense incurred related to our 2024 notes was partially offset by principal pay-offs and paydowns on our 2016 Convertible Notes, Asset Backed Notes and Credit Facilities during the period.

We had a weighted average cost of debt, comprised of interest and fees and loss on debt extinguishment (long-term liabilities –convertible notes), of approximately 5.8% and 6.0% for the years ended December 31, 2016 and 2015, respectively. The decrease between comparative periods was primarily driven by a reduction in the weighted average principal outstanding on our higher yielding debt instruments compared to the prior period, specifically due to the full impact of redemptions on our 2019 Notes and 2016 Convertible Notes which occurred in the prior period, offset by the incremental issuance of our 2024 Notes in fiscal year 2016.

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 $16.1 million from $16.7 million for the years ended December 31, 2016 and 2015, respectively. This decrease was primarily attributable to a reduction in costs related to strategic hiring objectives and travel and entertainment, slightly offset by an increase in corporate legal and other expenses.

Employee Compensation

Employee compensation and benefits totaled approximately $22.5 million for the year ended December 31, 2016 as compared to approximately $20.7 million for the year ended December 31, 2015. The increase between comparative periods was primarily due to changes in variable incentive compensation related to the achievement of origination and strategic corporate objectives.

Employee stock-based compensation totaled approximately $7.0 million for the year ended December 31, 2016 as compared to approximately $9.4 million for the year ended December 31, 2015. The decrease between comparative periods was primarily related to the number and amount of restricted stock award vesting, specifically the vesting of retention grants issued in 2014 which occurred in the first half of 2016.

Other Income (Loss)

Other income (loss) generally consists of income or losses generated from sources other than our investment portfolio. For the years ended December 31, 2016 and December 31, 2015 it consists of $8.0 million of litigation settlement proceeds and $1,000 of loss on extinguishment of debt, respectively.

Litigation Settlement Proceeds

On December 19, 2016, we entered into a Confidential Settlement Agreement (the “Settlement Agreement”) with all defendants in connection with a litigation matter (“the Action”) filed in November 2014. In connection with the Settlement Agreement, the Action was settled among the parties and we received a settlement payment in the amount of $8.0 million. The Settlement Agreement also provides a mutual release by us and the defendants of any and all claims and cross-claims that were asserted in the Action, the circumstances and events underlying the Action and attorney’s fees and costs related thereto. The Settlement Agreement does not constitute an admission of liability, fault, or wrongdoing by any party. The settlement payment was classified as a component of net investment income in our Consolidated Statement of Operations.

Loss on Extinguishment of Convertible Notes

Our 6.00% convertible notes due 2016 (the “2016 Convertible Notes”) were fully settled on or before their contractual maturity date of April 15, 2016. Throughout their life, holders of approximately $74.8 million of our 2016 Convertible Notes exercised their conversion rights. These 2016 Convertible Notes were settled with a combination of cash equal to the outstanding principal amount of the 2016 Convertible 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 OID. The loss was partially offset by a gain in the amount of the difference between the outstanding principal balance of the converted notes and the fair value of the debt instrument. The net loss on extinguishment of debt we recorded for the year ended December 31, 2015 was approximately $1,000. We did not record a loss on extinguishment of debt for the year ended December 31, 2016. The loss on extinguishment of debt was classified as a component of net investment income in our Consolidated Statements of Operations.

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

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

A summary of realized gains and losses for the years ended December 31, 2016 and 2015 is as follows:

	Year Ended December 31,	
(in thousands)	**2016**	**2015**
Realized gains	$ 15,202	$ 12,677
Realized losses	(10,626)	(7,530)
Net realized gains	$ 4,576	$ 5,147

During the year ended December 31, 2016, we recognized net realized gains of approximately $4.6 million on the portfolio. These net realized gains included gross realized gains of approximately $15.2 million, primarily from the sale of investments in six portfolio companies. These gains were partially offset by gross realized losses of approximately $10.6 million, primarily from the liquidation or write off of our warrant and equity investments in eight portfolio companies and our debt investments in five portfolio companies, including the settlement of our outstanding debt investment in one portfolio company.

During the year ended December 31, 2015, we recognized net realized gains of approximately $5.1 million on the portfolio. These net realized gains included gross realized gains of approximately $12.6 million from the sale of investments in seven portfolio companies and $1.5 million from subsequent recoveries on two previously written-off debt investments. These gains were partially offset by gross realized losses of approximately $7.5 million primarily from the liquidation or write off of our investments in sixteen portfolio companies.

The net unrealized appreciation and depreciation of our investments is based on the fair value of each investment determined in good faith by our Board of Directors. The following table summarizes the change in net unrealized appreciation/depreciation of investments for the years ended December 31, 2016 and 2015:

	Year Ended December 31,	
(in thousands)	**2016**	**2015**
Gross unrealized appreciation on portfolio investments	$ 75,264	$ 78,991
Gross unrealized depreciation on portfolio investments	(115,867)	(111,926)
Reversal of prior period net unrealized appreciation upon a realization event	(8,525)	(8,707)
Reversal of prior period net unrealized depreciation upon a realization event	13,186	4,599
Net unrealized depreciation on debt, equity, and warrant investments	(35,942)	(37,043)
Other net unrealized appreciation (depreciation)	(275)	1,311
Net unrealized depreciation on portfolioinvestments	$ (36,217)	$ (35,732)

During the year ended December 31, 2016, we recorded approximately $36.2 million of net unrealized depreciation, of which $35.9 million is net unrealized depreciation from our debt, equity and warrant investments. Of the $35.9 million, approximately $14.0 million is attributed to net unrealized depreciation on our debt investments which primarily relates to $50.0 million unrealized depreciation for collateral based impairments on eight portfolio companies, offset by the reversal of prior period collateral based impairments of $17.3 million on six portfolio companies and the reversal of $13.1 million of prior period unrealized depreciation upon payoff or settling of our debt investments. Approximately $22.2 million is attributed to net unrealized depreciation on our equity investments which primarily relates to approximately $7.4 million of unrealized depreciation for collateral based impairments on two portfolio companies, $6.6 million of unrealized depreciation on our public equity portfolio, with the largest concentration in our investment in Box, Inc. and the reversal of $5.4 million of prior period net unrealized appreciation upon being realized as a gain for our sale of shares of Box, Inc. This unrealized depreciation was partially offset by approximately $245,000 of unrealized appreciation on our warrant investments, which primarily related to $4.8 million of unrealized appreciation on our private portfolio companies, offset by $2.9 million unrealized depreciation on our public portfolio companies related to individual portfolio company performance.

During the year ended December 31, 2015, we recorded approximately $35.7 million of net unrealized depreciation, of which $37.1 million is net unrealized depreciation from our debt, equity and warrant investments. Of the $37.1 million, approximately $14.0 million is attributed to net unrealized depreciation on our debt investments which primarily related to $20.4 million unrealized depreciation for collateral based impairments on ten portfolio companies offset by the reversal of collateral based impairments of $5.6 million on three portfolio companies. Approximately $19.1 million is attributed to net unrealized depreciation on our equity investments which primarily related to $11.4 million unrealized depreciation on our public equity portfolio with the largest concentration in our investment in Box, Inc. and the reversal of $7.8 million of prior period net unrealized appreciation upon being realized as a gain for our sale of shares of Box, Inc., Atrenta, Inc., Cempra, Inc. Celladon Corporation, Egalet Corporation, Everyday Health, and Identiv, Inc. as discussed above. Finally, approximately $4.0 million is attributed to net unrealized depreciation on our warrant investments which primarily related to $6.0 million of unrealized depreciation on our private portfolio companies related to declining industry performance offset by the reversal of $3.2 million of prior period net unrealized depreciation upon being realized as a loss on the liquidation of our investments in thirteen portfolio companies.

The following table summarizes the change in net unrealized appreciation (depreciation) in the investment portfolio by investment type, excluding other net unrealized appreciation (depreciation) for the years ended December 31, 2016 and December 31, 2015:

	Year Ended December 31, 2016			
(in millions)	**Debt**	**Equity**	**Warrants**	**Total**
Collateral Based Impairments (1)	$ (50.0)	$ (7.4)	$ (1.1)	$ (58.5)
Reversals of Prior Period Collateral based impairments	17.3	—	0.5	17.8
Reversals due to Debt Payoffs & Warrant/Equity sales	13.1	(5.4)	(1.0)	6.7
Fair Value Market/Yield Adjustments (2)				
Level 1 & 2 Assets	(1.3)	(6.6)	(2.9)	(10.8)
Level 3 Assets	6.9	(2.8)	4.8	8.9
Total Fair Value Market/Yield Adjustments	5.6	(9.4)	1.9	(1.9)
Total Unrealized Appreciation (Depreciation)	$ (14.0)	$ (22.2)	$ 0.3	$ (35.9)

	Year Ended December 31, 2015			
(in millions)	**Debt**	**Equity**	**Warrants**	**Total**
Collateral Based Impairments (1)	$ (20.4)	$ (0.2)	$ (0.4)	$ (21.0)
Reversals of Prior Period Collateral based impairments	5.6	—	0.4	6.0
Reversals due to Debt Payoffs & Warrant/Equity sales	6.2	(7.8)	3.2	1.6
Fair Value Market/Yield Adjustments (2)				
Level 1 & 2 Assets	(1.1)	(11.4)	(1.2)	(13.7)
Level 3 Assets	(4.3)	0.3	(6.0)	(10.0)
Total Fair Value Market/Yield Adjustments	(5.4)	(11.1)	(7.2)	(23.7)
Total Unrealized Appreciation (Depreciation)	$ (14.0)	$ (19.1)	$ (4.0)	$ (37.1)

(1) The unrealized appreciation (depreciation) attributable to collateral based impairments include all changes in estimated fair value on positions whose fair value remains impaired relative to cost as of the period end date. As such, this may include current period improvements in estimated fair value that do not represent reversals to prior period collateral based impairments.

(2) 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 ASC Topic 740, Income Taxes, under which income taxes are provided for amounts currently payable and for amounts deferred based upon the estimated future tax effects of differences between the financial statements 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 distributed 100% of our spillover earnings, which consisted of ordinary income and long-term capital gains, from our taxable year ended December 31, 2016 to our stockholders during 2017.

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

For the years ended December 31, 2016 and 2015, the net increase in net assets resulting from operations totaled approximately $68.7 million and approximately $42.9 million, respectively.

The basic and fully diluted net change in net assets per common share for the year ended December 31, 2016 was $0.91, whereas the basic and fully diluted net change in net assets per common share for the year ended December 31, 2015 were $0.60 and $0.59, respectively.

For the purpose of calculating diluted earnings per share for year ended December 31, 2015, the dilutive effect of the 2016 Convertible Notes under the treasury stock method is included in this calculation as our share price was greater than the conversion price in effect ($11.03 as of December 31, 2015) for the 2016 Convertible Notes for such period. The 2016 Convertible 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 year ended December 31, 2016.

Financial Condition, Liquidity and Capital Resources

Our liquidity and capital resources are derived from our SBA debentures, 2022 Notes, 2024 Notes, 2021 Asset-Backed Notes, 2022 Convertible Notes, Credit Facilities 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 also raise additional equity or debt capital through registered offerings off a shelf registration, At-The-Market ("ATM") and private offerings of securities, by securitizing a portion of our investments, or by borrowing from the SBA through our SBIC subsidiaries.

On August 16, 2013, we entered into an ATM equity distribution agreement (the "Prior Equity Distribution Agreement") with JMP Securities LLC ("JMP"). On March 7, 2016, we renewed the Prior Equity Distribution Agreement and on December 21, 2016, we further amended the agreement to increase the total shares available under the program. The Prior Equity Distribution Agreement, as amended, provided that we may offer and sell up to 12.0 million shares of our common stock from time to time through JMP, as our sales agent.

On September 7, 2017, we terminated the Prior Equity Distribution Agreement and entered into a new ATM equity distribution agreement (the "Equity Distribution Agreement") with JMP. As a result, the remaining shares that were available under the Prior Equity Distribution agreement are no longer available for issuance. The Equity Distribution Agreement provides that we may offer and sell up to 12.0 million shares of its common stock from time to time through JMP, as its sales agent. Sales of our common stock, if any, may be made in negotiated transactions or transactions that are deemed to be "at the market," as defined in Rule 415 under the Securities Act, including sales made directly on the NYSE or similar securities exchange or sales made to or through a market maker other than on an exchange, at prices related to the prevailing market prices or at negotiated prices.

During the year ended December 31, 2017 we sold 4.9 million shares of common stock, of which 3.3 million shares and 1.6 million shares were issued under the Prior Equity Distribution Agreement and the Equity Distribution Agreement, respectively. During the year ended December 31, 2017, we received total accumulated net proceeds of approximately $66.9 million, including $962,000 of offering expenses, from these sales, of which $46.9 million, including offering expenses of $532,000, was received under the Prior Equity Distribution Agreement and $20.0 million, including offering expenses of $380,000, was received under the Equity Distribution Agreement, respectively. As of December 31, 2017, approximately 10.4 million shares remained available for issuance and sale under the Equity Distribution Agreement. See "– Subsequent Events."

On August 27, 2015, our Board of Directors authorized a stock repurchase plan permitting us to repurchase up to $50.0 million of our common stock until August 23, 2016, after which the plan expired. In January 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 repurchase additional shares in subsequent months during 2016. During the year ended December 31, 2015, we repurchased 437,006 shares of our common stock at an average price per share of $10.61 per share and a total cost of approximately $4.6 million.

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

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

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

On October 11, 2016, we entered into a debt distribution agreement, pursuant to which we may offer for sale, from time to time, up to $150.0 million in aggregate principal amount of 2024 Notes through FBR Capital Markets & Co. acting as our sales agent. Sales of the 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.

As of December 31, 2017, we sold 225,457 shares of our 2024 Notes for approximately $5.6 million in aggregate principal amount. During the year ended December 31, 2016, we sold 317,125 shares of our 2024 Notes for approximately $7.9 million in aggregate principal amount. As of December 31, 2017, approximately $136.4 million in aggregate principal amount remains available for issuance and sale under the debt distribution agreement.

On January 25, 2017, we issued $230.0 million in aggregate principal amount of 2022 Convertible Notes, which amount includes the additional $30.0 million aggregate principal amount issued pursuant to the initial purchaser's exercise in full of its overallotment option. The sale generated net proceeds of approximately $225.5 million, including $4.5 million of debt issuance costs. Aggregate issuances costs include the initial purchaser's discount of approximately $5.2 million, offset by the reimbursement of $1.2 million by the initial purchaser.

On February 24, 2017, we redeemed the $110.4 million remaining outstanding balance of our 2019 Notes in full.

On October 23, 2017, we issued $150.0 million in aggregate principal amount of the 2022 Notes. The 2022 Notes were issued pursuant to an Indenture, dated September 7, 2017 (the "2022 Notes Indenture"), between us and U.S. Bank, National Association, as trustee (the "2022 Trustee"). The sale of the 2022 Notes generated net proceeds of approximately $147.5 million, including a public offering discount of $826,500. Aggregate estimated offering expenses in connection with the transaction, including the underwriter's discount and commissions of approximately $975,000, were approximately $1.7 million.

On November 23, 2017, we redeemed $75.0 million of the $258.5 million issued and outstanding aggregate principal amount of our 2024 Notes.

At December 31, 2017, we had $190.2 million of SBA debentures, $150.0 million of 2022 Notes, $183.5 million of 2024 Notes, $49.2 million of 2021 Asset-Backed Notes, and $230.0 million of 2022 Convertible Notes payable. We had no borrowings outstanding under the Wells Facility or the Union Bank Facility.

At December 31, 2017, we had $286.3 million in available liquidity, including $91.3 million in cash and cash equivalents. We had available borrowing capacity of $120.0 million under the Wells Facility and $75.0 million under the Union Bank Facility, subject to existing terms and advance rates and regulatory requirements. We primarily invest cash on hand in interest bearing deposit accounts.

At December 31, 2017, with our net investments of $44.0 million and $74.5 million in HT II and HT III, respectively, we have the combined capacity to issue a total of $190.2 million of SBA guaranteed debentures, subject to SBA approval. At December 31, 2017, we have issued $190.2 million in SBA guaranteed debentures in our SBIC subsidiaries.

At December 31, 2017, we had approximately $3.7 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 portfolio, the restricted funds may be used to pay monthly interest and principal on the securitized debt and are not distributed to us or available for our general operations.

During the year ended December 31, 2017, we principally funded our operations from (i) cash receipts from interest and fee income from our investment portfolio and (ii) cash proceeds from the realization of portfolio investments through the repayments of debt investments and the sale of debt and equity investments.

During the year ended December 31, 2017, our operating activities used $18.4 million of cash and cash equivalents, compared to $138.4 million used during the year ended December 31, 2016. The $120.0 million reduction in cash used by operating activities is primarily due to an increase in investment repayments of $196.3 million, offset by increases in investment purchases of $83.8 million.

During the year ended December 31, 2017, our investing activities provided $4.4 million of cash, compared to approximately $617,000 provided during the year ended December 31, 2016. The $3.8 million increase in cash provided by investing activities is primarily related to a decrease in restricted cash on securitized assets.

During the year ended December 31, 2017, our financing activities provided $92.3 million of cash, compared to $55.6 million provided during the year ended December 31, 2016. The $36.7 million increase in cash provided by financing activities was primarily due to the net issuance of $147.5 million and $225.5 million in 2022 Notes and 2022 Convertible Notes, respectively, in the current period. The increase was offset by the repayments of $110.4 million on our 2019 Notes, the principal repayment of $75.0 million in our 2024 Notes and principal amortization of $60.1 million on our 2021 Asset-Backed Notes.

As of December 31, 2017, net assets totaled $841.0 million, with a NAV per share of $9.96. We intend to generate additional cash primarily from cash flows from operations, including income earned from investments in our portfolio companies. Our primary use of funds will be investments in portfolio companies and cash distributions to holders of our common stock.

As required by the 1940 Act, our asset coverage must be at least 200% after each issuance of senior securities. As of December 31, 2017, our asset coverage ratio under our regulatory requirements as a business development company was 236.7%, 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 asset coverage when including our SBA debentures was 204.3% at December 31, 2017.

Outstanding Borrowings

At December 31, 2017 and December 31, 2016, we had the following available borrowings and outstanding amounts:

	December 31, 2017			December 31, 2016		
(in thousands)	**Total Available**	**Principal**	**Carrying Value (1)**	**Total Available**	**Principal**	**Carrying Value (1)**
SBA Debentures (2)	$ 190,200	$ 190,200	$ 188,141	$ 190,200	$ 190,200	$ 187,501
2019 Notes (3)	—	—	—	110,364	110,364	108,818
2022 Notes	150,000	150,000	147,572	—	—	—
2024 Notes	183,510	183,510	179,001	252,873	252,873	245,490
2021 Asset-Backed Notes	49,153	49,153	48,650	109,205	109,205	107,972
2022 Convertible Notes	230,000	230,000	223,488	—	—	—
Wells Facility (4)	120,000	—	—	120,000	5,016	5,016
Union Bank Facility (4)	75,000	—	—	75,000	—	—
Total	$ 997,863	$ 802,863	$ 786,852	$ 857,642	$ 667,658	$ 654,797

(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 December 31, 2017 and December 31, 2016, 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 2019 Notes were redeemed in full on February 24, 2017.
(4) Availability subject to us meeting the borrowing base requirements.

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 ASC Subtopic 835-30 ("Interest – Imputation of Interest"), 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 December 31, 2017 and December 31, 2016 were as follows:

(in thousands)	**December 31, 2017**	**December 31, 2016**
SBA Debentures	$ 2,059	$ 2,699
2019 Notes (1)	—	1,546
2022 Notes	1,633	—
2024 Notes	4,591	7,482
2021 Asset-Backed Notes	503	1,233
2022 Convertible Notes	3,715	—
Wells Facility (2)	227	501
Union Bank Facility (2)	379	768
Total	$ 13,107	$ 14,229

(1) 2019 Notes were redeemed in full on February 24, 2017.
(2) 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 ASC Subtopic 835-30

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 December 31, 2017, we had approximately $73.6 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 $122.0 million of non-binding term sheets outstanding to five new 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 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 market indices and given the existence of milestones, conditions and/or obligations imbedded in the borrowing agreements.

As of December 31, 2017, our unfunded contractual commitments available at the request of the portfolio company, including undrawn revolving facilities, and unencumbered by milestones are as follows:

(in thousands)

Portfolio Company		**Unfunded Commitments (1)**
Myovant Sciences	$	15,000
Chemocentryx, Inc.		10,000
Evernote Corporation		10,000
Proterra, Inc.		10,000
Verastem, Inc.		10,000
Impact Radius Holdings, Inc.		7,500
Wrike, Inc.		5,000
MDX Medical, Inc.		4,500
Lithium Technologies, Inc.		878
Achronix Semiconductor Corporation		726
Total	$	73,604

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

Contractual Obligations

The following table shows our contractual obligations as of December 31, 2017:

	Payments due by period (in thousands)				
Contractual Obligations (1)	Total	Less than 1 year	1 - 3 years	3 - 5 years	After 5 years
Borrowings (2)(3)(5)	$ 802,863	$ 149,153	$ 51,200	$ 494,250	$ 108,260
Operating Lease Obligations (4)	17,869	1,997	5,195	5,871	4,806
Total	$ 820,732	$ 151,150	$ 56,395	$ 500,121	$ 113,066

(1) Excludes commitments to extend credit to our portfolio companies.
(2) Includes $190.2 million principal outstanding under the SBA debentures, $150.0 million of the 2022 Notes, $183.5 million of the 2024 Notes, $49.2 million of the 2021 Asset-Backed Notes and $230.0 million of the Convertible Notes as of December 31, 2017. There are no outstanding borrowings on the Wells Facility or Union Facility as of December 31, 2017.
(3) Amounts represent future principal repayments and not the carrying value of each liability. See "– Outstanding Borrowings."
(4) Facility leases.
(5) Reflects announced redemption of a portion of the 2024 Notes in April 2018. See " – Subsequent Events."

Certain premises are leased under agreements which expire at various dates through June 2027. Total rent expense amounted to approximately $1.8 million, $1.7 million and $1.7 million during the years ended December 31, 2017, 2016, and 2015, respectively.

Indemnification Agreements

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

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

Borrowings

Long-Term SBA Debentures

On September 27, 2006, HT II received a license to operate as a SBIC under the SBIC program and is able to borrow funds from the SBA against eligible investments and additional contributions to regulatory capital. Under the Small Business Investment Company Act and current SBA policy applicable to SBICs, a SBIC can have outstanding at any time SBA guaranteed debentures up to twice the amount of its regulatory capital. With our net investment of $44.0 million in HT II as of December 31, 2017, HT II has the capacity to issue a total of $41.2 million of SBA guaranteed debentures, subject to SBA approval, of which $41.2 million was outstanding as of December 31, 2017. As of December 31, 2017, HT II has paid the SBA commitment fees and facility fees of approximately $1.5 million and $3.6 million, respectively. As of December 31, 2017, we held investments in HT II in 34 companies with a fair value of approximately $90.3 million, accounting for approximately 5.8% of our total investment portfolio. HT II held approximately $111.8 million in assets and accounted for approximately 5.4% of our total assets prior to consolidation at December 31, 2017.

On May 26, 2010, HT III received a license to operate as a SBIC under the SBIC program and is able to borrow funds from the SBA against eligible investments and additional contributions to regulatory capital. With our net investment of $74.5 million in HT III as of December 31, 2017, HT III has the capacity to issue a total of $149.0 million of SBA guaranteed debentures, subject to SBA approval, of which $149.0 million was outstanding as of December 31, 2017. As of December 31, 2017, HT III has paid the SBA commitment fees and facility fees of approximately $1.5 million and $3.6 million, respectively. As of December 31, 2017, we held investments in HT III in 48 companies with a fair value of approximately $229.1 million accounting for approximately 14.9% of our total portfolio. HT III held approximately $284.0 million in assets and accounted for approximately 13.8% of our total assets prior to consolidation at December 31, 2017.

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

HT II and HT III are periodically examined and audited by the SBA's staff to determine their compliance with SBA regulations. If HT II or HTIII fails to comply with applicable SBA regulations, the SBA could, depending on the severity of the violation, limit or prohibit HT II's or HT III's use of debentures, declare outstanding debentures immediately due and payable, and/or limit HT II or HT III from making new investments. In addition, HT II or HT III may also be limited in their ability to make distributions to us if they do not have sufficient capital in accordance with SBA regulations. Such actions by the SBA would, in turn, negatively affect us because HT II and HT III are our wholly owned subsidiaries. HT II and HT III were in compliance with the terms of the SBIC's leverage as of December 31, 2017 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 our SBA debentures range from 3.05% to 5.53% when including these annual fees.

The average amount of debentures outstanding for the year ended December 31, 2017 for HT II was approximately $41.2 million with an average interest rate of approximately 4.49%. The average amount of debentures outstanding for the year ended December 31, 2017 for HT III was approximately $149.0 million with an average interest rate of approximately 3.41%.

For the years ended December 31, 2017, 2016 and 2015, the components of interest expense and related fees and cash paid for interest expense for the SBA debentures are as follows:

	Year Ended December 31,		
(in thousands)	**2017**	**2016**	**2015**
Interest expense	$ 6,969	$ 6,988	$ 6,969
Amortization of debt issuance cost (loan fees)	640	671	667
Total interest expense and fees	$ 7,609	$ 7,659	$ 7,636
Cash paid for interest expense	$ 6,942	$ 6,961	$ 6,942

In aggregate, at December 31, 2017, with our net investment of $118.5 million, HT II and HT III have the capacity to issue a total of $190.2 million of SBA-guaranteed debentures, subject to SBA approval. At December 31, 2017, we have issued $190.2 million in SBA-guaranteed debentures in our SBIC subsidiaries.

We reported the following SBA debentures outstanding principal balances as of December 31, 2017 and December 31, 2016:

(in thousands) Issuance/Pooling Date	Maturity Date	Interest Rate (1)	December 31, 2017	December 31, 2016
March 25, 2009	March 1, 2019	5.53%	$ 18,400	$ 18,400
September 23, 2009	September 1, 2019	4.64%	3,400	3,400
September 22, 2010	September 1, 2020	3.62%	6,500	6,500
September 22, 2010	September 1, 2020	3.50%	22,900	22,900
March 29, 2011	March 1, 2021	4.37%	28,750	28,750
September 21, 2011	September 1, 2021	3.16%	25,000	25,000
March 21, 2012	March 1, 2022	3.28%	25,000	25,000
March 21, 2012	March 1, 2022	3.05%	11,250	11,250
September 19, 2012	September 1, 2022	3.05%	24,250	24,250
March 27, 2013	March 1, 2023	3.16%	24,750	24,750
Total SBA Debentures			$ 190,200	$ 190,200

(1) Interest rate includes annual charge

2019 Notes

In April and July 2012, we issued $84.5 million in aggregate principal amount of 7.00% notes due 2019 (the "April 2019 Notes"). In September and October 2012, we issued $85.9 million in aggregate principal amount of 7.00% notes due 2019 (the "September 2019 Notes"). The April 2019 Notes and September 2019 Notes are together referred to as the "2019 Notes."

In April 2015, we redeemed $20.0 million of the $84.5 million issued and outstanding aggregate principal amount of April 2019 Notes, as previously approved by the Board of Directors. In December 2015, we redeemed $40.0 million of the $85.9 million issued and outstanding aggregate principal amount of September 2019 Notes, as previously approved by the Board of Directors. The remaining 2019 Notes were fully redeemed on February 24, 2017.

As of December 31, 2016, the 2019 Notes payable outstanding principal balance consisted of:

(in thousands)	December 31, 2016
April 2019 Notes	$ 64,490
September 2019 Notes	45,874
Total 2019 Notes principal outstanding	$ 110,364

The April 2019 Notes bore interest at a rate of 7.00% per year and traded on the NYSE under the trading symbol "HTGZ." The September 2019 Notes bore interest at a rate of 7.00% per year and traded on the NYSE under the trading symbol "HTGY." For the years ended December 31, 2017, 2016 and 2015, the components of interest expense and related fees and cash paid for interest expense for the 2019 Notes are as follows:

	Year Ended December 31,		
(in thousands)	2017	2016	2015
Interest expense	$ 1,159	$ 7,725	$ 10,899
Amortization of debt issuance cost (loan fees)	1,546	639	2,167
Total interest expense and fees	$ 2,705	$ 8,364	$ 13,066
Cash paid for interest expense	$ 1,911	$ 7,726	$ 11,132

2022 Notes

On October 23, 2017, we issued $150.0 million in aggregate principal amount of the 2022 Notes. The 2022 Notes were issued pursuant to the 2022 Notes Indenture. The sale of the 2022 Notes generated net proceeds of approximately $147.5 million, including a public offering discount of $826,500. Aggregate estimated offering expenses in connection with the transaction, including the underwriter's discount and commissions of $975,000, were approximately $1.7 million.

The 2022 Notes mature on October 23, 2022, unless previously repurchased in accordance with their terms. The 2022 Notes bear interest at a rate of 4.625% per year payable semiannually in arrears on April 23 and October 23 of each year, commencing on April 23, 2018.

The 2022 Notes are unsecured obligations of ours that rank senior in right of payment to all of our existing and future indebtedness that is expressly subordinated, or junior, in right of payment to the 2022 Notes. The 2022 Notes are not guaranteed by any of our current or future subsidiaries. The 2022 Notes rank pari passu, or equally, in right of payment with all of our existing and future liabilities that are not so subordinated, or junior. The 2022 Notes effectively rank subordinated, or junior, to any of our secured indebtedness (including unsecured indebtedness that we later secure) to the extent of the value of the assets securing such indebtedness. The 2022 Notes rank structurally subordinated, or junior, to all existing and future indebtedness (including trade payables) incurred by subsidiaries, financing vehicles or similar facilities of ours.

We may redeem some or all of the 2022 Notes at any time, or from time to time, at the redemption price set forth under the terms of the indenture after September 23, 2022. No sinking fund is provided for the 2022 Notes. The 2022 Notes were issued in denominations of $2,000 and integral multiples of $1,000 thereof. As of December 31, 2017, we were in compliance with the terms of the 2022 Notes Indenture.

As of December 31, 2017, the components of the carrying value of the 2022 Notes were as follows:

(in thousands)	December 31, 2017
Principal amount of debt	$ 150,000
Unamortized debt issuance cost	(1,633)
Original issue discount, net of accretion	(795)
Carrying value of 2022 Notes	$ 147,572

For the years ended December 31, 2017, 2016 and 2015, the components of interest expense and related fees and cash paid for interest expense for the 2022 Notes are as follows:

	Year Ended December 31,		
(in thousands)	2017	2016	2015
Interest expense	$ 1,305	$ —	$ —
Amortization of debt issuance cost (loan fees)	49	—	—
Accretion of original issue discount	31	—	—
Total interest expense and fees	$ 1,385	$ —	$ —
Cash paid for interest expense	$ —	$ —	$ —

2024 Notes

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

On May 2, 2016, we 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, 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.

On October 11, 2016, we entered into a debt distribution agreement, pursuant to which it may offer for sale, from time to time, up to $150.0 million in aggregate principal amount 2024 Notes through FBR Capital Markets & Co. acting as its sales agent (the "2024 Notes Agent"). Sales of the 2024 Notes, 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 receives a commission from us equal to up to 2.00% of the gross sales of any 2024 Notes sold through the 2024 Notes Agent under the debt distribution agreement. The 2024 Notes Agent is not required to sell any specific principal amount of 2024 Notes but will use its commercially reasonable efforts consistent with its sales and trading practices to sell the 2024 Notes. The 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 2024 Notes that is not reflected in the trading price.

During the year ended December 31, 2017, we sold 225,457 notes for approximately $5.6 million in aggregate principal amount. During the year ended December 31, 2016, we sold 317,125 notes for approximately $7.9 million in aggregate principal amount. As of December 31, 2017, approximately $136.4 million in aggregate principal amount remains available for issuance and sale under the debt distribution agreement.

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

On October 24, 2017, our Board of Directors approved a redemption of $75.0 million of the outstanding aggregate principal amount of the 2024 Notes, which were redeemed on November 23, 2017. See “ – Subsequent Events.”

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

The Base Indenture, as supplemented by the Third Supplemental Indenture, contains certain covenants including covenants requiring us to comply with (regardless of whether it is subject to) the asset coverage requirements set forth in Section 18(a)(1)(A) of the 1940 Act as modified by Section 61(a)(1) of the 1940 Act and to comply with the restrictions on dividends or other distributions as well as the purchase of capital stock set forth in Section 18(a)(1)(B) of the 1940 Act as modified by Section 61(a)(1) of the 1940 Act. These covenants are subject to important limitations and exceptions that are described in the Base Indenture, as supplemented by the Third Supplemental Indenture. The Base Indenture, as supplemented by the Third Supplemental Indenture, also contains certain reporting requirements, including a requirement that we provide financial information to the holders of the 2024 Notes and the 2024 Trustee if we should no longer be subject to the reporting requirements under the Exchange Act. The Base Indenture provides for customary events of default and further provides that the 2024 Trustee or the holders of 25% in aggregate principal amount of the outstanding 2024 Notes in a series may declare such 2024 Notes immediately due and payable upon the occurrence of any event of default after expiration of any applicable grace period. As of December 31, 2017, we were in compliance with the terms of the Base Indenture, as supplemented by the Third Supplemental Indenture.

As of December 31, 2017 and December 31, 2016, the components of the carrying value of the 2024 Notes were as follows:

(in thousands)	December 31, 2017	December 31, 2016
Principal amount of debt	$ 183,510	$ 252,873
Unamortized debt issuance cost	(4,591)	(7,482)
Original issue premium, net of amortization	82	99
Carrying value of 2024 Notes	$ 179,001	$ 245,490

For the years ended December 31, 2017, 2016 and 2015, the components of interest expense and related fees and cash paid for interest expense for the 2024 Notes are as follows:

	Year Ended December 31,		
(in thousands)	2017	2016	2015
Interest expense	$ 15,610	$ 11,775	$ 6,437
Amortization of debt issuance cost (loan fees)	3,050	686	333
Amortization of original issue premium	(56)	3	—
Total interest expense and fees	$ 18,604	$ 12,464	$ 6,770
Cash paid for interest expense	$ 16,370	$ 10,873	$ 6,437

2021 Asset-Backed Notes

On November 13, 2014, we completed a $237.4 million term debt securitization in connection with which an affiliate of ours made an offer of $129.3 million in aggregate principal amount of fixed-rate asset-backed notes (the "2021 Asset-Backed Notes"), which were rated A(sf) by Kroll Bond Rating Agency, Inc. 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 us, the 2014 Trust Depositor, the 2014 Securitization Issuer, and Guggenheim Securities, LLC, as initial purchaser, and are backed by a pool of senior loans made to certain of our portfolio companies and secured by certain assets of those portfolio companies and are to be serviced by us. The securitization has an 18-month reinvestment period during which time principal collections may be reinvested into additional eligible loans. Interest on the 2021 Asset-Backed Notes 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, we entered into a sale and contribution agreement with the 2014 Trust Depositor under which we have agreed to sell or have contributed to the 2014 Trust Depositor the 2014 Loans. We have made customary representations, warranties and covenants in the sale and contribution agreement with respect to the 2014 Loans as of the date of their transfer to the 2014 Trust Depositor.

In connection with the issuance and sale of the 2021 Asset-Backed Notes, we have made customary representations, warranties and covenants in the note purchase agreement. The 2021 Asset-Backed Notes are secured obligations of the 2014 Securitization Issuer and are non-recourse to us. The 2014 Securitization Issuer also entered into an indenture governing the 2021 Asset-Backed Notes, which includes customary representations, warranties and covenants. The 2021 Asset-Backed Notes were sold without being registered under the Securities Act (A) in the United States to "qualified institutional buyers" as defined in Rule 144A under the Securities Act and to institutional "accredited investors" (as defined in Rules 501(a)(1), (2), (3) or (7) under the Securities Act) who in each case, are "qualified purchasers" as defined in Section 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 us pursuant to a sale and servicing agreement, which contains customary representations, warranties and covenants. We perform certain servicing and administrative functions with respect to the 2014 Loans. We are entitled to receive a monthly fee from the 2014 Securitization Issuer for servicing the 2014 Loans. This servicing fee is equal to the product of one-twelfth (or in the case of the first payment date, a fraction equal to the number of days from and including October 5, 2014 through and including December 5, 2014 over 360) of 2.00% and the aggregate outstanding principal balance of the 2014 Loans plus collections on deposit in the 2014 Securitization Issuer's collections account, as of the first day of the related collection period (the period from the 5th day of the immediately preceding calendar month through the 4th day of the calendar month in which a payment date occurs, and for the first payment date, the period from and including October 5, 2014, to the close of business on December 5, 2014). We also serve as administrator to the 2014 Securitization Issuer under an administration agreement, which includes customary representations, warranties and covenants.

At December 31, 2017 and December 31, 2016, the 2021 Asset-Backed Notes had an outstanding principal balance of $49.2 million and $109.2 million, respectively.

For the years ended December 31, 2017, 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:

	Year Ended December 31,		
(in thousands)	**2017**	**2016**	**2015**
Interest expense	$ 2,830	$ 4,366	$ 4,557
Amortization of debt issuance cost (loan fees)	731	1,071	902
Total interest expense and fees	$ 3,561	$ 5,437	$ 5,459
Cash paid for interest expense	$ 3,036	$ 4,396	$ 4,557

Under the terms of the 2021 Asset Backed Notes, we are required to maintain a reserve cash balance, funded through interest and principal collections from the underlying securitized debt portfolio, which may be used to pay monthly interest and principal payments on the 2021 Asset-Backed Notes. We have segregated these funds and classified them as restricted cash. There was approximately $3.7 million and $8.3 million of restricted cash as of December 31, 2017 and December 31, 2016, respectively, funded through interest collections.

Convertible Notes

2016 Convertible Notes

In April 2011, we issued $75.0 million in aggregate principal amount of 2016 Convertible Notes. The 2016 Convertible 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 2016 Convertible Notes only under certain circumstances set forth in the indenture governing the 2016 Convertible 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 2016 Convertible Notes at any time. Throughout the life of the 2016 Convertible Notes, holders of approximately $74.8 million of the 2016 Convertible Notes exercised their conversion rights. These 2016 Convertible Notes were settled with a combination of cash equal to the outstanding principal amount of the 2016 Convertible Notes and approximately 1.6 million shares of our common stock, or $24.3 million.

The 2016 Convertible Notes were accounted for in accordance with ASC Subtopic 470-20 ("Debt Instruments with Conversion and Other Options"). In accounting for the 2016 Convertible Notes, we estimated at the time of issuance that the values of the debt and the embedded conversion feature of the 2016 Convertible Notes were approximately 92.8% and 7.2%, respectively. The original issue discount of 7.2% attributable to the conversion feature of the 2016 Convertible Notes was recorded in "capital in excess of par value" in the Consolidated Statement of Assets and Liabilities. As a result, we 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%.

For the years ended December 31, 2017, 2016 and 2015, the components of interest expense, fees and cash paid for interest expense for the 2016 Convertible Notes were as follows:

	Year Ended December 31,		
(in thousands)	**2017**	**2016**	**2015**
Interest expense	$ —	$ 352	$ 1,007
Amortization of debt issuance cost (loan fees)	—	44	131
Accretion of original issue discount	—	82	246
Total interest expense and fees	$ —	$ 478	$ 1,384
Cash paid for interest expense	$ —	$ 440	$ 1,057

The estimated effective interest rate of the debt component of the 2016 Convertible Notes, equal to the stated interest of 6.0% plus the accretion of the original issue discount, was approximately 8.1% for the year ended December 31, 2016.

2022 Convertible Notes

On January 25, 2017, we issued $230.0 million in aggregate principal amount of the 2022 Convertible Notes, which amount includes the additional $30.0 million aggregate principal amount of 2022 Convertible Notes issued pursuant to the initial purchaser's exercise in full of its overallotment option. The 2022 Convertible Notes were issued pursuant to an Indenture, dated January 25, 2017 (the "2022 Convertible Notes Indenture"), between us and U.S. Bank, National Association, as trustee (the "2022 Trustee"). The sale of the 2022 Convertible Notes generated net proceeds of approximately $225.5 million, including $4.5 million of debt issuance costs.

The 2022 Convertible Notes mature on February 1, 2022, unless previously converted or repurchased in accordance with their terms. The 2022 Convertible Notes bear interest at a rate of 4.375% per year payable semiannually in arrears on February 1 and August 1 of each year, commencing on August 1, 2017.

The 2022 Convertible Notes are our unsecured obligations and rank senior in right of payment to our future indebtedness that is expressly subordinated in right of payment to the 2022 Convertible Notes; equal in right of payment to our existing and future indebtedness that is not so subordinated; effectively junior in right of payment to any of our secured indebtedness (including unsecured indebtedness that we later secure) to the extent of the value of the assets securing such indebtedness; and structurally junior to all existing and future indebtedness (including trade payables) incurred our subsidiaries, financing vehicles or similar facilities.

Prior to the close of business on the business day immediately preceding August 1, 2021, holders may convert their 2022 Convertible Notes only under certain circumstances set forth in the 2022 Convertible Notes Indenture. On or after August 1, 2021 until the close of business on the scheduled trading day immediately preceding the maturity date, holders may convert their 2022 Convertible Notes at any time. Upon conversion, we will pay or deliver, as the case may be, at its election, cash, shares of its common stock or a combination of cash and shares of its common stock. The conversion rate is initially 60.9366 shares of common stock per $1,000 principal amount of 2022 Convertible Notes (equivalent to an initial conversion price of approximately $16.41 per share of common stock). The conversion rate will be subject to adjustment in some events but will not be adjusted for any accrued and unpaid interest. In addition, if certain corporate events occur prior to the maturity date, we will increase the conversion rate for a holder who elects to convert its 2022 Convertible Notes in connection with such a corporate event in certain circumstances. As of December 31, 2017,the conversion rate was 60.9366 shares of common stock per $1,000 principal amount of Convertible Senior Notes (equivalent to an adjusted conversion price of approximately $16.41 per share of common stock).

We may not redeem the 2022 Convertible Notes at our option prior to maturity. No sinking fund is provided for the 2022 Convertible Notes. In addition, if certain corporate events occur, holders of the 2022 Convertible Notes may require us to repurchase for cash all or part of their 2022 Convertible Notes at a repurchase price equal to 100% of the principal amount of the 2022 Convertible Notes to be repurchased, plus accrued and unpaid interest through, but excluding, the required repurchase date.

The 2022 Convertible Notes Indenture contains certain covenants, including covenants requiring us to comply with Section 18(a)(1)(A) 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 2022 Convertible Notes and the 2022 Trustee if we cease to be subject to the reporting requirements of the Exchange Act. These covenants are subject to important limitations and exceptions that are described in the 2022 Convertible Notes Indenture. We offered and sold the 2022 Convertible Notes to the initial purchaser in reliance on the exemption from registration provided by Section 4(a)(2) of the Securities Act, for resale by the initial purchaser to qualified institutional buyers (as defined in the Securities Act) pursuant to the exemption from registration provided by Rule 144A under the Securities Act. We relied on these exemptions from registration based in part on representations made by the initial purchaser in connection with the sale of the 2022 Convertible Notes.

The 2022 Convertible Notes are accounted for in accordance with ASC Subtopic 470-20 ("Debt Instruments with Conversion and Other Options"). In accounting for the 2022 Convertible Notes, we estimated at the time of issuance that the values of the debt and the embedded conversion feature of the 2022 Convertible Notes were approximately 98.5% and 1.5%, respectively. The original issue discount of 1.5%,or $3.4 million, attributable to the conversion feature of the 2022 Convertible Notes was recorded in "capital in excess of par value" in the Consolidated Statement of Assets and Liabilities. As a result, we record interest expense comprised of both stated interest expense as well as accretion of the original issue discount resulting in an estimated effective interest rate of approximately 4.76%.

As of December 31, 2017, the components of the carrying value of the 2022 Convertible Notes were as follows:

(in thousands)	December 31, 2017
Principal amount of debt	$ 230,000
Unamortized debt issuance cost	(3,715)
Original issue discount, net of accretion	(2,797)
Carrying value of 2022 Convertible Notes	$ 223,488

For the years ended December 31, 2017, 2016 and 2015, the components of interest expense, fees and cash paid for interest expense for the 2022 Convertible Notes were as follows:

	Year Ended December 31,		
(in thousands)	2017	2016	2015
Interest expense	$ 9,392	$ —	$ —
Amortization of debt issuance cost (loan fees)	781	—	—
Accretion of original issue discount	615	—	—
Total interest expense and fees	$ 10,788	$ —	$ —
Cash paid for interest expense	$ 5,199	$ —	$ —

The estimated effective interest of the debt component of the 2022 Convertible Notes, equal to the stated interest rate of 4.375% plus the accretion of the original issue discount, was approximately 4.76% for the year ended December 31, 2017. As of December 31, 2017, we are in compliance with the terms of the indentures governing the 2022 Convertible Notes.

Credit Facilities

As of December 31, 2017 and December 31, 2016, we have two available secured credit facilities, the Wells Facility and the Union Bank Facility.

Wells Facility

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

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

Under the Wells Facility, Wells Fargo Capital Finance, LLC made commitments of $75.0 million. Alostar Bank of Commerce made commitments of $20.0 million, and Everbank Commercial Finance Inc. made commitments of $25.0 million. The Wells Facility contains an accordion feature, in which we can increase the credit line up to an aggregate of $300.0 million, funded by additional lenders and with the agreement of Wells Fargo and subject to other customary conditions. We expect to continue discussions with various other potential lenders to join the facility; however, there can be no assurances that additional lenders will join the Wells Facility. Borrowings under the Wells Facility generally bear interest at a rate per annum equal to LIBOR plus 3.25%, and the Wells Facility has an advance rate of 50% against eligible debt investments. The Wells Facility is secured by all of the assets of Hercules Funding II. The Wells Facility requires payment of a non-use fee on a scale of 0.0% to 0.50% depending on the average monthly outstanding balance under the facility relative to the maximum amount of commitments at such time. For the years ended December 31, 2017 and 2016, this non-use fee was approximately $604,000 and $483,000, respectively.

The Wells Facility also includes various financial and other covenants applicable to us and our subsidiaries, in addition to those applicable to Hercules Funding II, including covenants relating to certain changes of control of the Company and Hercules Funding II. Among other things, these covenants also require us to maintain certain financial ratios, including a maximum debt to worth ratio, minimum interest coverage ratio, minimum portfolio funding liquidity, and a minimum tangible net worth in an amount, when added to outstanding subordinated indebtedness, that is in excess of $500.0 million plus 90% of the cumulative amount of equity raised after June 30, 2014.

As of December 31, 2017, the minimum tangible net worth covenant has increased to $737.0 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, the issuance of 7.3 million shares of common stock issued under the Prior Equity Distribution Agreement for gross proceeds of $95.0 million during the year ended December 31, 2016 and the issuance of 4.9 million shares of common stock issued under the Prior Equity Distribution Agreement and the Equity Distribution Agreement for gross proceeds of $67.9 million during the year ended December 31, 2017. See "Note 6 – Stockholder's Equity."

The Wells Facility provides for customary events of default, including, without limitation, with respect to payment defaults, breach of representations and covenants, certain key person provisions, cross acceleration provisions to certain other debt, lien and judgment limitations, and bankruptcy.

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

We had aggregate draws of $8.5 million on the available facility during the year ended December 31, 2017 offset by repayments of $13.5 million. There was $5.0 million of borrowings outstanding on this facility as of December 31, 2016. There were no borrowings outstanding on the facility as of December 31, 2017.

For the years ended December 31, 2017, 2016 and 2015, the components of interest expense and related fees and cash paid for interest expense for the Wells Facility are as follows:

	Year Ended December 31,		
(in thousands)	**2017**	**2016**	**2015**
Interest expense	$ 2	$ 539	$ 578
Amortization of debt issuance cost (loan fees)	324	492	361
Total interest expense and fees	$ 326	$ 1,031	$ 939
Cash paid for interest expense	$ 41	$ 577	$ 402

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

Union Bank Facility

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

On July 18, 2016, we 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 we 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 Hercules Funding III.

We paid a one-time $562,500 structuring fee in connection with the Union Bank Facility. 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. Although we did not incur any non-use fees under the Union Bank Facility prior to May 5, 2016, for the years ended December 31, 2017 and 2016, we incurred non-use fees under the Union Bank Facility and Prior Union Bank Facility of approximately $380,000 and $356,000, respectively.

The Union Bank Facility also includes various financial and other covenants applicable to us and our subsidiaries, in addition to those applicable to Hercules Funding III, including covenants relating to certain changes of control of the Company and Hercules Funding III. Among other things, these covenants also require us to maintain certain financial ratios, including a maximum debt to worth ratio, minimum interest coverage ratio, minimum portfolio funding liquidity, and a minimum tangible net worth in an amount that is in excess of $500.0 million plus 90% of the cumulative amount of equity raised after June 30, 2014.

As of December 31, 2017, the minimum tangible net worth covenant increased to $783.9 million as a result of the March 2015 follow-on public offering of 7.6 million shares of common stock for total net proceeds of approximately $100.1 million, the issuance of 7.3 million shares of common stock issued under the Prior Equity Distribution Agreement for net proceeds of $92.8 million during the year ended December 31, 2016, and the issuance of 4.9 million shares of common stock issued under the Prior Equity Distribution Agreement and the Equity Distribution Agreement for net proceeds of $66.9 million during the year ended December 31, 2017. See "Note 6 – Stockholder's Equity."

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 terminated sooner in accordance with its terms.

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

We did not make any draws or repayments on the available facility during the year ended December 31, 2017. We had aggregate draws of $90.0 million during the year ended December 31, 2016, offset by repayments of $90.0 million. At December 31, 2017 and 2016, there were no borrowings outstanding on the Union Bank Facility.

For the years ended December 31, 2017, 2016 and 2015, the components of interest expense and related fees and cash paid for interest expense for the previous and current Union Bank Facility are as follows:

(in thousands)	Year Ended December 31, 2017	2016	2015
Interest expense	$ —	$ 189	$ —
Amortization of debt issuance cost (loan fees)	388	356	61
Total interest expense and fees	$ 388	$ 545	$ 61
Cash paid for interest expense	$ 80	$ 38	$ —

Distributions

The following table summarizes our 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
Cumulative distributions declared and paid prior to January 1, 2016			$ 11.23
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 24, 2016	November 14, 2016	November 21, 2016	0.31
February 16, 2017	March 6, 2017	March 13, 2017	0.31
April 26, 2017	May 15, 2017	May 22, 2017	0.31
July 26, 2017	August 14, 2017	August 21, 2017	0.31
October 25, 2017	November 13, 2017	November 20, 2017	0.31
February 14, 2018	March 5, 2018	March 12, 2018	0.31
			$ 14.02

On February 14, 2018 the Board of Directors declared a cash distribution of $0.31 per share to be paid on March 12, 2018 to shareholders of record as of March 5, 2018. This distribution represents our fiftieth consecutive distribution since our initial public offering, bringing the total cumulative distribution to date $14.02 per share.

Our Board of Directors maintains a variable 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 distribution, or fifth distribution, 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 distribution payments.

Distributions from our taxable income (including gains) to a stockholder generally will be treated as a dividend for U.S. federal income tax purposes to the extent of such stockholder's allocable share of our current or accumulated earnings and profits. 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 remaining distributions would be treated as a capital gain. The determination of the tax attributes of our distributions is made annually as of the end of our taxable year based upon our taxable income for the full taxable year and distributions paid for the full taxable year. Of the distributions declared during the fiscal years ended December 31, 2017, 2016, and 2015, 100% were distributions derived from our current and accumulated earnings and profits. There can be no certainty to stockholders that this determination is representative of the tax attributes of our 2018 distributions to stockholders.

We maintain an "opt out" dividend reinvestment plan that provides for reinvestment of our distribution on behalf of our stockholders, unless a stockholder elects to receive cash. As a result, if our Board of Directors authorizes, and we declare a cash distribution, then our stockholders who have not "opted out" of our dividend reinvestment plan will have their cash distribution automatically reinvested in additional shares of our common stock, rather than receiving the cash distributions.

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 subject to tax as a RIC under Subchapter M of the Code. In order to be subject to tax as a RIC, we are required to satisfy certain annual gross income and quarterly asset composition tests, as well as make distributions to our stockholders each taxable year treated as dividends for federal income tax purposesof 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, plus our net tax-exempt income, if any. Upon being eligible to be subject to tax as a RIC, we would be entitled to deduct such 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 make distributions treated as dividends for U.S. federal income tax purposes in a timely manner to our stockholders in respect of each calendar year of an amount at least equal to the Excise Tax Avoidance Requirement. We will not be subject to this excise tax on any amount on which we incurred U.S. federal corporate income tax (such as the tax imposed on a RIC's 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 distributions treated as dividends for U.S. federal income tax purposes 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 treated as dividends for U.S. federal income tax purposes 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, distributions declared and paid by us in a taxable year may differ from our taxable income for that taxable year as such 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 100% of our spillover earnings from ordinary income for the year ended December 31, 2017 to our stockholders during 2018.

Critical Accounting Policies

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

Revision of Previously Issued Financial Statements

It was determined that there was a misclassification in the previously issued consolidated financial statements of $15.3 million, and $8.0 million in the distributions for the years ended December 31, 2015 and 2016 respectively. The amounts had been categorized as distributions of net investment income rather than distributions of realized gains and the components of net assets have been revised in the respective years to reflect the correct classification. In addition, the financial highlights in note 9 have been updated to reclassify $0.22 and $0.11 per share from distributions of net investment income to distributions of realized gains for the years ended December 31, 2015 and 2016 respectively. The amounts reclassified are not material individually, or in the aggregate, and there is no impact on previously reported net assets, total distributions, and earnings per share for the years ended December 2015 and 2016. We plan to reflect the revised amounts in our quarterly consolidated financial statements in future filings containing such information.

Valuation of Investments

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

At December 31, 2017, approximately 93.2% of our total assets represented investments in portfolio companies whose fair value is determined in good faith by the Board of Directors. Value, as defined in Section 2(a)(41) of the 1940 Act, is (i) the market price for those securities for which a market quotation is readily available and (ii) for all other securities and assets, fair value is as determined in good faith by the Board of Directors. Our investments are carried at fair value in accordance with the 1940 Act and ASC Topic 946 and measured in accordance with ASC Topic 820. Our debt securities are primarily invested in venture capital-backed companies in technology-related industries including technology, drug discovery and development, biotechnology, life sciences, healthcare, and sustainable and renewable technology at all stages of development. Given the nature of lending to these types of businesses, substantially all of our investments in these portfolio companies are considered Level 3 assets under ASC Topic 820 because there is no known or accessible market or market indexes for these investment securities to be traded or exchanged. As such, we value substantially all of our investments at fair value as determined in good faith pursuant to a consistent valuation policy by our Board of Directors in accordance with the provisions of ASC Topic 820 and the 1940 Act. Due to the inherent uncertainty in determining the fair value of investments that do not have a readily available market value, the fair value of our investments determined in good faith by our Board of Directors may differ significantly from the value that would have been used had a readily available market existed for such investments, and the differences could be material. See "Determination of Net Asset Value" for a discussion of our investment valuation process.

Investments measured at fair value on a recurring basis are categorized in the tables below based upon the lowest level of significant input to the valuations as of December 31, 2017 and as of December 31, 2016. 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 year ended December 31, 2017, there were no transfers between Levels 1 or 2.

(in thousands) Description	Balance December 31, 2017	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Senior Secured Debt	$ 1,415,984	$ —	$ —	$ 1,415,984
Preferred Stock	40,683	—	—	40,683
Common Stock	48,678	22,825	—	25,853
Warrants	36,869	—	5,664	31,205
Escrow Receivable	752	—	—	752
Total	$ 1,542,966	$ 22,825	$ 5,664	$ 1,514,477

(in thousands) Description	Balance December 31, 2016	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Senior Secured Debt	$ 1,328,803	$ —	$ 4,825	$ 1,323,978
Preferred Stock	39,418	—	—	39,418
Common Stock	28,236	17,271	—	10,965
Warrants	27,485	—	3,239	24,246
Escrow Receivable	1,382	—	—	1,382
Total	$ 1,425,324	$ 17,271	$ 8,064	$ 1,399,989

The table below presents a reconciliation for all financial assets and liabilities measured at fair value on a recurring basis, excluding accrued interest components, using significant unobservable inputs (Level 3) for the years ended December 31, 2017 and 2016.

(in thousands)	Balance January 1, 2017	Net Realized Gains (Losses) (1)	Net Change in Unrealized Appreciation (Depreciation) (2)	Purchases (5)	Sales	Repayments (6)	Gross Transfers into Level 3 (3)	Gross Transfers out of Level 3 (3)	Balance December 31, 2017
Senior Debt	$ 1,323,978	$ (24,684)	$ 29,610	$ 776,648	$ —	$ (626,897)	$ —	$ (62,671)	$ 1,415,984
Preferred Stock	39,418	(7,531)	11,955	2,683	(468)	—	—	(5,374)	40,683
Common Stock	10,965	(487)	(49,462)	3,748	(1,582)	—	62,671	—	25,853
Warrants	24,246	727	8,450	5,449	(7,303)	—	—	(364)	31,205
Escrow Receivable	1,382	261	—	3,127	(4,018)	—	—	—	752
Total	$ 1,399,989	$ (31,714)	$ 553	$ 791,655	$ (13,371)	$ (626,897)	$ 62,671	$ (68,409)	$ 1,514,477

(in thousands)	Balance January 1, 2016	Net Realized Gains (Losses) (1)	Net Change in Unrealized Appreciation (Depreciation) (2)	Purchases (5)	Sales	Repayments (6)	Gross Transfers into Level 3 (4)	Gross Transfers out of Level 3 (4)	Balance December 31, 2016
Senior Debt	$ 1,102,396	$ (6,968)	$ (12,675)	$ 687,353	$ —	$ (441,567)	$ —	$ (4,561)	$ 1,323,978
Preferred Stock	35,245	(334)	(7,864)	13,873	(1,367)	—	626	(761)	39,418
Common Stock	1,527	—	(1,404)	6,081	—	—	4,761	—	10,965
Warrants	18,565	(116)	3,465	4,082	(1,186)	—	—	(564)	24,246
Escrow Receivable	2,967	(6)	—	2,009	(3,588)	—	—	—	1,382
Total	$ 1,160,700	$ (7,424)	$ (18,478)	$ 713,398	$ (6,141)	$ (441,567)	$ 5,387	$ (5,886)	$ 1,399,989

(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 year ended December 31, 2017 relate to the conversion of our debt investment in Sungevity, Inc. and a portion of our debt investment in Gamma Medica, Inc. to common stock through bankruptcy transactions, IPOs of ForeScout Technologies, Inc., Aquantia Corporation, and Quanterix Corporation, and merger of our former portfolio company Cempra, Inc. and current portfolio company Melinta Therapeutics, Inc. into NASDAQ-listed company Melinta Theraputics, Inc. Transfers into Level 3 during the year ended December 31, 2017 relate to the conversion of our debt investment in Sungevity, Inc. and a portion of our debt investment in Gamma Medica, Inc. to common stock through bankruptcy transactions..

(4) Transfers out of Level 3 during the year ended December 31, 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 our preferred shares to common shares in SCIEnergy, Inc. Transfers into Level 3 during the year ended December 31, 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 our preferred shares to common shares in SCIEnergy, Inc.

(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 year ended December 31, 2017, approximately $4.2 million in net unrealized appreciation and $49.2 million 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. The depreciation on common stock during the period reflects the conversion of our debt investment in Sungevity, Inc. to common stock at cost through a bankruptcy transaction and subsequent depreciation to fair value. For the same period, approximately $10.5 million in net unrealized depreciation and $9.0 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, 2016, approximately $9.1 million and $1.4 million 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 $25.7 million in net unrealized depreciation and $2.8 million in net unrealized appreciation was recorded for debt and warrant Level 3 investments, respectively, relating to assets still held at the reporting date.

The following tables provide quantitative information about our Level 3 fair value measurements as of December 31, 2017 and December 31, 2016. In addition to the techniques and inputs noted in the tables 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 Three Debt Investments	Fair Value at December 31, 2017 (in thousands)	Valuation Techniques/ Methodologies	Unobservable Input (1)	Range	Weighted Average (2)
Pharmaceuticals	$ 44,301	Originated Within 6 Months	Origination Yield	10.71% - 12.61%	11.89%
	379,841	Market Comparable Companies	Hypothetical Market Yield	10.14% - 16.14%	12.94%
			Premium/(Discount)	(0.25%) - 0.75%	
	2,257	Liquidation (3)	Probability weighting of alternative outcomes	100.00%	
Technology	158,916	Originated Within 6 Months	Origination Yield	9.4% - 25.11%	11.68%
	290,561	Market Comparable Companies	Hypothetical Market Yield	9.47% - 19.21%	13.55%
			Premium/(Discount)	(0.25%) - 1.00%	
	22,020	Liquidation (3)	Probability weighting of alternative outcomes	5.00% - 100.00%	
Sustainable and Renewable	33,020	Originated Within 6 Months	Origination Yield	11.97% - 20.06%	15.31%
Technology	49,647	Market Comparable Companies	Hypothetical Market Yield	11.15% - 14.16%	12.13%
			Premium/(Discount)	0.00% - 0.25%	
Medical Devices	17,013	Originated Within 6 Months	Origination Yield	13.49%	13.49%
	89,869	Market Comparable Companies	Hypothetical Market Yield	9.66% - 17.57%	12.28%
			Premium/(Discount)	0.00% - 0.50%	
Lower Middle Market	97,291	Originated Within 6 Months	Origination Yield	8.29% - 12.68%	12.01%
	19,219	Liquidation (3)	Probability weighting of alternative outcomes	10.00% - 100.00%	
		Debt Investments Where Fair Value Approximates Cost			
	35,517	Imminent Payoffs (4)			
	176,512	Debt Investments Maturing in Less than One Year			
	$ 1,415,984	**Total Level Three Debt Investments**			

(1) 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 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 d ebt 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.

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

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

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

Investment Type – Level Three Debt Investments	Fair Value at December 31, 2016 (in thousands)	Valuation Techniques/ Methodologies	Unobservable Input (1)	Range	Weighted Average (2)
Pharmaceuticals	$ 102,412	Originated Within 6 Months	Origination Yield	12.24% - 14.59%	13.64%
	434,718	Market Comparable Companies	Hypothetical Market Yield	9.07% - 15.62%	12.44%
			Premium/(Discount)	(0.25%) - 0.75%	
	2,693	Liquidation (3)	Probability weighting of alternative outcomes	25.00% - 100.00%	
Technology	93,674	Originated Within 6 Months	Origination Yield	7.29% - 16.53%	13.69%
	325,553	Market Comparable Companies	Hypothetical Market Yield	10.14% - 21.66%	12.69%
			Premium/(Discount)	(0.50%) - 0.50%	
	24,706	Liquidation (3)	Probability weighting of alternative outcomes	20.00% - 100.00%	
Sustainable and Renewable Technology	99,286	Market Comparable Companies	Hypothetical Market Yield	11.77% - 16.84%	13.45%
			Premium/(Discount)	0.00% - 0.25%	
	44,626	Liquidation (3)	Probability weighting of alternative outcomes	10.00% - 40.00%	
Medical Devices	88,983	Market Comparable Companies	Hypothetical Market Yield	10.25% - 18.60%	14.01%
			Premium/(Discount)	(0.25%) - 0.75%	
Lower Middle Market	25,017	Market Comparable Companies	Hypothetical Market Yield	8.85% - 15.79%	10.10%
			Premium/(Discount)	0.00% - 0.25%	
	13,148	Liquidation (3)	Probability weighting of alternative outcomes	100.00%	
		Debt Investments Where Fair Value Approximates Cost			
	25,000	Imminent Payoffs (4)			
	44,162	Debt Investments Maturing in Less than One Year			
	$ 1,323,978	**Total Level Three Debt Investments**			

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

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

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

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

Investment Type - Level Three Equity and Warrant Investments	Fair Value at December 31, 2017 (in thousands)	Valuation Techniques/ Methodologies	Unobservable Input (1)	Range	Weighted Average (6)
Equity Investments	$ 7,684	Market Comparable Companies	EBITDA Multiple (2)	5.1x - 40.2x	13.2x
			Revenue Multiple (2)	0.5x - 6.2x	2.9x
			Discount for Lack of Marketability (3)	7.49% - 12.97%	8.77%
			Average Industry Volatility (4)	27.8% - 77.3%	53.35%
			Risk-Free Interest Rate	1.40% - 1.90%	1.47%
			Estimated Time to Exit (in months)	3 - 10	5
	19,323	Market Adjusted OPM Backsolve	Market Equity Adjustment (5)	(16.43%) - 29.4%	11.79%
			Average Industry Volatility (4)	33.17% - 78.77%	68.99%
			Risk-Free Interest Rate	0.84% - 1.51%	1.42%
			Estimated Time to Exit (in months)	5 - 26	13
	39,529	Other (7)			
Warrant Investments	19,310	Market Comparable Companies	EBITDA Multiple (2)	5x - 40.2x	14.6x
			Revenue Multiple (2)	0.5x - 6.4x	2.6x
			Discount for Lack of Marketability (3)	5.16% - 27.41%	13.57%
			Average Industry Volatility (4)	27.8% - 102.77%	55.15%
			Risk-Free Interest Rate	1.31% - 2.09%	1.66%
			Estimated Time to Exit (in months)	2 - 48	13
	6,713	Market Adjusted OPM Backsolve	Market Equity Adjustment (5)	(68.52%) - 154.5%	11.76%
			Average Industry Volatility (4)	33.17% - 110.32%	66.97%
			Risk-Free Interest Rate	0.96% - 2.09%	1.59%
			Estimated Time to Exit (in months)	5 - 48	20
	5,182	Other (7)			
Total Level Three Warrant and Equity Investments	$ 97,741				

(1) The significant unobservable inputs used in the fair value measurement of our warrant and equity-related securities are revenue and/or EBITDA multiples, market equity adjustment factors, 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 would 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.
(2) Represents amounts used when we have determined that market participants would use such multiples when pricing the investments.
(3) Represents amounts used when we have determined market participants would take into account these discounts when pricing the investments.
(4) Represents the range of industry volatility used by market participants when pricing the investment.
(5) Represents the range of changes in industry valuations since the portfolio company's last external valuation event.
(6) Weighted averages are calculated based on the fair market value of each investment.
(7) The fair market value of these investments is derived based on recent private market and merger and acquisition transaction prices.

Investment Type - Level Three Equity and Warrant Investments	Fair Value at December 31, 2016 (in thousands)	Valuation Techniques/ Methodologies	Unobservable Input (1)	Range	Weighted Average (5)
Equity Investments	$ 9,258	Market Comparable Companies	EBITDA Multiple (2)	0.0x - 38.7x	12.3x
			Revenue Multiple (2)	0.9x - 8.7x	3.1x
			Discount for Lack of Marketability (3)	13.75% - 25.97%	16.73%
			Average Industry Volatility (4)	45.54% - 113.16%	61.06%
			Risk-Free Interest Rate	0.79% - 1.50%	0.91%
			Estimated Time to Exit (in months)	10 - 38	15
	19,836	Market Adjusted OPM Backsolve	Average Industry Volatility (4)	29.93%- 109.95%	73.49%
			Risk-Free Interest Rate	0.65% - 1.44%	0.92%
			Estimated Time to Exit (in months)	10 - 34	15
	21,289	Other (6)			
Warrant Investments	8,959	Market Comparable Companies	EBITDA Multiple (2)	2.6x - 51.4x	13.8x
			Revenue Multiple (2)	0.4x - 6.1x	2.5x
			Discount for Lack of Marketability (3)	11.74% - 27.25%	19.02%
			Average Industry Volatility (4)	38.58% - 111.15%	62.03%
			Risk-Free Interest Rate	0.68% - 1.68%	1.04%
			Estimated Time to Exit (in months)	7 - 47	20
	9,713	Market Adjusted OPM Backsolve	Average Industry Volatility (4)	29.93% - 116.29%	67.20%
			Risk-Free Interest Rate	0.45% - 1.84%	0.99%
			Estimated Time to Exit (in months)	3 - 47	20
	5,574	Other (6)			
Total Level Three Warrant and Equity Investments	$ 74,629				

(1) 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.
(2) Represents amounts used when we have determined that market participants would use such multiples when pricing the investments.
(3) Represents amounts used when we have determined market participants would take into account these discounts when pricing the investments.
(4) Represents the range of industry volatility used by market participants when pricing the investment.
(5) Weighted averages are calculated based on the fair market value of each investment.
(6) The fair market value of these investments is derived based on recent private market and merger and acquisition transaction prices.

Cash and Cash Equivalents

Cash and cash equivalents consists solely of funds deposited with financial institutions and short-term liquid investments in money market deposit accounts. Cash and cash equivalents are carried at cost, which approximates fair value.

Other Assets

Other Assets generally consists of prepaid expenses, deferred financing costs net of accumulated amortization, fixed assets net of accumulated depreciation, deferred revenues and deposits and other assets, including escrow receivable. The escrow receivable balance as of December 31, 2017 and December 31, 2016 was approximately $752,000 and $1.4 million, respectively, and was fair valued and held in accordance with ASC Topic 820.

Income Recognition

We record interest income on an accrual basis and recognize 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, we 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 we believe the portfolio company has demonstrated the ability to repay our 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, we may make exceptions to this policy if the investment has sufficient collateral and is in the process of collection.

At December 31, 2017, we had five debt investments on non-accrual with a cumulative investment cost and fair value of approximately $14.8 million and $340,000, respectively. At December 31, 2016, we had five debt investments on non-accrual at with a cumulative investment cost and fair value of approximately $43.9 million and $6.2 million, respectively. The decrease in the cumulative cost and fair value of debt investments on non-accrual between December 31, 2017 and December 31, 2016 is the result of the liquidation of two debt investments that were on non-accrual at December 31, 2016, offset by placing two new debt investments on non-accrual during the period. For the year ended December 31, 2017, we recognized a realized loss of approximately $24.2 million on the write off of two debt investments that were on non-accrual atDecember 31, 2016 and one investment placed on non-accrual and written-off during 2017.

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.

We recognize 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 fee income, 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, we 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.

We have debt investments in our 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. We 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. We recorded approximately $10.0 million and $7.8 million in PIK income in the years ended December 31, 2017 and 2016, respectively.

To maintain the Company’s ability to be subject to tax as a RIC, PIK and exit fee income generally must be accrued and distributed to stockholders in the form of dividends for U.S. federal income tax purposes even though the cash has not yet been collected. Amounts necessary to pay these distributions may come from available cash or the liquidation of certain investments.

In certain investment transactions, we 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. We had no income from advisory services in the years ended December 31, 2017 and December 31, 2016.

Other Income (Loss)

Other Income (loss) generally consists of income or losses generated from sources other than our investment portfolio. There was no Other Income (loss) for the year ended December 31, 2017. For the year ended December 31, 2016 it consisted of litigation settlement proceeds and for the year ended December 31, 2015, it consisted of loss on extinguishment of debt. Other income (loss) is classified as a component of net investment income in our Consolidated Statement of Operations.

Stock Based Compensation

We have issued and may, from time to time, issue stock options and restricted stock to employees under our 2004 Equity Incentive Plan and to Board members under our 2006 Equity Incentive Plan prior to its expiration on June 21, 2017. We follow the guidelines set forth under 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.

On December 29, 2016, our Board of Directors approved a further amendment and restatement of the 2004 Equity Incentive Plan. The amended plan provides, in addition to the preexisting types of awards available for grant thereunder and among other things, (1) for the grant of restricted stock units; (2) for the deferral of the receipt of the shares of our common stock underlying vested restricted stock units; (3) that grantees may receive up to 10% of the value of the tentative restricted stock unit grants proposed for any grantee in the form of an option to acquire shares of our common stock; (4) that awards of restricted stock units may include performance vesting conditions; (5) that awards may require that all or a portion of the shares of our common stock delivered in respect of any vested restricted stock unit award be subject to a specified post-delivery holding period; and (6) that restricted stock unit awards may accrue dividend equivalents in respect of our common stock underlying any restricted stock unit award payable in the form of cash or additional shares of our common stock to the extent, and in respect of, any vested restricted stock units. As of December 31, 2017, we issued 600,461 restricted stock units and 54,674 dividend equivalent units based on the December 2016 amended terms.

Income Taxes

We intend to operate so as to qualify to be taxed subject to tax 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 (including gains) distributed as dividends for U.S. federal income tax purposes to stockholders. Taxable income includes 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.

As a RIC, we will be subject to a 4% nondeductible U.S. federal excise tax on certain undistributed income unless we make distributions treated as dividends for U.S. federal income tax purposes in a timely manner to our stockholders in respect of each calendar year of an amount at least equal to the Excise Tax Avoidance Requirement. We will not be subject to this excise tax on any amount on which we incurred U.S. federal corporate income tax (such as the tax imposed on a RIC's 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 distributions treated as dividends for U.S. federal income tax purposes 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 treated as dividends for U.S. federal income tax purposes 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, distributions declared and paid by us in a taxable year may differ from taxable income for that taxable year as such 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 intend to distribute 100% of our spillover earnings from ordinary income for the taxable year ended December 31, 2017 to our stockholders during 2018. We distributed 100% of our spillover earnings, which consisted of ordinary income and long-term capital gains, from our taxable year ended December 31, 2016 to our stockholders during 2017.

Because federal income tax regulations differ from accounting principles generally accepted in the United States, distributions in accordance with tax regulations may differ from net investment income and realized gains recognized for financial reporting purposes. Differences may be permanent or temporary. Permanent differences are reclassified among capital accounts in the financial statements to reflect their appropriate tax character. Permanent differences may also result from the classification of certain items, such as the treatment of short-term gains as ordinary income for tax purposes. Temporary differences arise when certain items of income, expense, gain or loss are recognized at some time in the future.

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. We do not believe that ASU 2016-01 will have a material impact 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 U.S. 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 anticipate an increase in the recognition of right-of-use assets and lease liabilities, however, we do not believe that ASU 2016-02 will have a material impact 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. We have adopted this standard for the year ended December 31, 2017 and determined that the adoption did not have a material impact 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. We do not believe that ASU 2016-15 will have a material impact on our consolidated financial statements and disclosures.

In October 2016, the SEC adopted new rules and forms and amended other rules to enhance the reporting and disclosure of information by registered investment companies. As part of these changes, the SEC amended Regulation S-X to standardize and enhance disclosures in investment company financial statements. Implementation of the new or amended rules is required for reporting periods ending after August 1, 2017. We have reviewed the requirements and adopted the amendments to Regulation S-X on our consolidated financial statements and related disclosures for the periods presented.

In November 2016, the FASB issued ASU 2016-18, “Statement of Cash Flows (Topic 230),”which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The new guidance is effective for interim and annual periods beginning after December 15, 2017. The amendment should be adopted retrospectively. We do not believe that ASU 2016-18 will have a material impact on our consolidated financial statements and disclosures.

Subsequent Events

Distribution Declaration

On February 14, 2018 our Board of Directors declared a cash distribution of $0.31 per share to be paid on March 12, 2018 to shareholders of record as of March 5, 2018.This distribution represents our fiftieth consecutive distribution since our initial public offering, bringing the total cumulative distribution to date to $14.02 per share.

Restricted Stock Unit Grants

In January 2018, we granted 746,684 restricted stock units pursuant to the amended 2004 Plan.

ATM Equity Program Issuances

Subsequent to December 31, 2017 and as of February 16, 2018, we sold 478,000 shares of common stock for total accumulated net proceeds of approximately $6.2 million, including $56,000 of offering expenses, under our Equity Distribution Agreement with JMP. As of February 16, 2018 approximately 9.9 million shares remain available for issuance and sale under the equity distribution agreement.

Redemption of 2024 Notes

On February 9, 2018, the Board of Directors approved a redemption of $100.0 million of outstanding aggregate principal amount of the 2024 Notes and notice for such redemption has been provided. We have publicly announced our intention to redeem this portion of the 2024 Notes on April 2, 2018.

Portfolio Company Developments

As of February 16, 2018, we held warrants or equity positions in two companies that have filed registration statements on Form S-1 with the SEC in contemplation of potential initial public offerings. Both 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 December 31, 2017, our portfolio companies announced or completed the following liquidity events:

1. In September 2017, our portfolio company Inotek Pharmaceuticals Corporation announced they had entered into a definitive merger agreement with Rocket Pharmaceuticals Ltd. The deal was completed on January 4, 2018. The combined company will be named Rocket Pharmaceuticals, Inc. and is now listed on the NASDAQ Global Market under the symbol “RCKT” and began trading on January 5, 2018.
2. In October 2017, our portfolio company Neothetics, Inc. announced they have entered into a definitive agreement under which privately-held Evofem Biosciences will merge with a wholly-owned subsidiary of Neothetics in an all-stock transaction. In January 2018, Evofem Biosciences completed the reverse merger acquisition of Neothetics and its stock began trading on the NASDAQ Capital Market under the ticker symbol “EVFM.”

Item 7A. ***Quantitative and Qualitative Disclosure 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 fund 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 December 31, 2017, approximately 96.4% 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 December 31, 2017, the following table shows the approximate annualized increase (decrease) in components of net assets resulting from operations of hypothetical base rate changes in interest rates, assuming no changes in our investments and borrowings.

(in thousands)

Basis Point Change	**Interest Income**	**Interest Expense**	**Net Income**	**EPS (1)**
25	$ 3,152	$ —	$ 3,152	$ 0.04
50	$ 6,368	$ —	$ 6,368	$ 0.08
75	$ 9,605	$ —	$ 9,605	$ 0.11
100	$ 12,937	$ —	$ 12,937	$ 0.15
200	$ 26,683	$ —	$ 26,683	$ 0.32
300	$ 40,322	$ —	$ 40,322	$ 0.48

(1) Earnings per share impact calculated based on basic weighted average shares outstanding of 82,519.

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 year ended December 31, 2017, 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 SBA debentures, 2022 Notes, 2024 Notes, 2021 Asset-Backed Notes, 2022 Convertible Notes, and Credit Facilities, that could affect the net increase in net assets resulting from operations, or net income. It also does not assume any repayments from borrowers. Accordingly, no assurances can be given that actual results would not differ materially from the statement above.

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

For additional information regarding the interest rate associated with each of our SBA debentures, 2022 Notes, 2024 Notes, 2021 Asset-Backed Notes, 2022 Convertible Notes, and Credit Facilities, please refer to “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Financial Condition, Liquidity and Capital Resources—Outstanding Borrowings” in this report on Form 10-K.

Item 8. ***Financial Statements and Supplementary Data***

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Hercules Capital, Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated statements of assets and liabilities, including the consolidated schedules of investments, of Hercules Capital, Inc. and its subsidiaries as of December 31, 2017 and 2016, and the related consolidated statements of operations, changes in net assets and cash flows for each of the three years in the period ended December 31, 2017, including the related notes and financial statement schedule listed in the accompanying index (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2017 based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of their operations, changes in their net assets and their cash flows for each of the three years in the period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our procedures included confirmation of securities owned as of December 31, 2017 and 2016 by correspondence with the custodians and portfolio company investees; when replies were not received, we performed other auditing procedures. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
San Francisco, California
February 22, 2018

We have served as the Company's auditor since 2010.

HERCULES CAPITAL, INC.
CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES
(in thousands, except per share data)

	December 31, 2017	December 31, 2016
Assets		
Investments:		
Non-control/Non-affiliate investments (cost of $1,506,454 and $1,475,918, respectively)	$ 1,491,458	$ 1,414,210
Control investments (cost of $25,419 and $22,598, respectively)	19,461	4,700
Affiliate investments (cost of $87,956 and $13,010, respectively)	31,295	5,032
Total investments in securities, at value (cost of $1,619,829 and $1,511,526, respectively)	1,542,214	1,423,942
Cash and cash equivalents	91,309	13,044
Restricted cash	3,686	8,322
Interest receivable	12,262	11,614
Other assets	5,244	7,282
Total assets	$ 1,654,715	$ 1,464,204
Liabilities		
Accounts payable and accrued liabilities	$ 26,896	$ 21,463
Credit Facilities	—	5,016
2021 Asset-Backed Notes, net (principal of $49,153 and $109,205, respectively) (1)	48,650	107,972
Convertible Notes, net (principal of $230,000 and $0, respectively) (1)	223,488	—
2019 Notes, net (principal of $0 and $110,364, respectively) (1)	—	108,818
2022 Notes, net (principal of $150,000 and $0, respectively) (1)	147,572	—
2024 Notes, net (principal of $183,510 and $252,873, respectively) (1)	179,001	245,490
SBA Debentures, net (principal of $190,200 and $190,200, respectively) (1)	188,141	187,501
Total liabilities	$ 813,748	$ 676,260
Commitments and Contingencies (Note 10)		
Net assets consist of:		
Common stock, par value	85	80
Capital in excess of par value	908,501	839,657
Unrealized depreciation on investments (2)	(79,760)	(89,025)
Accumulated undistributed realized gains (losses) on investments	(20,374)	14,314
Undistributed net investment income	32,515	22,918
Total net assets	$ 840,967	$ 787,944
Total liabilities and net assets	$ 1,654,715	$ 1,464,204
Shares of common stock outstanding ($0.001 par value, 200,000,000 authorized)	84,424	79,555
Net asset value per share	$ 9.96	$ 9.90

(1) The Company's 2021 Asset-Backed Notes, Convertible Notes, 2019 Notes, 2022 Notes, 2024 Notes, and SBA debentures, as each term is defined herein, are presented net of the associated debt issuance costs for each instrument. See "Note 4 – Borrowings."

(2) Amounts includes $2.1 million and $1.4 million in net unrealized depreciation on other assets and accrued liabilities, including escrow receivables, and estimated taxes payable liabilities as of December 31, 2017 and 2016, respectively.

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)	December 31, 2017	December 31, 2016
Assets		
Restricted Cash	$ 3,686	$ 8,322
Total investments in securities, at value (cost of $146,208 and $244,695, respectively)	144,513	242,349
Total assets	$ 148,199	$ 250,671
Liabilities		
2021 Asset-Backed Notes, net (principal of $49,153 and $109,205, respectively) (1)	$ 48,650	$ 107,972
Total liabilities	$ 48,650	$ 107,972

(1) The Company's 2021 Asset-Backed Notes are presented net of the associated debt issuance costs. See "Note 4 – Borrowings."

See notes to consolidated financial statements.

HERCULES CAPITAL, INC.
CONSOLIDATED STATEMENT OF OPERATIONS
(in thousands, except per share data)

	For the Year Ended December 31,		
	2017	2016	2015
Investment income:			
Interest and PIK interest income			
Interest income:			
Non-control/Non-affiliate investments	$ 160,131	$ 150,705	$ 135,261
Control investments	1,304	38	—
Affiliate investments	801	160	347
Total interest income	162,236	150,903	135,608
PIK interest income:			
Non-control/Non-affiliate investments	9,293	7,784	4,658
Control investments	667	40	—
Total PIK interest income	9,960	7,824	4,658
Total interest and PIK interest income	172,196	158,727	140,266
Fee income			
Non-control/Non-affiliate investments	18,630	16,318	16,865
Control investments	11	6	—
Affiliate investments	43	—	1
Total fees	18,684	16,324	16,866
Total investment income	190,880	175,051	157,132
Operating expenses:			
Interest	37,857	32,016	30,834
Loan fees	8,728	5,042	6,055
General and administrative:			
Legal expenses	4,572	4,823	3,079
Other expenses	11,533	11,283	13,579
Total general and administrative	16,105	16,106	16,658
Employee compensation:			
Compensation and benefits	24,555	22,500	20,713
Stock-based compensation	7,191	7,043	9,370
Total employee compensation	31,746	29,543	30,083
Total operating expenses	94,436	82,707	83,630
Other income (loss)	—	8,000	(1)
Net investment income	96,444	100,344	73,501
Net realized gain (loss) on investments			
Non-control/Non-affiliate investments	(10,235)	4,576	5,147
Control investments	(16,476)	—	—
Total net realized gain (loss) on investments	(26,711)	4,576	5,147
Net change in unrealized appreciation (depreciation) on investments			
Non-control/Non-affiliate investments	43,796	(29,970)	(36,839)
Control investments	14,152	(4,025)	—
Affiliate investments	(48,683)	(2,222)	1,107
Total net unrealized appreciation (depreciation) on investments	9,265	(36,217)	(35,732)
Total net realized and unrealized loss	(17,446)	(31,641)	(30,585)
Net increase in net assets resulting from operations	$ 78,998	$ 68,703	$ 42,916
Net investment income before investment gains and losses per common share:			
Basic	$ 1.16	$ 1.34	$ 1.04
Change in net assets resulting from operations per common share:			
Basic	$ 0.95	$ 0.91	$ 0.60
Diluted	$ 0.95	$ 0.91	$ 0.59
Weighted average shares outstanding			
Basic	82,519	73,753	69,479
Diluted	82,640	73,775	69,663
Distributions declared per common share:			
Basic	$ 1.24	$ 1.24	$ 1.24

See notes to consolidated financial statements.

HERCULES CAPITAL, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
(dollars and shares in thousands)

	Common Stock		Capital in excess	Unrealized Appreciation (Depreciation)	Accumulated Undistributed Realized Gains (Losses)	Undistributed Net Investment	Provision for Income Taxes on Investment	Net
	Shares	Par Value	of par value	on Investments	on Investments	Income	Gains	Assets
Balance at December 31, 2014	64,715	$ 65	$ 657,233	$ (17,076)	$ 14,079	$ 4,905	$ (342)	$ 658,864
Net increase (decrease) in net assets resulting from operations	—	—	—	(35,732)	5,147	73,501	—	42,916
Public offering, net of offering expenses	7,591	8	100,084	—	—	—	—	100,092
Acquisition of common stock under repurchase plan	(437)	—	(4,644)	—	—	—	—	(4,644)
Issuance of common stock due to stock option exercises	64	—	427	—	—	—	—	427
Retired shares from net issuance	(29)	—	(423)	—	—	—	—	(423)
Issuance of common stock under restricted stock plan	676	1	(1)	—	—	—	—	—
Retired shares for restricted stock vesting	(662)	(1)	(4,566)	—	—	—	—	(4,567)
Distributions reinvested in common stock	200	—	2,446	—	—	—	—	2,446
Distributions	—	—	—	—	(15,327)	(72,111)	—	(87,438)
Stock-based compensation (1)	—	—	9,461	—	—	—	—	9,461
Tax reclassification of stockholders' equity in accordance with generally accepted accounting principles	—	—	(7,773)	—	8,767	(994)	—	—
Balance at December 31, 2015	72,118	$ 73	$ 752,244	$ (52,808)	$ 12,666	$ 5,301	$ (342)	$ 717,134
Net increase (decrease) in net assets resulting from operations	—	$ —	$ —	$ (36,217)	$ 4,576	$ 100,344	$ —	$ 68,703
Public offering, net of offering expenses	7,428	7	92,820	—	—	—	—	92,827
Acquisition of common stock under repurchase plan	(450)	(1)	(4,789)	—	—	—	—	(4,790)
Issuance of common stock due to stock option exercises	55	—	654	—	—	—	—	654
Retired shares from net issuance	(17)	—	(235)	—	—	—	—	(235)
Issuance of common stock under restricted stock plan	556	1	(1)	—	—	—	—	—
Retired shares for restricted stock vesting	(279)	—	(2,944)	—	—	—	—	(2,944)
Distributions reinvested in common stock	144	—	1,799	—	—	—	—	1,799
Distributions	—	—	—	—	(7,962)	(84,371)	—	(92,333)
Stock-based compensation (1)	—	—	7,129	—	—	—	—	7,129
Tax reclassification of stockholders' equity in accordance with generally accepted accounting principles	—	—	(7,020)	—	5,034	1,644	342	—
Balance at December 31, 2016	79,555	$ 80	$ 839,657	$ (89,025)	$ 14,314	$ 22,918	$ —	$ 787,944
Net increase (decrease) in net assets resulting from operations	—	$ —	$ —	$ 9,265	$ (26,711)	$ 96,444	$ —	$ 78,998
Public offering, net of offering expenses	4,919	5	66,930	—	—	—	—	66,935
Issuance of common stock due to stock option exercises	49	—	500	—	—	—	—	500
Retired shares from net issuance	(21)	—	(209)	—	—	—	—	(209)
Issuance of common stock under restricted stock plan	10	—	—	—	—	—	—	—
Retired shares for restricted stock vesting	(252)	—	(2,976)	—	—	—	—	(2,976)
Distributions reinvested in common stock	164	—	2,202	—	—	—	—	2,202
Issuance of Convertible Notes	—	—	3,413	—	—	—	—	3,413
Distributions	—	—	—	—	(14,893)	(88,194)	—	(103,087)
Stock-based compensation (1)	—	—	7,247	—	—	—	—	7,247
Tax reclassification of stockholders' equity in accordance with generally accepted accounting principles	—	—	(8,263)	—	6,916	1,347	—	—
Balance at December 31, 2017	84,424	$ 85	$ 908,501	$ (79,760)	$ (20,374)	$ 32,515	$ —	$ 840,967

(1) Stock-based compensation includes $57, $87 and $90 of restricted stock and option expense related to director compensation for the years ended December 31, 2017, 2016 and 2015, respectively.

See notes to consolidated financial statements.

HERCULES CAPITAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	For the Year Ended December 31,		
	2017	2016	2015
Cash flows from operating activities:			
Net increase in net assets resulting from operations	$ 78,998	$ 68,703	$ 42,916
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by (used in) operating activities:			
Purchase of investments	(764,795)	(680,971)	(712,701)
Principal and fee payments received on investments	641,016	444,758	509,593
Proceeds from the sale of investments	23,881	18,998	17,892
Net unrealized depreciation (appreciation) on investments	(9,265)	36,217	35,732
Net realized loss (gain) on investments	26,711	(4,576)	(5,147)
Accretion of paid-in-kind principal	(9,686)	(7,319)	(4,037)
Accretion of loan discounts	(6,711)	(7,163)	(8,049)
Accretion of loan discount on convertible notes	615	82	246
Loss on debt extinguishment (convertible notes)	—	—	1
Payment of loan discount on convertible notes	—	—	(5)
Accretion of loan exit fees	(19,098)	(22,614)	(14,947)
Change in deferred loan origination revenue	962	347	1,904
Unearned fees related to unfunded commitments	1,048	(758)	(2,064)
Amortization of debt fees and issuance costs	7,492	3,773	5,161
Depreciation	201	202	193
Stock-based compensation and amortization of restricted stock grants (1)	7,247	7,129	9,461
Change in operating assets and liabilities:			
Interest and fees receivable	(648)	(2,375)	213
Prepaid expenses and other assets	(1,097)	3,234	4,826
Accounts payable	(10)	56	(639)
Accrued liabilities	4,739	3,892	5,090
Net cash used in operating activities	(18,400)	(138,385)	(114,361)
Cash flows from investing activities:			
Purchases of capital equipment	(274)	(252)	(187)
Reduction of restricted cash	4,636	869	3,469
Net cash provided by investing activities	4,362	617	3,282
Cash flows from financing activities:			
Issuance of common stock, net	66,935	92,827	100,092
Repurchase of common stock, net	—	(4,790)	(4,645)
Retirement of employee shares	(2,685)	(2,525)	(4,562)
Distributions paid	(100,885)	(90,534)	(84,992)
Issuance of Convertible Notes	230,000	—	—
Issuance of 2022 Notes	150,000	—	—
Issuance of 2024 Notes	5,636	149,873	—
Repayments of 2017 Asset-Backed Notes	—	—	(16,049)
Repayments of 2019 Notes	(110,364)	—	(60,000)
Repayments of 2021 Asset-Backed Notes	(60,053)	(20,095)	—
Repayments of 2024 Notes	(75,000)	—	—
Borrowings of credit facilities	8,497	285,891	138,689
Repayments of credit facilities	(13,513)	(330,877)	(88,689)
Cash paid for debt issuance costs	(6,342)	(5,289)	—
Cash paid for redemption of convertible notes	—	(17,604)	(65)
Fees paid for credit facilities and debentures	77	(1,261)	(620)
Net cash provided by (used in) financing activities	92,303	55,616	(20,841)
Net increase (decrease) in cash and cash equivalents	78,265	(82,152)	(131,920)
Cash and cash equivalents at beginning of period	13,044	95,196	227,116
Cash and cash equivalents at end of period	$ 91,309	$ 13,044	$ 95,196
Supplemental non-cash investing and financing activities:			
Interest paid	$ 33,579	$ 31,011	$ 30,527
Income taxes paid	$ 1,076	$ 184	$ 973
Distributions reinvested	$ 2,202	$ 1,799	$ 2,446

(1) Stock-based compensation includes $57, $87 and $90 of restricted stock and option expense related to director compensation for the years ended December 31, 2017, 2016 and 2015, respectively.

See notes to consolidated financial statements.

HERCULES CAPITAL, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS
December 31, 2017
(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment(1)	Maturity Date	Interest Rate and Floor(2)	Principal Amount	Cost(3)	Value(4)
Debt Investments							
Biotechnology Tools							
1-5 Years Maturity							
Exicure, Inc. (12)	Biotechnology Tools	Senior Secured	September 2019	Interest rate PRIME + 6.45% or Floor rate of 9.95%, 3.85% Exit Fee	$ 4,999	$ 5,115	$ 5,146
Subtotal: 1-5 Years Maturity						5,115	5,146
Subtotal: Biotechnology Tools (0.61%)*						5,115	5,146
Communications & Networking							
Under 1 Year Maturity							
OpenPeak, Inc. (8)	Communications & Networking	Senior Secured	April 2018	Interest rate PRIME + 8.75% or Floor rate of 12.00%	$ 11,464	8,228	—
Subtotal: Under 1 Year Maturity						8,228	—
Subtotal: Communications & Networking (0.00%)*						8,228	—
Consumer & Business Products							
Under 1 Year Maturity							
Antenna79 (p.k.a. Pong Research Corporation) (15)	Consumer & Business Products	Senior Secured	December 2018	Interest rate PRIME + 6.00% or Floor rate of 9.50%	$ 1,000	1,000	1,000
Subtotal: Under 1 Year Maturity						1,000	1,000
1-5 Years Maturity							
Antenna79 (p.k.a. Pong Research Corporation) (15)	Consumer & Business Products	Senior Secured	December 2019	Interest rate PRIME + 7.45% or Floor rate of 10.95%, 2.95% Exit Fee	$ 18,440	18,580	18,571
Second Time Around (Simplify Holdings, LLC) (7)(8)(15)	Consumer & Business Products	Senior Secured	February 2019	Interest rate PRIME + 7.25% or Floor rate of 10.75%, 4.75% Exit Fee	$ 1,746	1,781	—
Subtotal: 1-5 Years Maturity						20,361	18,571
Subtotal: Consumer & Business Products (2.33%)*						21,361	19,571
Drug Delivery							
Under 1 Year Maturity							
Agile Therapeutics, Inc. (11)	Drug Delivery	Senior Secured	December 2018	Interest rate PRIME + 4.75% or Floor rate of 9.00%, 3.70% Exit Fee	$ 10,888	11,292	11,292
Pulmatrix Inc. (9)(11)	Drug Delivery	Senior Secured	July 2018	Interest rate PRIME + 6.25% or Floor rate of 9.50%, 3.50% Exit Fee	$ 3,259	3,455	3,455
ZP Opco, Inc (p.k.a. Zosano Pharma) (11)	Drug Delivery	Senior Secured	December 2018	Interest rate PRIME + 2.70% or Floor rate of 7.95%, 2.87% Exit Fee	$ 6,316	6,609	6,609
Subtotal: Under 1 Year Maturity						21,356	21,356
1-5 Years Maturity							
AcelRx Pharmaceuticals, Inc. (10)(11)(15)	Drug Delivery	Senior Secured	March 2020	Interest rate PRIME + 6.05% or Floor rate of 9.55%, 11.69% Exit Fee	$ 18,653	18,925	18,875
Antares Pharma Inc. (10)(15)	Drug Delivery	Senior Secured	July 2022	Interest rate PRIME + 4.50% or Floor rate of 9.00%, 4.25% Exit Fee	$ 25,000	25,006	24,958
Edge Therapeutics, Inc. (12)	Drug Delivery	Senior Secured	February 2020	Interest rate PRIME + 4.65% or Floor rate of 9.15%, 4.95% Exit Fee	$ 20,000	20,377	20,331
Subtotal: 1-5 Years Maturity						64,308	64,164
Subtotal: Drug Delivery (10.17%)*						85,664	85,520

See notes to consolidated financial statements.

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment(1)	Maturity Date	Interest Rate and Floor(2)	Principal Amount	Cost(3)	Value(4)
Drug Discovery & Development							
Under 1 Year Maturity							
CytRx Corporation (11)(15)	Drug Discovery & Development	Senior Secured	August 2018	Interest rate PRIME + 6.00% or Floor rate of 9.50%, 7.09% Exit Fee	$ 9,986	$ 11,172	$ 11,172
Epirus Biopharmaceuticals, Inc. (8)	Drug Discovery & Development	Senior Secured	April 2018	Interest rate PRIME + 4.70% or Floor rate of 7.95%, 3.00% Exit Fee	$ 3,027	3,310	340
Subtotal: Under 1 Year Maturity						14,482	11,512
1-5 Years Maturity							
Auris Medical Holding, AG (5)(10)	Drug Discovery & Development	Senior Secured	January 2020	Interest rate PRIME + 6.05% or Floor rate of 9.55%, 5.75% Exit Fee	$ 10,341	10,610	10,563
Aveo Pharmaceuticals, Inc. (10)(13)	Drug Discovery & Development	Senior Secured	July 2021	Interest rate PRIME + 4.70% or Floor rate of 9.45%, 5.40% Exit Fee	$ 10,000	10,345	10,344
	Drug Discovery & Development	Senior Secured	July 2021	Interest rate PRIME + 4.70% or Floor rate of 9.45%, 3.00% Exit Fee	$ 10,000	9,918	9,915
Total Aveo Pharmaceuticals, Inc.					$ 20,000	20,263	20,259
Axovant Sciences Ltd. (5)(10)	Drug Discovery & Development	Senior Secured	March 2021	Interest rate PRIME + 6.80% or Floor rate of 10.55%	$ 55,000	53,631	53,448
Brickell Biotech, Inc. (12)	Drug Discovery & Development	Senior Secured	September 2019	Interest rate PRIME + 5.70% or Floor rate of 9.20%, 6.75% Exit Fee	$ 6,090	6,380	6,361
Chemocentryx, Inc. (10)(15)(17)	Drug Discovery & Development	Senior Secured	December 2021	Interest rate PRIME + 3.30% or Floor rate of 8.05%, 6.25% Exit Fee	$ 5,000	4,947	4,947
Genocea Biosciences, Inc. (11)	Drug Discovery & Development	Senior Secured	January 2019	Interest rate PRIME + 2.25% or Floor rate of 7.25%, 4.95% Exit Fee	$ 13,851	14,482	14,385
Insmed, Incorporated (11)	Drug Discovery & Development	Senior Secured	October 2020	Interest rate PRIME + 4.75% or Floor rate of 9.25%, 4.86% Exit Fee	$ 55,000	55,425	54,963
Metuchen Pharmaceuticals LLC (12)(14)	Drug Discovery & Development	Senior Secured	October 2020	Interest rate PRIME + 7.25% or Floor rate of 10.75%, PIK Interest 1.35%, 2.25% Exit Fee	$ 25,561	25,721	25,643
Motif BioSciences Inc. (15)	Drug Discovery & Development	Senior Secured	September 2021	Interest rate PRIME + 5.50% or Floor rate of 10.00%, 2.15% Exit Fee	$ 15,000	14,651	14,651
Myovant Sciences, Ltd. (5)(10)(13)(17)	Drug Discovery & Development	Senior Secured	May 2021	Interest rate PRIME + 4.00% or Floor rate of 8.25%, 6.55% Exit Fee	$ 25,000	24,704	24,704
Paratek Pharmaceuticals, Inc. (p.k.a. Transcept Pharmaceuticals, Inc.) (15)	Drug Discovery & Development	Senior Secured	September 2020	Interest rate PRIME + 2.75% or Floor rate of 8.50%, 4.50% Exit Fee	$ 40,000	40,144	39,829
	Drug Discovery & Development	Senior Secured	September 2020	Interest rate PRIME + 2.75% or Floor rate of 8.50%, 4.50% Exit Fee	$ 10,000	10,040	9,958
	Drug Discovery & Development	Senior Secured	September 2020	Interest rate PRIME + 2.75% or Floor rate of 8.50%, 2.25% Exit Fee	$ 10,000	9,964	9,895
Total Paratek Pharmaceuticals, Inc. (p.k.a. Transcept Pharmaceuticals, Inc.)					$ 60,000	60,148	59,682
PhaseRx, Inc. (15)	Drug Discovery & Development	Senior Secured	December 2019	Interest rate PRIME + 5.75% or Floor rate of 9.25%, 5.85% Exit Fee	$ 4,694	4,842	1,917
Stealth Bio Therapeutics Corp. (5)(10)(12)	Drug Discovery & Development	Senior Secured	January 2021	Interest rate PRIME + 5.50% or Floor rate of 9.50%, 5.00% Exit Fee	$ 15,000	14,898	14,847
uniQure B.V. (5)(10)(11)	Drug Discovery & Development	Senior Secured	May 2020	Interest rate PRIME + 3.00% or Floor rate of 8.25%, 5.48% Exit Fee	$ 20,000	20,579	20,543
Verastem, Inc. (12)(17)	Drug Discovery & Development	Senior Secured	December 2020	Interest rate PRIME + 6.00% or Floor rate of 10.50%, 4.50% Exit Fee	$ 5,000	4,957	4,910
	Drug Discovery & Development	Senior Secured	December 2020	Interest rate PRIME + 6.00% or Floor rate of 10.50%, 4.50% Exit Fee	$ 5,000	4,996	4,949
	Drug Discovery & Development	Senior Secured	December 2020	Interest rate PRIME + 6.00% or Floor rate of 10.50%, 4.50% Exit Fee	$ 5,000	4,953	4,907
Total Verastem, Inc.					$ 15,000	14,906	14,766
Subtotal: 1-5 Years Maturity						346,187	341,679
Subtotal: Drug Discovery & Development (42.00%)*						360,669	353,191

See notes to consolidated financial statements.

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment(1)	Maturity Date	Interest Rate and Floor(2)	Principal Amount	Cost(3)	Value(4)
Electronics & Computer Hardware							
1-5 Years Maturity							
908 DEVICES INC. (15)	Electronics & Computer Hardware	Senior Secured	September 2020	Interest rate PRIME + 4.00% or Floor rate of 8.25%, 4.25% Exit Fee	$ 10,000	$ 10,014	$ 9,887
Subtotal: 1-5 Years Maturity						10,014	9,887
Subtotal: Electronics & Computer Hardware (1.18%)*						10,014	9,887
Healthcare Services, Other							
1-5 Years Maturity							
Medsphere Systems Coporation (14)(15)	Healthcare Services, Other	Senior Secured	February 2021	Interest rate PRIME + 4.75% or Floor rate of 9.00%, PIK Interest 1.75%	$ 17,607	17,437	17,437
	Healthcare Services, Other	Senior Secured	February 2021	Interest rate PRIME + 4.75% or Floor rate of 9.00%, PIK Interest 1.75%	$ 5,009	4,963	4,963
Total Medsphere Systems Coporation					$ 22,616	22,400	22,400
Oak Street Health (12)	Healthcare Services, Other	Senior Secured	September 2021	Interest rate PRIME + 5.00% or Floor rate of 9.75%, 5.95% Exit Fee	$ 20,000	19,965	19,965
PH Group Holdings (13)	Healthcare Services, Other	Senior Secured	September 2020	Interest rate PRIME + 7.45% or Floor rate of 10.95%	$ 20,000	19,878	19,803
	Healthcare Services, Other	Senior Secured	September 2020	Interest rate PRIME + 7.45% or Floor rate of 10.95%	$ 10,000	9,922	9,840
Total PH Group Holdings					$ 30,000	29,800	29,643
Subtotal: 1-5 Years Maturity						—	—
Subtotal: Healthcare Services, Other (8.56%)*						72,165	72,008
Information Services							
1-5 Years Maturity							
MDX Medical, Inc. (14)(15)(17)	Information Services	Senior Secured	December 2020	Interest rate PRIME + 4.25% or Floor rate of 8.25%, PIK Interest 1.70%	$ 7,568	7,369	7,327
Netbase Solutions, Inc. (13)(14)	Information Services	Senior Secured	August 2020	Interest rate PRIME + 6.00% or Floor rate of 10.00%, PIK Interest 2.00%, 3.00% Exit Fee	$ 9,051	8,730	8,730
Subtotal: 1-5 Years Maturity						16,099	16,057
Subtotal: Information Services (1.91%)*						16,099	16,057

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Portfolio Company	Sub-Industry	Type of Investment(1)	Maturity Date	Interest Rate and Floor(2)	Principal Amount	Cost(3)	Value(4)
Internet Consumer & Business Services							
1-5 Years Maturity							
AppDirect, Inc.	Internet Consumer & Business Services	Senior Secured	January 2022	Interest rate PRIME + 5.70% or Floor rate of 9.95%, 3.45% Exit Fee	$ 10,000	$ 9,885	$ 9,885
Aria Systems, Inc. (11)(14)	Internet Consumer & Business Services	Senior Secured	June 2019	Interest rate PRIME + 3.20% or Floor rate of 6.95%, PIK Interest 1.95%, 1.50% Exit Fee	$ 2,103	2,104	1,803
	Internet Consumer & Business Services	Senior Secured	June 2019	Interest rate PRIME + 5.20% or Floor rate of 8.95%, PIK Interest 1.95%, 1.50% Exit Fee	$ 18,832	18,839	16,144
Total Aria Systems, Inc.					$ 20,935	20,943	17,947
Greenphire Inc.	Internet Consumer & Business Services	Senior Secured	January 2021	Interest rate 3-month LIBOR + 8.00% or Floor rate of 9.00%	$ 3,883	3,883	3,883
	Internet Consumer & Business Services	Senior Secured	January 2021	Interest rate PRIME + 3.75% or Floor rate of 7.00%	$ 1,000	1,000	1,000
Total Greenphire Inc.					$ 4,883	4,883	4,883
Intent Media, Inc. (14)(15)	Internet Consumer & Business Services	Senior Secured	May 2019	Interest rate PRIME + 5.25% or Floor rate of 8.75%, PIK Interest 1.00%, 2.00% Exit Fee	$ 5,050	5,011	5,027
	Internet Consumer & Business Services	Senior Secured	May 2019	Interest rate PRIME + 5.50% or Floor rate of 9.00%, PIK Interest 2.35%, 2.00% Exit Fee	$ 2,020	1,987	1,991
	Internet Consumer & Business Services	Senior Secured	May 2019	Interest rate PRIME + 5.50% or Floor rate of 9.00%, PIK Interest 2.50%, 2.00% Exit Fee	$ 2,022	1,988	1,992
Total Intent Media, Inc.					$ 9,092	8,986	9,010
Interactions Corporation	Internet Consumer & Business Services	Senior Secured	March 2021	Interest rate 3-month LIBOR + 8.60% or Floor rate of 9.85%, 1.75% Exit Fee	$ 25,000	25,013	25,013
LogicSource (15)	Internet Consumer & Business Services	Senior Secured	October 2019	Interest rate PRIME + 6.25% or Floor rate of 9.75%, 5.00% Exit Fee	$ 6,452	6,701	6,726
Snagajob.com, Inc. (13)(14)	Internet Consumer & Business Services	Senior Secured	July 2020	Interest rate PRIME + 5.15% or Floor rate of 9.15%, PIK Interest 1.95%, 2.55% Exit Fee	$ 41,023	40,633	41,036
Tectura Corporation (7)(8)(9)(14)	Internet Consumer & Business Services	Senior Secured	June 2021	Interest rate FIXED 6.00%, PIK Interest 3.00%	$ 20,298	20,298	19,219
	Internet Consumer & Business Services	Senior Secured	June 2021	PIK Interest 8.00%	$ 11,015	240	—
Total Tectura Corporation					$ 31,313	20,538	19,219
The Faction Group	Internet Consumer & Business Services	Senior Secured	January 2021	Interest rate 3-month LIBOR + 9.25% or Floor rate of 10.25%	$ 8,000	8,000	8,000
	Internet Consumer & Business Services	Senior Secured	January 2019	Interest rate PRIME + 4.75% or Floor rate of 8.25%	$ 2,000	2,000	2,000
Total The Faction Group					$ 10,000	10,000	10,000
Subtotal: 1-5 Years Maturity						147,582	143,719
Subtotal: Internet Consumer & Business Services (17.09%)*						147,582	143,719
Media/Content/Info							
Under 1 Year Maturity							
Machine Zone, Inc. (14)(16)	Media/Content/Info	Senior Secured	May 2018	Interest rate PRIME + 2.50% or Floor rate of 6.75%, PIK Interest 3.00%	$ 106,986	106,641	106,641
Subtotal: Under 1 Year Maturity						106,641	106,641
1-5 Years Maturity							
Bustle (14)(15)	Media/Content/Info	Senior Secured	June 2021	Interest rate PRIME + 4.10% or Floor rate of 8.35%, PIK Interest 1.95%, 1.95% Exit Fee	$ 15,016	14,935	14,935
FanDuel, Inc. (9)(12)(14)	Media/Content/Info	Senior Secured	November 2019	Interest rate PRIME + 7.25% or Floor rate of 10.75%, 10.41% Exit Fee	$ 19,354	19,762	19,695
	Media/Content/Info	Convertible Debt	September 2020	PIK Interest 25.00%	$ 1,000	1,000	1,000
Total FanDuel, Inc.					$ 20,354	20,762	20,695
Subtotal: 1-5 Years Maturity						35,697	35,630
Subtotal: Media/Content/Info (16.92%)*						142,338	142,271

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Portfolio Company	Sub-Industry	Type of Investment(1)	Maturity Date	Interest Rate and Floor(2)	Principal Amount	Cost(3)	Value(4)
Medical Devices & Equipment							
Under 1 Year Maturity							
Amedica Corporation (9)(15)	Medical Devices & Equipment	Senior Secured	January 2018	Interest rate PRIME + 7.70% or Floor rate of 10.95%, 8.25% Exit Fee	$ 605	$ 2,255	$ 2,255
Aspire Bariatrics, Inc. (15)	Medical Devices & Equipment	Senior Secured	October 2018	Interest rate PRIME + 4.00% or Floor rate of 9.25%, 5.42% Exit Fee	$ 2,527	2,848	2,848
Subtotal: Under 1 Year Maturity						5,103	5,103
1-5 Years Maturity							
IntegenX, Inc. (15)	Medical Devices & Equipment	Senior Secured	June 2019	Interest rate PRIME + 6.05% or Floor rate of 10.05%, 6.75% Exit Fee	$ 12,500	13,042	12,991
	Medical Devices & Equipment	Senior Secured	June 2019	Interest rate PRIME + 6.05% or Floor rate of 10.05%, 6.75% Exit Fee	$ 2,500	2,599	2,598
	Medical Devices & Equipment	Senior Secured	June 2019	Interest rate PRIME + 6.05% or Floor rate of 10.05%, 9.75% Exit Fee	$ 2,500	2,618	2,601
Total IntegenX, Inc.					$ 17,500	18,259	18,190
Intuity Medical, Inc. (15)	Medical Devices & Equipment	Senior Secured	June 2021	Interest rate PRIME + 5.00% or Floor rate of 9.25%, 4.95% Exit Fee	$ 17,500	17,013	17,013
Micell Technologies, Inc. (12)	Medical Devices & Equipment	Senior Secured	August 2019	Interest rate PRIME + 7.25% or Floor rate of 10.50%, 5.00% Exit Fee	$ 5,469	5,744	5,708
Quanta Fluid Solutions (5)(10)(11)	Medical Devices & Equipment	Senior Secured	April 2020	Interest rate PRIME + 8.05% or Floor rate of 11.55%, 5.00% Exit Fee	$ 10,117	10,432	10,386
Quanterix Corporation (11)	Medical Devices & Equipment	Senior Secured	March 2019	Interest rate PRIME + 2.75% or Floor rate of 8.00%, 4.00% Exit Fee	$ 9,043	9,477	9,477
Sebacia, Inc. (15)	Medical Devices & Equipment	Senior Secured	July 2020	Interest rate PRIME + 4.35% or Floor rate of 8.85%, 6.05% Exit Fee	$ 8,000	7,927	7,919
Tela Bio, Inc. (15)	Medical Devices & Equipment	Senior Secured	December 2020	Interest rate PRIME + 4.95% or Floor rate of 9.45%, 3.15% Exit Fee	$ 5,000	4,991	4,973
Subtotal: 1-5 Years Maturity						73,843	73,666
Subtotal: Medical Devices & Equipment (9.37%)*						78,946	78,769
Semiconductors							
1-5 Years Maturity							
Achronix Semiconductor Corporation (15)(17)	Semiconductors	Senior Secured	August 2020	Interest rate PRIME + 7.00% or Floor rate of 11.00%, 12.50% Exit Fee	$ 5,000	5,084	5,100
	Semiconductors	Senior Secured	February 2019	Interest rate PRIME + 6.00% or Floor rate of 10.00%	$ 4,274	4,274	4,273
Total Achronix Semiconductor Corporation					$ 9,274	9,358	9,373
Subtotal: 1-5 Years Maturity						9,358	9,373
Subtotal: Semiconductors (1.11%)*						9,358	9,373

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Portfolio Company	Sub-Industry	Type of Investment(1)	Maturity Date	Interest Rate and Floor(2)	Principal Amount	Cost(3)	Value(4)
Software							
Under 1 Year Maturity							
Clickfox, Inc. (13)	Software	Senior Secured	May 2018	Interest rate PRIME + 8.00% or Floor rate of 11.50%, 12.01% Exit Fee	$ 6,378	$ 7,671	$ 7,671
Digital Train Limited (p.k.a. Jumpstart Games, Inc.) (15)	Software	Senior Secured	July 2018	Interest rate 12-month LIBOR + 2.50%	$ 5,671	5,671	4,073
Subtotal: Under 1 Year Maturity						13,342	11,744
1-5 Years Maturity							
Clarabridge, Inc. (12)(14)	Software	Senior Secured	April 2021	Interest rate PRIME + 4.80% or Floor rate of 8.55%, PIK Interest 3.25%	$ 40,893	40,870	41,063
Emma, Inc.	Software	Senior Secured	September 2022	Interest rate daily LIBOR + 7.75% or Floor rate of 8.75%	$ 50,000	48,565	48,565
Evernote Corporation (14)(15)(17)	Software	Senior Secured	October 2020	Interest rate PRIME + 5.45% or Floor rate of 8.95%	$ 6,000	5,974	6,100
	Software	Senior Secured	July 2021	Interest rate PRIME + 6.00% or Floor rate of 9.50%, PIK Interest 1.25%	$ 4,023	3,999	3,992
Total Evernote Corporation					$ 10,023	9,973	10,092
Fuze, Inc. (13)(14)(15)	Software	Senior Secured	July 2021	Interest rate PRIME + 3.70% or Floor rate of 7.95%, PIK Interest 1.55%, 3.55% Exit Fee	$ 50,332	50,464	50,420
Impact Radius Holdings, Inc. (14)(17)	Software	Senior Secured	December 2020	Interest rate PRIME + 4.25% or Floor rate of 8.75%, PIK Interest 1.55%, 1.75% Exit Fee	$ 7,544	7,552	7,498
Lithium Technologies, Inc. (17)	Software	Senior Secured	October 2022	Interest rate 1-month LIBOR + 8.00% or Floor rate of 9.00%	$ 12,000	11,740	11,740
Microsystems Holding Company, LLC	Software	Senior Secured	July 2022	Interest rate 3-month LIBOR + 8.25% or Floor rate of 9.25%	$ 12,000	11,821	11,821
OneLogin, Inc. (14)(15)	Software	Senior Secured	August 2019	Interest rate PRIME + 6.45% or Floor rate of 9.95%, PIK Interest 3.25%	$ 15,883	15,811	16,071
PerfectServe, Inc.	Software	Senior Secured	April 2021	Interest rate 3-month LIBOR + 9.00% or Floor rate of 10.00%, 2.50% Exit Fee	$ 16,000	16,023	16,023
	Software	Senior Secured	April 2021	Interest rate 3-month LIBOR + 9.00% or Floor rate of 10.00%, 2.50% Exit Fee	$ 4,000	4,005	4,005
Total PerfectServe, Inc.					$ 20,000	20,028	20,028
Pollen, Inc. (15)	Software	Senior Secured	April 2019	Interest rate PRIME + 4.25% or Floor rate of 8.50%, 4.00% Exit Fee	$ 7,000	6,964	6,964
Poplicus, Inc. (8)(14)	Software	Senior Secured	May 2022	Interest rate FIXED 6.00%, PIK Interest 3.00%	$ 1,250	1,250	—
Quid, Inc. (14)(15)	Software	Senior Secured	October 2019	Interest rate PRIME + 4.75% or Floor rate of 8.25%, PIK Interest 2.25%, 3.00% Exit Fee	$ 8,303	8,397	8,430
RapidMiner, Inc. (14)	Software	Senior Secured	December 2020	Interest rate PRIME + 5.50% or Floor rate of 9.75%, PIK Interest 1.65%	$ 7,001	6,971	6,971
Regent Education (14)	Software	Senior Secured	January 2021	Interest rate FIXED 10.00%, PIK Interest 2.00%, 6.35% Exit Fee	$ 3,285	3,291	3,291
Signpost, Inc. (14)	Software	Senior Secured	February 2020	Interest rate PRIME + 4.15% or Floor rate of 8.15%, PIK Interest 1.75%, 3.75% Exit Fee	$ 15,510	15,603	15,685
Vela Trading Technologies	Software	Senior Secured	July 2022	Interest rate daily LIBOR + 9.50% or Floor rate of 10.50%	$ 20,000	19,495	19,557
Wrike, Inc. (14)(17)	Software	Senior Secured	February 2021	Interest rate PRIME + 6.00% or Floor rate of 9.50%, PIK Interest 2.00%, 3.00% Exit Fee	$ 10,165	9,971	10,007
ZocDoc	Software	Senior Secured	April 2021	Interest rate 3-month LIBOR + 9.50% or Floor rate of 10.50%, 1.00% Exit Fee	$ 20,000	20,011	20,011
	Software	Senior Secured	November 2021	Interest rate 3-month LIBOR + 9.50% or Floor rate of 10.50%, 1.00% Exit Fee	$ 10,000	10,005	10,005
Total ZocDoc					$ 30,000	30,016	30,016
Subtotal: 1-5 Years Maturity						318,782	318,219
Subtotal: Software (39.24%)*						332,124	329,963

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Portfolio Company	Sub-Industry	Type of Investment(1)	Maturity Date	Interest Rate and Floor(2)	Principal Amount	Cost(3)	Value(4)
Specialty Pharmaceuticals							
Under 1 Year Maturity							
Jaguar Animal Health, Inc. (11)	Specialty Pharmaceuticals	Senior Secured	August 2018	Interest rate PRIME + 5.65% or Floor rate of 9.90%, 7.00% Exit Fee	$ 1,089	$ 1,496	$ 1,496
Subtotal: Under 1 Year Maturity						1,496	1,496
1-5 Years Maturity							
Alimera Sciences, Inc. (11)(14)	Specialty Pharmaceuticals	Senior Secured	November 2020	Interest rate PRIME + 7.50% or Floor rate of 11.00%, PIK Interest 1.00%, 4.00% Exit Fee	$ 35,398	35,517	35,517
Subtotal: 1-5 Years Maturity						35,517	35,517
Subtotal: Specialty Pharmaceuticals (4.40%)*						37,013	37,013
Surgical Devices							
1-5 Years Maturity							
Transmedics, Inc. (13)	Surgical Devices	Senior Secured	February 2020	Interest rate PRIME + 5.30% or Floor rate of 9.55%, 6.70% Exit Fee	$ 8,500	8,756	8,757
Subtotal: 1-5 Years Maturity						8,756	8,757
Subtotal: Surgical Devices (1.04%)*						8,756	8,757
Sustainable and Renewable Technology							
Under 1 Year Maturity							
FuelCell Energy, Inc. (12)	Sustainable and Renewable Technology	Senior Secured	October 2018	Interest rate PRIME + 5.50% or Floor rate of 9.50%, 8.50% Exit Fee	$ 16,806	18,190	18,190
Kinestral Technologies Inc.	Sustainable and Renewable Technology	Senior Secured	October 2018	Interest rate 3-month LIBOR + 7.75% or Floor rate of 8.75%, 3.23% Exit Fee	$ 3,867	3,882	3,882
Subtotal: Under 1 Year Maturity						22,072	22,072
1-5 Years Maturity							
ChargePoint Inc.	Sustainable and Renewable Technology	Senior Secured	August 2020	Interest rate 3-month LIBOR + 8.75% or Floor rate of 9.75%, 2.00% Exit Fee	$ 19,394	19,416	19,416
Solar Spectrum Holdings LLC (p.k.a. Sungevity, Inc.) (6)	Sustainable and Renewable Technology	Senior Secured	August 2019	Interest rate PRIME + 8.70% or Floor rate of 12.95%, 4.50% Exit Fee	$ 14,000	13,604	13,604
Proterra, Inc. (11)(14)(17)	Sustainable and Renewable Technology	Senior Secured	November 2020	Interest rate PRIME + 3.70% or Floor rate of 7.95%, PIK Interest 1.75%, 5.95% Exit Fee	$ 25,036	25,997	26,097
	Sustainable and Renewable Technology	Senior Secured	November 2020	Interest rate PRIME + 3.70% or Floor rate of 7.95%, PIK Interest 1.75%, 7.00% Exit Fee	$ 5,007	5,173	5,190
Total Proterra, Inc.					$ 30,043	31,170	31,287
Rive Technology, Inc. (15)	Sustainable and Renewable Technology	Senior Secured	January 2019	Interest rate PRIME + 6.20% or Floor rate of 9.45%, 4.00% Exit Fee	$ 4,258	4,498	4,515
Tendril Networks (12)	Sustainable and Renewable Technology	Senior Secured	June 2019	Interest rate FIXED 9.25%, 8.50% Exit Fee	$ 13,156	13,863	13,845
Subtotal: 1-5 Years Maturity						82,551	82,667
Subtotal: Sustainable and Renewable Technology (12.45%)*						104,623	104,739
Total: Debt Investments (168.38%)*						**1,440,055**	**1,415,984**

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Portfolio Company	Sub-Industry	Type of Investment (1)	Series	Shares	Cost (3)	Value (4)
Equity Investments						
Biotechnology Tools						
NuGEN Technologies, Inc. (15)	Biotechnology Tools	Equity	Common Stock	55,780	$ 500	$ —
Subtotal: Biotechnology Tools (0.00%)*					500	—
Communications & Networking						
Achilles Technology Management Co II, Inc. (7)(15)	Communications & Networking	Equity	Common Stock	100	3,100	242
GlowPoint, Inc. (4)	Communications & Networking	Equity	Common Stock	114,192	102	41
Peerless Network Holdings, Inc.	Communications & Networking	Equity	Preferred Series A	1,000,000	1,000	5,865
Subtotal: Communications & Networking (0.73%)*					4,202	6,148
Diagnostic						
Singulex, Inc.	Diagnostic	Equity	Common Stock	937,998	750	720
Subtotal: Diagnostic (0.09%)*					750	720
Drug Delivery						
AcelRx Pharmaceuticals, Inc. (4)(10)	Drug Delivery	Equity	Common Stock	54,240	108	109
BioQ Pharma Incorporated (15)	Drug Delivery	Equity	Preferred Series D	165,000	500	826
Edge Therapeutics, Inc. (4)	Drug Delivery	Equity	Common Stock	49,965	309	468
Neos Therapeutics, Inc. (4)(15)	Drug Delivery	Equity	Common Stock	125,000	1,500	1,275
Subtotal: Drug Delivery (0.32%)*					2,417	2,678
Drug Discovery & Development						
Aveo Pharmaceuticals, Inc. (4)(10)(15)	Drug Discovery & Development	Equity	Common Stock	1,901,791	1,715	5,315
Axovant Sciences Ltd. (4)(5)(10)	Drug Discovery & Development	Equity	Common Stock	129,827	1,270	707
Cerecor, Inc. (4)	Drug Discovery & Development	Equity	Common Stock	119,087	1,000	381
Dare Biosciences, Inc. (p.k.a. Cerulean Pharma, Inc.) (4)	Drug Discovery & Development	Equity	Common Stock	13,550	1,000	29
Dicerna Pharmaceuticals, Inc. (4)(15)	Drug Discovery & Development	Equity	Common Stock	142,858	1,000	1,290
Dynavax Technologies (4)(10)	Drug Discovery & Development	Equity	Common Stock	20,000	550	374
Epirus Biopharmaceuticals, Inc. (4)	Drug Discovery & Development	Equity	Common Stock	200,000	1,000	—
Genocea Biosciences, Inc. (4)	Drug Discovery & Development	Equity	Common Stock	223,463	2,000	259
Inotek Pharmaceuticals Corporation (4)	Drug Discovery & Development	Equity	Common Stock	3,778	1,500	10
Insmed, Incorporated (4)	Drug Discovery & Development	Equity	Common Stock	70,771	1,000	2,154
Melinta Therapeutics (4)	Drug Discovery & Development	Equity	Common Stock	43,840	2,000	693
Paratek Pharmaceuticals, Inc. (p.k.a. Transcept Pharmaceuticals, Inc.) (4)	Drug Discovery & Development	Equity	Common Stock	76,362	2,743	1,367
Subtotal: Drug Discovery & Development (1.50%)*					16,778	12,579
Electronics & Computer Hardware						
Identiv, Inc. (4)	Electronics & Computer Hardware	Equity	Common Stock	6,700	34	22
Subtotal: Electronics & Computer Hardware (0.00%)*					34	22
Information Services						
DocuSign, Inc.	Information Services	Equity	Common Stock	385,000	6,081	8,011
Subtotal: Information Services (0.95%)*					6,081	8,011

See notes to consolidated financial statements.

HERCULES CAPITAL, INC.
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(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment (1)	Series	Shares	Cost (3)	Value (4)
Internet Consumer & Business Services						
Blurb, Inc. (15)	Internet Consumer & Business Services	Equity	Preferred Series B	220,653	$ 175	$ 46
Brigade Group, Inc. (p.k.a. Philotic, Inc.)	Internet Consumer & Business Services	Equity	Common Stock	9,023	93	—
Lightspeed POS, Inc. (5)(10)	Internet Consumer & Business Services	Equity	Preferred Series C	230,030	250	233
	Internet Consumer & Business Services	Equity	Preferred Series D	198,677	250	213
Total Lightspeed POS, Inc.				428,707	500	446
OfferUp, Inc.	Internet Consumer & Business Services	Equity	Preferred Series A	286,080	1,663	2,236
	Internet Consumer & Business Services	Equity	Preferred Series A-1	108,710	632	850
Total OfferUp, Inc.				394,790	2,295	3,086
Oportun (p.k.a. Progress Financial)	Internet Consumer & Business Services	Equity	Preferred Series G	218,351	250	451
	Internet Consumer & Business Services	Equity	Preferred Series H	87,802	250	255
Total Oportun (p.k.a. Progress Financial)				306,153	500	706
RazorGator Interactive Group, Inc.	Internet Consumer & Business Services	Equity	Preferred Series AA	34,783	15	49
Tectura Corporation (7)	Internet Consumer & Business Services	Equity	Preferred Series BB	1,000,000	—	—
Subtotal: Internet Consumer & Business Services (0.52%)*					3,578	4,333
Media/Content/Info						
Pinterest, Inc.	Media/Content/Info	Equity	Preferred Series Seed	620,000	4,085	5,055
Subtotal: Media/Content/Info (0.60%)*					4,085	5,055
Medical Devices & Equipment						
AtriCure, Inc. (4)(15)	Medical Devices & Equipment	Equity	Common Stock	7,536	266	138
Flowonix Medical Incorporated	Medical Devices & Equipment	Equity	Preferred Series AA	221,893	1,500	—
Gelesis, Inc. (15)	Medical Devices & Equipment	Equity	Common Stock	198,202	—	879
	Medical Devices & Equipment	Equity	Preferred Series A-1	191,210	425	939
	Medical Devices & Equipment	Equity	Preferred Series A-2	191,626	500	894
Total Gelesis, Inc.				581,038	925	2,712
Medrobotics Corporation (15)	Medical Devices & Equipment	Equity	Preferred Series E	136,798	250	302
	Medical Devices & Equipment	Equity	Preferred Series F	73,971	155	225
	Medical Devices & Equipment	Equity	Preferred Series G	163,934	500	532
Total Medrobotics Corporation				374,703	905	1,059
Optiscan Biomedical, Corp. (6)(15)	Medical Devices & Equipment	Equity	Preferred Series B	6,185,567	3,000	402
	Medical Devices & Equipment	Equity	Preferred Series C	1,927,309	655	114
	Medical Devices & Equipment	Equity	Preferred Series D	55,103,923	5,257	4,232
	Medical Devices & Equipment	Equity	Preferred Series E	15,638,888	1,307	1,457
Total Optiscan Biomedical, Corp.				78,855,687	10,219	6,205
Outset Medical, Inc. (p.k.a. Home Dialysis Plus, Inc.)	Medical Devices & Equipment	Equity	Preferred Series B	232,061	527	596
Quanterix Corporation (4)	Medical Devices & Equipment	Equity	Common Stock	84,778	1,000	1,820
Subtotal: Medical Devices & Equipment (1.49%)*					15,342	12,530
Software						
CapLinked, Inc.	Software	Equity	Preferred Series A-3	53,614	51	90
Druva, Inc.	Software	Equity	Preferred Series 2	458,841	1,000	1,044
	Software	Equity	Preferred Series 3	93,620	300	312
Total Druva, Inc.				552,461	1,300	1,356
ForeScout Technologies, Inc. (4)	Software	Equity	Common Stock	199,844	529	6,373
HighRoads, Inc.	Software	Equity	Common Stock	190	307	—
NewVoiceMedia Limited (5)(10)	Software	Equity	Preferred Series E	669,173	963	1,544
Palantir Technologies	Software	Equity	Preferred Series E	727,696	5,431	4,923
	Software	Equity	Preferred Series G	326,797	2,211	2,211
Total Palantir Technologies				1,054,493	7,642	7,134
Sprinklr, Inc.	Software	Equity	Common Stock	700,000	3,749	4,600
WildTangent, Inc. (15)	Software	Equity	Preferred Series 3	100,000	402	179
Subtotal: Software (2.53%)*					14,943	21,276

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CONSOLIDATED SCHEDULE OF INVESTMENTS
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Portfolio Company	Sub-Industry	Type of Investment (1)	Series	Shares	Cost (3)	Value (4)
Surgical Devices						
Gynesonics, Inc. (15)	Surgical Devices	Equity	Preferred Series B	219,298	$ 250	$ 44
	Surgical Devices	Equity	Preferred Series C	656,538	282	60
	Surgical Devices	Equity	Preferred Series D	1,991,157	712	795
	Surgical Devices	Equity	Preferred Series E	2,786,367	429	521
Total Gynesonics, Inc.				5,653,360	1,673	1,420
Transmedics, Inc.	Surgical Devices	Equity	Preferred Series B	88,961	1,100	376
	Surgical Devices	Equity	Preferred Series C	119,999	300	309
	Surgical Devices	Equity	Preferred Series D	260,000	650	957
	Surgical Devices	Equity	Preferred Series F	100,200	500	531
Total Transmedics, Inc.				569,160	2,550	2,173
Subtotal: Surgical Devices (0.43%)*					4,223	3,593
Sustainable and Renewable Technology						
Flywheel Building Intelligence, Inc. (p.k.a. SCIEnergy, Inc.)	Sustainable and Renewable Technology	Equity	Common Stock	19,250	761	—
Modumetal, Inc.	Sustainable and Renewable Technology	Equity	Preferred Series C	3,107,520	500	477
Proterra, Inc.	Sustainable and Renewable Technology	Equity	Preferred Series 5	99,280	500	539
Solar Spectrum Holdings LLC (p.k.a. Sungevity, Inc.) (6)	Sustainable and Renewable Technology	Equity	Common Stock	288	61,502	11,400
Subtotal: Sustainable and Renewable Technology (1.48%)*					63,263	12,416
Total: Equity Investments (10.63%)*					**136,196**	**89,361**

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HERCULES CAPITAL, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS
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Portfolio Company	Sub-Industry	Type of Investment (1)	Series	Shares	Cost (3)	Value (4)
Warrant Investments						
Biotechnology Tools						
Labcyte, Inc. (15)	Biotechnology Tools	Warrant	Preferred Series C	1,127,624	$ 323	$ 458
Subtotal: Biotechnology Tools (0.05%)*					323	458
Communications & Networking						
PeerApp, Inc.	Communications & Networking	Warrant	Preferred Series B	298,779	61	—
Peerless Network Holdings, Inc.	Communications & Networking	Warrant	Preferred Series A	135,000	95	501
Spring Mobile Solutions, Inc.	Communications & Networking	Warrant	Common Stock	2,834,375	418	—
Subtotal: Communications & Networking (0.06%)*					574	501
Consumer & Business Products						
Antenna79 (p.k.a. Pong Research Corporation) (15)	Consumer & Business Products	Warrant	Common Stock	1,662,441	228	—
Intelligent Beauty, Inc. (15)	Consumer & Business Products	Warrant	Preferred Series B	190,234	230	221
The Neat Company (15)	Consumer & Business Products	Warrant	Preferred Series C-1	540,540	365	—
Subtotal: Consumer & Business Products (0.03%)*					823	221
Drug Delivery						
AcelRx Pharmaceuticals, Inc. (4)(10)(15)	Drug Delivery	Warrant	Common Stock	176,730	786	61
Agile Therapeutics, Inc. (4)	Drug Delivery	Warrant	Common Stock	180,274	730	65
BioQ Pharma Incorporated	Drug Delivery	Warrant	Common Stock	459,183	1	968
Celsion Corporation (4)	Drug Delivery	Warrant	Common Stock	13,927	428	—
Dance Biopharm, Inc. (15)	Drug Delivery	Warrant	Common Stock	110,882	74	—
Edge Therapeutics, Inc. (4)	Drug Delivery	Warrant	Common Stock	78,595	390	230
Kaleo, Inc. (p.k.a. Intelliject, Inc.)	Drug Delivery	Warrant	Preferred Series B	82,500	594	1,540
Neos Therapeutics, Inc. (4)(15)	Drug Delivery	Warrant	Common Stock	70,833	285	148
Pulmatrix Inc. (4)	Drug Delivery	Warrant	Common Stock	25,150	116	4
ZP Opco, Inc (p.k.a. Zosano Pharma) (4)	Drug Delivery	Warrant	Common Stock	72,379	266	—
Subtotal: Drug Delivery (0.36%)*					3,670	3,016

See notes to consolidated financial statements.

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment (1)	Series	Shares	Cost (3)	Value (4)
Drug Discovery & Development						
ADMA Biologics, Inc. (4)	Drug Discovery & Development	Warrant	Common Stock	89,750	$ 295	$ 12
Anthera Pharmaceuticals, Inc. (4)(15)	Drug Discovery & Development	Warrant	Common Stock	5,022	984	—
Audentes Therapeutics, Inc (4)(10)(15)	Drug Discovery & Development	Warrant	Common Stock	9,914	62	147
Auris Medical Holding, AG (4)(5)(10)	Drug Discovery & Development	Warrant	Common Stock	156,726	249	19
Brickell Biotech, Inc.	Drug Discovery & Development	Warrant	Preferred Series C	26,086	119	93
Cerecor, Inc. (4)	Drug Discovery & Development	Warrant	Common Stock	22,328	70	15
Chroma Therapeutics, Ltd. (5)(10)	Drug Discovery & Development	Warrant	Preferred Series D	325,261	490	—
Cleveland BioLabs, Inc. (4)(15)	Drug Discovery & Development	Warrant	Common Stock	7,813	105	3
Concert Pharmaceuticals, Inc. (4)(15)	Drug Discovery & Development	Warrant	Common Stock	132,069	545	1,344
CTI BioPharma Corp. (p.k.a. Cell Therapeutics, Inc.) (4)	Drug Discovery & Development	Warrant	Common Stock	29,239	165	2
CytRx Corporation (4)(15)	Drug Discovery & Development	Warrant	Common Stock	105,694	160	58
Dare Biosciences, Inc. (p.k.a. Cerulean Pharma, Inc.) (4)	Drug Discovery & Development	Warrant	Common Stock	17,190	369	—
Dicerna Pharmaceuticals, Inc. (4)(15)	Drug Discovery & Development	Warrant	Common Stock	200	28	—
Epirus Biopharmaceuticals, Inc. (4)	Drug Discovery & Development	Warrant	Common Stock	64,194	276	—
Fortress Biotech, Inc. (p.k.a. Coronado Biosciences, Inc.) (4)	Drug Discovery & Development	Warrant	Common Stock	73,009	142	29
Genocea Biosciences, Inc. (4)	Drug Discovery & Development	Warrant	Common Stock	73,725	266	4
Immune Pharmaceuticals (4)	Drug Discovery & Development	Warrant	Common Stock	10,742	164	—
Melinta Therapeutics (4)	Drug Discovery & Development	Warrant	Common Stock	31,655	626	12
Motif BioSciences Inc. (4)(15)	Drug Discovery & Development	Warrant	Common Stock	73,452	282	414
Myovant Sciences, Ltd. (4)(5)(10)	Drug Discovery & Development	Warrant	Common Stock	49,800	283	128
Neothetics, Inc. (p.k.a. Lithera, Inc) (4)(15)	Drug Discovery & Development	Warrant	Common Stock	46,838	266	53
Neuralstem, Inc. (4)(15)	Drug Discovery & Development	Warrant	Common Stock	5,783	77	—
Ology Bioservices, Inc. (p.k.a. Nanotherapeutics, Inc.) (15)	Drug Discovery & Development	Warrant	Common Stock	171,389	838	—
Paratek Pharmaceuticals, Inc. (p.k.a. Transcept Pharmaceuticals, Inc.) (4)(15)	Drug Discovery & Development	Warrant	Common Stock	75,214	178	212
PhaseRx, Inc. (4)(15)	Drug Discovery & Development	Warrant	Common Stock	63,000	125	—
Savara Inc. (p.k.a. Mast Therapeutics, Inc.) (4)(15)	Drug Discovery & Development	Warrant	Common Stock	32,467	203	8
Sorrento Therapeutics, Inc. (4)(10)	Drug Discovery & Development	Warrant	Common Stock	306,748	889	453
Stealth Bio Therapeutics Corp. (5)(10)	Drug Discovery & Development	Warrant	Preferred Series A	487,500	116	107
uniQure B.V. (4)(5)(10)	Drug Discovery & Development	Warrant	Common Stock	37,174	218	240
XOMA Corporation (4)(10)(15)	Drug Discovery & Development	Warrant	Common Stock	9,063	279	50
Subtotal: Drug Discovery & Development (0.40%)*					8,869	3,403
Electronics & Computer Hardware						
908 DEVICES INC. (15)	Electronics & Computer Hardware	Warrant	Preferred Series D	79,856	100	73
Clustrix, Inc.	Electronics & Computer Hardware	Warrant	Common Stock	50,000	12	—
Subtotal: Electronics & Computer Hardware (0.01%)*					112	73
Healthcare Services, Other						
Chromadex Corporation (4)(15)	Healthcare Services, Other	Warrant	Common Stock	139,673	157	329
Subtotal: Healthcare Services, Other (0.04%)*					157	329

See notes to consolidated financial statements.

HERCULES CAPITAL, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS
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(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment (1)	Series	Shares	Cost (3)	Value (4)
Information Services						
INMOBI Inc. (5)(10)	Information Services	Warrant	Common Stock	65,587	$ 82	$ —
InXpo, Inc. (15)	Information Services	Warrant	Preferred Series C	648,400	98	21
	Information Services	Warrant	Preferred Series C-1	1,165,183	74	37
Total InXpo, Inc.				1,813,583	172	58
MDX Medical, Inc. (15)	Information Services	Warrant	Common Stock	2,250,000	246	129
Netbase Solutions, Inc.	Information Services	Warrant	Preferred Series 1	60,000	356	363
RichRelevance, Inc. (15)	Information Services	Warrant	Preferred Series E	112,612	98	—
Subtotal: Information Services (0.07%)*					954	550
Internet Consumer & Business Services						
Aria Systems, Inc.	Internet Consumer & Business Services	Warrant	Preferred Series G	231,535	73	—
Blurb, Inc. (15)	Internet Consumer & Business Services	Warrant	Preferred Series C	234,280	636	9
ClearObject, Inc. (p.k.a. CloudOne, Inc.)	Internet Consumer & Business Services	Warrant	Preferred Series E	968,992	18	154
The Faction Group	Internet Consumer & Business Services	Warrant	Preferred Series A	8,703	234	234
Intent Media, Inc. (15)	Internet Consumer & Business Services	Warrant	Common Stock	140,077	168	207
Interactions Corporation	Internet Consumer & Business Services	Warrant	Preferred Series G-3	68,187	204	204
Just Fabulous, Inc.	Internet Consumer & Business Services	Warrant	Preferred Series B	206,184	1,102	2,627
Lightspeed POS, Inc. (5)(10)	Internet Consumer & Business Services	Warrant	Preferred Series C	245,610	20	93
LogicSource (15)	Internet Consumer & Business Services	Warrant	Preferred Series C	79,625	30	36
Oportun (p.k.a. Progress Financial)	Internet Consumer & Business Services	Warrant	Preferred Series G	174,562	78	196
ShareThis, Inc. (15)	Internet Consumer & Business Services	Warrant	Preferred Series C	493,502	547	—
Snagajob.com, Inc.	Internet Consumer & Business Services	Warrant	Preferred Series A	1,800,000	782	1,257
Tapjoy, Inc.	Internet Consumer & Business Services	Warrant	Preferred Series D	748,670	316	7
TraceLink, Inc.	Internet Consumer & Business Services	Warrant	Preferred Series A-2	283,353	1,833	1,833
Subtotal: Internet Consumer & Business Services (0.82%)*					6,041	6,857
Media/Content/Info						
FanDuel, Inc.	Media/Content/Info	Warrant	Common Stock	15,570	—	—
	Media/Content/Info	Warrant	Preferred Series A	4,648	730	1,875
Total FanDuel, Inc.				20,218	730	1,875
Machine Zone, Inc. (16)	Media/Content/Info	Warrant	Common Stock	1,552,710	1,958	3,743
Rhapsody International, Inc. (15)	Media/Content/Info	Warrant	Common Stock	715,755	385	4
WP Technology, Inc. (Wattpad, Inc.) (5)(10)	Media/Content/Info	Warrant	Common Stock	255,818	4	17
Zoom Media Group, Inc.	Media/Content/Info	Warrant	Preferred Series A	1,204	348	33
Subtotal: Media/Content/Info (0.67%)*					3,425	5,672
Medical Devices & Equipment						
Amedica Corporation (4)(15)	Medical Devices & Equipment	Warrant	Common Stock	8,603	459	1
Aspire Bariatrics, Inc. (15)	Medical Devices & Equipment	Warrant	Preferred Series B-1	112,858	455	65
Avedro, Inc. (15)	Medical Devices & Equipment	Warrant	Preferred Series AA	300,000	401	275
Flowonix Medical Incorporated	Medical Devices & Equipment	Warrant	Preferred Series AA	155,325	362	—
Gelesis, Inc. (15)	Medical Devices & Equipment	Warrant	Preferred Series A-1	74,784	78	216
InspireMD, Inc. (4)(5)(10)	Medical Devices & Equipment	Warrant	Common Stock	39,364	242	—
IntegenX, Inc. (15)	Medical Devices & Equipment	Warrant	Preferred Series C	547,752	15	—
Intuity Medical, Inc. (15)	Medical Devices & Equipment	Warrant	Preferred Series 4	1,819,078	294	294
Medrobotics Corporation (15)	Medical Devices & Equipment	Warrant	Preferred Series E	455,539	370	411
Micell Technologies, Inc.	Medical Devices & Equipment	Warrant	Preferred Series D-2	84,955	262	150
NetBio, Inc.	Medical Devices & Equipment	Warrant	Preferred Series A	7,841	408	56
NinePoint Medical, Inc. (15)	Medical Devices & Equipment	Warrant	Preferred Series A-1	587,840	170	82
Optiscan Biomedical, Corp. (6)(15)	Medical Devices & Equipment	Warrant	Preferred Series D	10,535,275	1,252	86
Outset Medical, Inc. (p.k.a. Home Dialysis Plus, Inc.)	Medical Devices & Equipment	Warrant	Preferred Series A	500,000	402	430
Quanterix Corporation (4)	Medical Devices & Equipment	Warrant	Common Stock	66,039	205	536
Sebacia, Inc. (15)	Medical Devices & Equipment	Warrant	Preferred Series D	778,301	133	127
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.) (4)	Medical Devices & Equipment	Warrant	Common Stock	13,864	401	—
Tela Bio, Inc. (15)	Medical Devices & Equipment	Warrant	Preferred Series B	387,930	62	153
ViewRay, Inc. (4)(15)	Medical Devices & Equipment	Warrant	Common Stock	128,231	333	414
Subtotal: Medical Devices & Equipment (0.39%)*					6,492	3,296

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Portfolio Company	Sub-Industry	Type of Investment (1)	Series	Shares	Cost (3)	Value (4)
Semiconductors						
Achronix Semiconductor Corporation (15)	Semiconductors	Warrant	Preferred Series C	360,000	$ 160	$ 308
	Semiconductors	Warrant	Preferred Series D-2	750,000	99	519
Total Achronix Semiconductor Corporation				1,110,000	259	827
Aquantia Corp. (4)	Semiconductors	Warrant	Common Stock	19,683	4	11
Avnera Corporation	Semiconductors	Warrant	Preferred Series E	141,567	46	195
Subtotal: Semiconductors (0.12%)*					309	1,033
Software						
Actifio, Inc.	Software	Warrant	Common Stock	73,584	249	84
	Software	Warrant	Preferred Series F	31,673	343	79
Total Actifio, Inc.				105,257	592	163
Braxton Technologies, LLC	Software	Warrant	Preferred Series A	168,750	188	—
CareCloud Corporation (15)	Software	Warrant	Preferred Series B	413,433	258	113
Clickfox, Inc. (15)	Software	Warrant	Preferred Series B	1,038,563	330	129
	Software	Warrant	Preferred Series C	592,019	730	179
	Software	Warrant	Preferred Series C-A	2,218,214	230	4,458
Total Clickfox, Inc.				3,848,796	1,290	4,766
DNAnexus, Inc.	Software	Warrant	Preferred Series C	909,091	97	97
Evernote Corporation (15)	Software	Warrant	Common Stock	62,500	106	175
Fuze, Inc. (15)	Software	Warrant	Preferred Series F	256,158	89	53
Mattersight Corporation (4)	Software	Warrant	Common Stock	357,143	538	168
Message Systems, Inc. (15)	Software	Warrant	Preferred Series C	503,718	334	639
Mobile Posse, Inc. (15)	Software	Warrant	Preferred Series C	396,430	130	353
Neos, Inc. (15)	Software	Warrant	Common Stock	221,150	22	—
NewVoiceMedia Limited (5)(10)	Software	Warrant	Preferred Series E	225,586	33	190
OneLogin, Inc. (15)	Software	Warrant	Common Stock	228,972	150	227
PerfectServe, Inc.	Software	Warrant	Preferred Series C	129,073	720	720
Poplicus, Inc.	Software	Warrant	Common Stock	132,168	—	—
Quid, Inc. (15)	Software	Warrant	Preferred Series D	71,576	1	7
RapidMiner, Inc.	Software	Warrant	Preferred Series C-1	4,982	23	23
RedSeal Inc. (15)	Software	Warrant	Preferred Series C-Prime	640,603	66	44
Signpost, Inc.	Software	Warrant	Preferred Series C	324,005	314	106
Wrike, Inc.	Software	Warrant	Common Stock	698,760	462	1,040
Subtotal: Software (1.06%)*					5,413	8,884
Specialty Pharmaceuticals						
Alimera Sciences, Inc. (4)	Specialty Pharmaceuticals	Warrant	Common Stock	1,717,709	861	488
Subtotal: Specialty Pharmaceuticals (0.06%)*					861	488
Surgical Devices						
Gynesonics, Inc. (15)	Surgical Devices	Warrant	Preferred Series C	180,480	75	15
	Surgical Devices	Warrant	Preferred Series D	1,575,965	320	291
Total Gynesonics, Inc.				1,756,445	395	306
Transmedics, Inc.	Surgical Devices	Warrant	Preferred Series B	40,436	225	16
	Surgical Devices	Warrant	Preferred Series D	175,000	100	429
	Surgical Devices	Warrant	Preferred Series F	50,544	38	60
Total Transmedics, Inc.				265,980	363	505
Subtotal: Surgical Devices (0.10%)*					758	811

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HERCULES CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS
December 31, 2017
(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment (1)	Series	Shares	Cost (3)	Value (4)
Sustainable and Renewable Technology						
Agrivida, Inc. (15)	Sustainable and Renewable Technology	Warrant	Preferred Series D	471,327	$ 120	$ 88
Alphabet Energy, Inc. (15)	Sustainable and Renewable Technology	Warrant	Preferred Series 1B	13,667	82	—
American Superconductor Corporation (4)	Sustainable and Renewable Technology	Warrant	Common Stock	58,823	39	7
Brightsource Energy, Inc.	Sustainable and Renewable Technology	Warrant	Preferred Series 1	116,666	104	—
Calera, Inc. (15)	Sustainable and Renewable Technology	Warrant	Preferred Series C	44,529	513	—
EcoMotors, Inc. (15)	Sustainable and Renewable Technology	Warrant	Preferred Series B	437,500	308	—
Fluidic, Inc.	Sustainable and Renewable Technology	Warrant	Preferred Series D	61,804	102	—
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 Flywheel Building Intelligence, Inc. (p.k.a. SCIEnergy, Inc.)				537,040	231	—
Fulcrum Bioenergy, Inc.	Sustainable and Renewable Technology	Warrant	Preferred Series C-1	280,897	275	357
GreatPoint Energy, Inc. (15)	Sustainable and Renewable Technology	Warrant	Preferred Series D-1	393,212	548	—
Kinestral Technologies, Inc.	Sustainable and Renewable Technology	Warrant	Preferred Series A	325,000	155	155
	Sustainable and Renewable Technology	Warrant	Preferred Series B	131,883	63	63
Total Kinestral Technologies, Inc.				456,883	218	218
Polyera Corporation (15)	Sustainable and Renewable Technology	Warrant	Preferred Series C	311,609	338	—
Proterra, Inc.	Sustainable and Renewable Technology	Warrant	Preferred Series 4	477,517	41	599
Rive Technology, Inc. (15)	Sustainable and Renewable Technology	Warrant	Preferred Series E	234,477	12	8
Stion Corporation (6)	Sustainable and Renewable Technology	Warrant	Preferred Series Seed	2,154	1,378	—
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	—
Subtotal: Sustainable and Renewable Technology (0.15%)*					4,797	1,277
Total: Warrant Investments (4.38%)*					**43,578**	**36,869**
Total Investments in Securities (183.39%)*					**$ 1,619,829**	**$ 1,542,214**

* Value as a percent of net assets
(1) Preferred and common stock, warrants, and equity interests are generally non-income producing.
(2) Interest rate PRIME represents 4.50% at December 31, 2017. Daily LIBOR, 1-month LIBOR, 3-month LIBOR and 12-month LIBOR represent 1.44%, 1.57%, 1.69% and 2.11%, respectively, at December 31, 2017.
(3) Gross unrealized appreciation, gross unrealized depreciation, and net unrealized depreciation for federal income tax purposes totaled $32.5 million, $119.7 million and $87.2 million respectively. The tax cost of investments is $1.6 billion.
(4) Except for warrants in 43 publicly traded companies and common stock in 20 publicly traded companies, all investments are restricted at December 31, 2017 and were valued at fair value using Level 3 significant unobservable inputs 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.
(5) Non-U.S. company or the company's principal place of business is outside the United States.
(6) 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.
(7) 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.
(8) Debt is on non-accrual status at December 31, 2017, and is therefore considered non-income producing. Note that at December 31, 2017, only the $11.0 million PIK, or payment-in-kind, loan is on non-accrual for the Company's debt investment in Tectura Corporation.
(9) Denotes that all or a portion of the debt investment is convertible debt.
(10) Indicates assets that the Company deems not "qualifying assets" under section 55(a) of 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.
(11) Denotes that all or a portion of the debt investment secures the notes offered in the Debt Securitization (as defined in Note 4).
(12) Denotes that all or a portion of the debt investment is pledged as collateral under the Wells Facility (as defined in Note 4).
(13) Denotes that all or a portion of the debt investment is pledged as collateral under the Union Bank Facility (as defined in Note 4).
(14) Denotes that all or a portion of the debt investment principal includes accumulated PIK interest and is net of repayments.
(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 small business investment companies, or 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 December 31, 2017.
(17) Denotes that there is an unfunded contractual commitment available at the request of this portfolio company at December 31, 2017. Refer to Note 10.

See notes to consolidated financial statements.

HERCULES CAPITAL, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS
December 31, 2016
(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment(1)	Maturity Date	Interest Rate and Floor	Principal Amount	Cost(2)	Value(3)
Debt Investments							
Biotechnology Tools							
1-5 Years Maturity							
Exicure, Inc. (11) (14A)	Biotechnology Tools	Senior Secured	September 2019	Interest rate PRIME + 6.45% or Floor rate of 9.95%	$ 6,000	$ 5,971	$ 6,035
Subtotal: 1-5 Years Maturity						5,971	6,035
Subtotal: Biotechnology Tools (0.77%)*						5,971	6,035
Communications & Networking							
Under 1 Year Maturity							
Achilles Technology Management Co II, Inc. (6) (13) (14B)	Communications & Networking	Senior Secured	August 2017	PIK Interest 10.50%	$ 1,278	1,304	1,304
OpenPeak, Inc. (7)	Communications & Networking	Senior Secured	April 2017	Interest rate PRIME + 8.75% or Floor rate of 12.00%	$ 12,211	8,975	—
Subtotal: Under 1 Year Maturity						10,279	1,304
1-5 Years Maturity							
Avanti Communications Group (4) (9)	Communications & Networking	Senior Secured	October 2019	Interest rate FIXED 10.00%	$ 8,025	7,212	4,825
SkyCross, Inc. (6) (7) (13) (14B) (15)	Communications & Networking	Senior Secured	January 2018	Interest rate FIXED 10.95%, PIK Interest 5.00%	$ 16,758	16,900	—
Spring Mobile Solutions, Inc. (12) (14B)	Communications & Networking	Senior Secured	January 2019	Interest rate PRIME + 6.70% or Floor rate of 9.95%	$ 3,000	3,038	3,044
Subtotal: 1-5 Years Maturity						27,150	7,869
Subtotal: Communications & Networking (1.16%)*						37,429	9,173
Consumer & Business Products							
1-5 Years Maturity							
Antenna79 (p.k.a. Pong Research Corporation) (14A) (15)	Consumer & Business Products	Senior Secured	December 2019	Interest rate PRIME + 7.45% or Floor rate of 10.95%	$ 20,000	19,837	19,837
	Consumer & Business Products	Senior Secured	December 2018	Interest rate PRIME + 6.00% or Floor rate of 9.50%	$ 1,000	965	965
Total Antenna79 (p.k.a. Pong Research Corporation)					$ 21,000	20,802	20,802
Nasty Gal (14B) (15)	Consumer & Business Products	Senior Secured	May 2019	Interest rate PRIME + 5.45% or Floor rate of 8.95%	$ 13,241	13,148	13,148
Second Time Around (Simplify Holdings, LLC) (14A) (15)	Consumer & Business Products	Senior Secured	February 2019	Interest rate PRIME + 7.25% or Floor rate of 10.75%	$ 2,280	2,302	2,283
Subtotal: 1-5 Years Maturity						36,252	36,233
Subtotal: Consumer & Business Products (4.60%)*						36,252	36,233

See notes to consolidated financial statements.

HERCULES CAPITAL, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS
December 31, 2016
(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment(1)	Maturity Date	Interest Rate and Floor	Principal Amount	Cost(2)	Value(3)
Drug Delivery							
Under 1 Year Maturity							
AcelRx Pharmaceuticals, Inc. (9) (10) (14A) (15)	Drug Delivery	Senior Secured	October 2017	Interest rate PRIME + 3.85% or Floor rate of 9.10%	$ 20,466	$ 21,151	$ 21,151
Celsion Corporation (10) (14A)	Drug Delivery	Senior Secured	June 2017	Interest rate PRIME + 8.00% or Floor rate of 11.25%	$ 2,246	2,575	2,575
Subtotal: Under 1 Year Maturity						23,726	23,726
1-5 Years Maturity							
Agile Therapeutics, Inc. (10) (14A)	Drug Delivery	Senior Secured	December 2018	Interest rate PRIME + 4.75% or Floor rate of 9.00%	$ 16,500	16,524	16,434
Aprecia Pharmaceuticals Company (11) (14A)	Drug Delivery	Senior Secured	January 2020	Interest rate PRIME + 5.75% or Floor rate of 9.25%	$ 20,000	19,700	19,706
BioQ Pharma Incorporated (10) (14A) (14B)	Drug Delivery	Senior Secured	May 2018	Interest rate PRIME + 8.00% or Floor rate of 11.25%	$ 8,231	8,636	8,577
	Drug Delivery	Senior Secured	May 2018	Interest rate PRIME + 7.00% or Floor rate of 10.25%	$ 2,464	2,511	2,509
Total BioQ Pharma Incorporated					$ 10,695	11,147	11,086
Edge Therapeutics, Inc. (11) (14A) (17)	Drug Delivery	Senior Secured	February 2020	Interest rate PRIME + 4.65% or Floor rate of 9.15%	$ 15,000	15,004	15,045
Pulmatrix Inc. (8) (10) (14A)	Drug Delivery	Senior Secured	July 2018	Interest rate PRIME + 6.25% or Floor rate of 9.50%	$ 5,954	6,022	6,013
ZP Opco, Inc (p.k.a. Zosano Pharma) (10) (14A)	Drug Delivery	Senior Secured	December 2018	Interest rate PRIME + 2.70% or Floor rate of 7.95%	$ 12,123	12,325	12,238
Subtotal: 1-5 Years Maturity						80,722	80,522
Subtotal: Drug Delivery (13.23%)*						104,448	104,248

See notes to consolidated financial statements.

HERCULES CAPITAL, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS
December 31, 2016
(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment(1)	Maturity Date	Interest Rate and Floor	Principal Amount	Cost(2)	Value(3)
Drug Discovery & Development							
Under 1 Year Maturity							
Cerecor, Inc. (11) (14A)	Drug Discovery & Development	Senior Secured	August 2017	Interest rate PRIME + 4.70% or Floor rate of 7.95%	$ 2,374	$ 2,499	$ 2,499
Neuralstem, Inc. (14A) (15)	Drug Discovery & Development	Senior Secured	April 2017	Interest rate PRIME + 6.75% or Floor rate of 10.00%	$ 3,766	3,996	3,996
Subtotal: Under 1 Year Maturity						6,495	6,495
1-5 Years Maturity							
Auris Medical Holding, AG (4) (9) (14B)	Drug Discovery & Development	Senior Secured	January 2020	Interest rate PRIME + 6.05% or Floor rate of 9.55%	$ 12,500	12,317	12,326
Aveo Pharmaceuticals, Inc. (9) (12) (14A) (14B)	Drug Discovery & Development	Senior Secured	December 2019	Interest rate PRIME + 6.90% or Floor rate of 11.90%	$ 10,000	10,269	10,218
	Drug Discovery & Development	Senior Secured	December 2019	Interest rate PRIME + 6.90% or Floor rate of 11.90%	$ 5,000	4,926	4,918
Total Aveo Pharmaceuticals, Inc.					$ 15,000	15,195	15,136
Bellicum Pharmaceuticals, Inc. (14A) (14B) (15)	Drug Discovery & Development	Senior Secured	March 2020	Interest rate PRIME + 5.85% or Floor rate of 9.35%	$ 15,000	15,212	15,387
	Drug Discovery & Development	Senior Secured	March 2020	Interest rate PRIME + 5.85% or Floor rate of 9.35%	$ 5,000	4,981	5,049
Total Bellicum Pharmaceuticals, Inc.					$ 20,000	20,193	20,436
Brickell Biotech, Inc. (11) (14B)	Drug Discovery & Development	Senior Secured	September 2019	Interest rate PRIME + 5.70% or Floor rate of 9.20%	$ 7,500	7,521	7,560
Cerulean Pharma, Inc. (12) (14B)	Drug Discovery & Development	Senior Secured	July 2018	Interest rate PRIME + 1.55% or Floor rate of 7.30%	$ 13,078	13,994	13,908
CTI BioPharma Corp. (p.k.a. Cell Therapeutics, Inc.) (10) (14A)	Drug Discovery & Development	Senior Secured	December 2018	Interest rate PRIME + 7.70% or Floor rate of 10.95%	$ 19,548	19,276	19,372
CytRx Corporation (10) (14B) (15)	Drug Discovery & Development	Senior Secured	February 2020	Interest rate PRIME + 6.00% or Floor rate of 9.50%	$ 25,000	25,086	25,166
Epirus Biopharmaceuticals, Inc. (7) (14A)	Drug Discovery & Development	Senior Secured	April 2018	Interest rate PRIME + 4.70% or Floor rate of 7.95%	$ 3,066	3,349	—
Genocea Biosciences, Inc. (10) (14A)	Drug Discovery & Development	Senior Secured	January 2019	Interest rate PRIME + 2.25% or Floor rate of 7.25%	$ 17,000	17,313	17,376
Immune Pharmaceuticals (10) (14B)	Drug Discovery & Development	Senior Secured	September 2018	Interest rate PRIME + 4.75% or Floor rate of 10.00%	$ 3,271	3,350	2,693
Insmed, Incorporated (10) (14A)	Drug Discovery & Development	Senior Secured	October 2020	Interest rate PRIME + 4.75% or Floor rate of 9.25%	$ 55,000	54,695	54,559
Mast Therapeutics, Inc. (14A) (15)	Drug Discovery & Development	Senior Secured	January 2019	Interest rate PRIME + 5.70% or Floor rate of 8.95%	$ 3,347	3,921	3,923
Melinta Therapeutics (12) (14A)	Drug Discovery & Development	Senior Secured	June 2018	Interest rate PRIME + 3.75% or Floor rate of 8.25%	$ 24,502	25,001	24,945
Merrimack Pharmaceuticals, Inc. (9)	Drug Discovery & Development	Senior Secured	December 2022	Interest rate FIXED 11.50%	$ 25,000	25,000	25,000
Metuchen Pharmaceuticals LLC (13) (14A)	Drug Discovery & Development	Senior Secured	October 2020	Interest rate PRIME + 7.25% or Floor rate of 10.75%, PIK Interest 1.35%	$ 35,081	34,541	34,541
Paratek Pharmaceuticals, Inc. (p.k.a. Transcept Pharmaceuticals, Inc.) (14A) (15)	Drug Discovery & Development	Senior Secured	September 2020	Interest rate PRIME + 2.75% or Floor rate of 8.50%	$ 40,000	39,388	39,504
PhaseRx,Inc. (14B) (15)	Drug Discovery & Development	Senior Secured	December 2019	Interest rate PRIME + 5.75% or Floor rate of 9.25%	$ 6,000	5,921	5,945
Sorrento Therapeutics, Inc. (9) (14B)	Drug Discovery & Development	Senior Secured	December 2020	Interest rate PRIME + 5.75% or Floor rate of 9.25%	$ 50,000	48,069	48,069
uniQure B.V. (4) (9) (10) (14B)	Drug Discovery & Development	Senior Secured	May 2020	Interest rate PRIME + 3.00% or Floor rate of 8.25%	$ 20,000	20,133	20,081
XOMA Corporation (9) (14B) (15)	Drug Discovery & Development	Senior Secured	September 2018	Interest rate PRIME + 2.15% or Floor rate of 9.40%	$ 16,380	16,970	16,901
Subtotal: 1-5 Years Maturity						411,233	407,441
Subtotal: Drug Discovery & Development (52.53%)*						417,728	413,936

See notes to consolidated financial statements.

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment(1)	Maturity Date	Interest Rate and Floor	Principal Amount	Cost(2)	Value(3)
Electronics & Computer Hardware							
1-5 Years Maturity							
Persimmon Technologies (11) (13) (14B)	Electronics & Computer Hardware	Senior Secured	June 2019	Interest rate PRIME + 7.50% or Floor rate of 11.00%, PIK Interest 1.50%	$ 7,012	$ 7,096	$ 7,134
Subtotal: 1-5 Years Maturity						7,096	7,134
Subtotal: Electronics & Computer Hardware (0.91%)*						7,096	7,134
Healthcare Services, Other							
1-5 Years Maturity							
InstaMed Communications, LLC (14B) (15)	Healthcare Services, Other	Senior Secured	February 2019	Interest rate PRIME + 6.75% or Floor rate of 10.00%	$ 10,000	10,125	10,261
PH Group Holdings	Healthcare Services, Other	Senior Secured	September 2020	Interest rate PRIME + 7.45% or Floor rate of 10.95%	$ 20,000	19,802	19,802
Subtotal: 1-5 Years Maturity						29,927	30,063
Subtotal: Healthcare Services, Other (3.82%)*						29,927	30,063
Internet Consumer & Business Services							
1-5 Years Maturity							
Aria Systems, Inc. (10) (13)	Internet Consumer & Business Services	Senior Secured	June 2019	Interest rate PRIME + 3.20% or Floor rate of 6.95%, PIK Interest 1.95%	$ 2,061	2,045	1,728
	Internet Consumer & Business Services	Senior Secured	June 2019	Interest rate PRIME + 5.20% or Floor rate of 8.95%, PIK Interest 1.95%	$ 18,463	18,307	15,467
Total Aria Systems, Inc.					$ 20,524	20,352	17,195
CloudOne, Inc. (10) (14B)	Internet Consumer & Business Services	Senior Secured	April 2019	Interest rate PRIME + 6.35% or Floor rate of 9.85%	$ 5,000	5,091	5,138
Intent Media, Inc. (13) (14A) (15)	Internet Consumer & Business Services	Senior Secured	December 2018	Interest rate PRIME + 5.25% or Floor rate of 8.75%, PIK Interest 1.00%	$ 5,000	4,851	4,851
LogicSource (14B) (15)	Internet Consumer & Business Services	Senior Secured	October 2019	Interest rate PRIME + 6.25% or Floor rate of 9.75%	$ 8,500	8,533	8,649
Snagajob.com, Inc. (12) (13) (14A)	Internet Consumer & Business Services	Senior Secured	July 2020	Interest rate PRIME + 5.15% or Floor rate of 9.15%, PIK Interest 1.95%	$ 35,293	34,517	35,067
Tectura Corporation (7) (8) (13)	Internet Consumer & Business Services	Senior Secured	June 2021	Interest rate FIXED 6.00%, PIK Interest 3.00%	$ 19,691	19,691	19,691
	Internet Consumer & Business Services	Senior Secured	June 2021	PIK Interest 8.00%	$ 11,015	240	—
Total Tectura Corporation					$ 30,706	19,931	19,691
Subtotal: 1-5 Years Maturity						93,275	90,591
Subtotal: Internet Consumer & Business Services (11.50%)*						93,275	90,591
Media/Content/Info							
1-5 Years Maturity							
FanDuel, Inc. (14B)	Media/Content/Info	Senior Secured	November 2019	Interest rate PRIME + 7.25% or Floor rate of 10.75%	$ 20,000	19,352	19,352
Machine Zone, Inc. (13) (16)	Media/Content/Info	Senior Secured	May 2018	Interest rate PRIME + 2.50% or Floor rate of 6.75%, PIK Interest 3.00%	$ 103,785	102,444	103,083
WP Technology, Inc. (Wattpad, Inc.) (4) (9) (11) (14B) (17)	Media/Content/Info	Senior Secured	April 2020	Interest rate PRIME + 4.75% or Floor rate of 8.25%	$ 5,000	5,029	5,099
	Media/Content/Info	Senior Secured	April 2020	Interest rate PRIME + 4.75% or Floor rate of 8.25%	$ 2,500	2,471	2,510
Total WP Technology, Inc. (Wattpad, Inc.)					$ 7,500	7,500	7,609
Subtotal: 1-5 Years Maturity						129,296	130,044
Subtotal: Media/Content/Info (16.50%)*						129,296	130,044

See notes to consolidated financial statements.

HERCULES CAPITAL, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS
December 31, 2016
(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment(1)	Maturity Date	Interest Rate and Floor	Principal Amount	Cost(2)	Value(3)
Medical Devices & Equipment							
Under 1 Year Maturity							
InspireMD, Inc. (4) (9) (14B)	Medical Devices & Equipment	Senior Secured	June 2017	Interest rate PRIME + 5.00% or Floor rate of 10.50%	$ 2,237	$ 2,743	$ 2,743
Subtotal: Under 1 Year Maturity						2,743	2,743
1-5 Years Maturity							
Amedica Corporation (8) (14B) (15)	Medical Devices & Equipment	Senior Secured	January 2018	Interest rate PRIME + 7.70% or Floor rate of 10.95%	$ 7,417	8,816	8,715
Aspire Bariatrics, Inc. (14B) (15)	Medical Devices & Equipment	Senior Secured	October 2018	Interest rate PRIME + 4.00% or Floor rate of 9.25%	$ 5,295	5,400	5,368
Avedro, Inc. (14A) (15)	Medical Devices & Equipment	Senior Secured	June 2018	Interest rate PRIME + 6.00% or Floor rate of 9.25%	$ 9,777	9,975	9,982
Flowonix Medical Incorporated (12) (14B)	Medical Devices & Equipment	Senior Secured	May 2018	Interest rate PRIME + 4.75% or Floor rate of 10.00%	$ 10,905	11,340	11,275
	Medical Devices & Equipment	Senior Secured	March 2019	Interest rate PRIME + 6.50% or Floor rate of 10.00%	$ 4,255	4,243	4,214
Total Flowonix Medical Incorporated					$ 15,160	15,583	15,489
Gamma Medica, Inc. (10) (14B)	Medical Devices & Equipment	Senior Secured	January 2018	Interest rate PRIME + 6.50% or Floor rate of 9.75%	$ 2,500	2,650	2,645
IntegenX, Inc. (14B) (15)	Medical Devices & Equipment	Senior Secured	June 2019	Interest rate PRIME + 6.05% or Floor rate of 10.05%	$ 15,000	15,068	15,168
	Medical Devices & Equipment	Senior Secured	June 2019	Interest rate PRIME + 6.05% or Floor rate of 10.05%	$ 1,750	1,694	1,730
Total IntegenX, Inc.					$ 16,750	16,762	16,898
Micell Technologies, Inc. (11) (14B)	Medical Devices & Equipment	Senior Secured	August 2019	Interest rate PRIME + 7.25% or Floor rate of 10.50%	$ 8,277	8,255	8,321
Quanta Fluid Solutions (4) (9) (10) (14B)	Medical Devices & Equipment	Senior Secured	April 2020	Interest rate PRIME + 8.05% or Floor rate of 11.55%	$ 12,500	12,547	12,500
Quanterix Corporation (10) (14A)	Medical Devices & Equipment	Senior Secured	February 2018	Interest rate PRIME + 2.75% or Floor rate of 8.00%	$ 9,964	10,276	10,316
SynergEyes, Inc. (14B) (15)	Medical Devices & Equipment	Senior Secured	January 2018	Interest rate PRIME + 7.75% or Floor rate of 11.00%	$ 2,347	2,762	2,719
Subtotal: 1-5 Years Maturity						93,026	92,953
Subtotal: Medical Devices & Equipment (12.15%)*						95,769	95,696
Semiconductors							
Under 1 Year Maturity							
Achronix Semiconductor Corporation (14B) (15) (17)	Semiconductors	Senior Secured	November 2017	Interest rate PRIME + 7.00% or Floor rate of 10.50%	$ 1,682	1,682	1,682
Subtotal: Under 1 Year Maturity						1,682	1,682
1-5 Years Maturity							
Achronix Semiconductor Corporation (14B) (15) (17)	Semiconductors	Senior Secured	July 2018	Interest rate PRIME + 8.25% or Floor rate of 11.50%	$ 3,341	3,546	3,530
Avnera Corporation (10) (14A)	Semiconductors	Senior Secured	April 2018	Interest rate PRIME + 5.25% or Floor rate of 8.50%	$ 5,577	5,699	5,816
Subtotal: 1-5 Years Maturity						9,245	9,346
Subtotal: Semiconductors (1.40%)*						10,927	11,028

See notes to consolidated financial statements.

HERCULES CAPITAL, INC.
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December 31, 2016
(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment(1)	Maturity Date	Interest Rate and Floor	Principal Amount	Cost(2)	Value(3)
Software							
Under 1 Year Maturity							
JumpStart Games, Inc. (p.k.a Knowledge Holdings, Inc.) (7) (13) (14C) (15) (18)	Software	Senior Secured	October 2016	Interest rate FIXED 5.75%, PIK Interest 10.75%	$ 1,566	$ 1,698	$ 730
RedSeal Inc. (15) (17)	Software	Senior Secured	June 2017	Interest rate PRIME + 3.25% or Floor rate of 6.50%	$ 2,635	2,635	2,635
Subtotal: Under 1 Year Maturity						4,333	3,365
1-5 Years Maturity							
Actifio, Inc. (13) (14A)	Software	Senior Secured	January 2019	Interest rate PRIME + 4.25% or Floor rate of 8.25%, PIK Interest 2.25%	$ 30,961	30,830	30,918
	Software	Senior Secured	January 2019	Interest rate PRIME + 4.75% or Floor rate of 8.75%, PIK Interest 2.50%	$ 10,171	9,929	10,036
Total Actifio, Inc.					$ 41,132	40,759	40,954
Clickfox, Inc. (12) (14C)	Software	Senior Secured	May 2018	Interest rate PRIME + 8.00% or Floor rate of 11.50%	$ 12,000	12,261	12,273
Cloud Technology Partners, Inc. (14A)	Software	Senior Secured	June 2018	Interest rate PRIME + 3.05% or Floor rate of 7.05%	$ 3,000	2,966	2,966
	Software	Senior Secured	December 2019	Interest rate PRIME + 5.75% or Floor rate of 9.75%	$ 10,000	9,863	9,863
Total Cloud Technology Partners, Inc.					$ 13,000	12,829	12,829
Druva, Inc. (10) (12) (14B) (17)	Software	Senior Secured	March 2018	Interest rate PRIME + 4.60% or Floor rate of 7.85%	$ 9,157	9,604	9,613
	Software	Senior Secured	May 2018	Interest rate PRIME + 4.60% or Floor rate of 7.85%	$ 10,000	10,066	10,141
Total Druva, Inc.					$ 19,157	19,670	19,754
Evernote Corporation (15) (17)	Software	Senior Secured	October 2020	Interest rate PRIME + 5.45% or Floor rate of 8.95%	$ 6,000	5,961	5,961
Lithium Technologies, Inc. (13) (14A) (15) (19)	Software	Senior Secured	June 2020	Interest rate PRIME + 6.45% or Floor rate of 9.95%, PIK Interest 1.80%	$ 25,019	24,999	24,999
JumpStart Games, Inc. (p.k.a Knowledge Holdings, Inc.) (7) (13) (14A) (15)	Software	Senior Secured	March 2018	Interest rate FIXED 5.75%, PIK Interest 10.75%	$ 13,000	12,747	5,477
Mattersight Corporation (11) (13)	Software	Senior Secured	February 2020	Interest rate PRIME + 6.25% or Floor rate of 9.75%, PIK Interest 2.15%	$ 22,664	22,023	22,280
OneLogin, Inc. (13) (15)	Software	Senior Secured	August 2019	Interest rate PRIME + 6.45% or Floor rate of 9.95%, PIK Interest 3.25%	$ 15,369	15,249	15,488
Quid, Inc. (13) (14A) (15)	Software	Senior Secured	October 2019	Interest rate PRIME + 4.75% or Floor rate of 8.25%, PIK Interest 2.25%	$ 8,116	8,126	8,220
RedSeal Inc. (14A) (15) (17)	Software	Senior Secured	June 2018	Interest rate PRIME + 7.75% or Floor rate of 11.00%	$ 5,000	5,120	5,107
	Software	Senior Secured	January 2020	Interest rate PRIME + 7.75% or Floor rate of 11.25%	$ 5,000	4,880	4,880
Total RedSeal Inc.					$ 10,000	10,000	9,987
Signpost, Inc. (13) (14A) (15)	Software	Senior Secured	February 2020	Interest rate PRIME + 4.15% or Floor rate of 8.15%, PIK Interest 1.75%	$ 15,237	15,022	15,190
Subtotal: 1-5 Years Maturity						199,646	193,412
Subtotal: Software (24.97%)*						203,979	196,777

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Portfolio Company	Sub-Industry	Type of Investment(1)	Maturity Date	Interest Rate and Floor	Principal Amount	Cost(2)	Value(3)
Specialty Pharmaceuticals							
1-5 Years Maturity							
Alimera Sciences, Inc. (10) (13) (14A)	Specialty Pharmaceuticals	Senior Secured	November 2020	Interest rate PRIME + 7.50% or Floor rate of 11.00%, PIK Interest 1.00%	$ 35,041	$ 34,606	$ 34,798
Jaguar Animal Health, Inc. (10) (14B)	Specialty Pharmaceuticals	Senior Secured	August 2018	Interest rate PRIME + 5.65% or Floor rate of 9.90%	$ 3,511	3,803	3,725
Subtotal: 1-5 Years Maturity						38,409	38,523
Subtotal: Specialty Pharmaceuticals (4.89%)*						38,409	38,523
Surgical Devices							
1-5 Years Maturity							
Transmedics, Inc. (12) (14B)	Surgical Devices	Senior Secured	February 2020	Interest rate PRIME + 5.30% or Floor rate of 9.55%	$ 8,500	8,497	8,529
Subtotal: 1-5 Years Maturity						8,497	8,529
Subtotal: Surgical Devices (1.08%)*						8,497	8,529
Sustainable and Renewable Technology							
Under 1 Year Maturity							
American Superconductor Corporation (10) (14B)	Sustainable and Renewable Technology	Senior Secured	June 2017	Interest rate PRIME + 7.25% or Floor rate of 11.00%	$ 1,500	1,550	1,550
Modumetal, Inc. (11) (14C) (14D)	Sustainable and Renewable Technology	Senior Secured	March 2017	Interest rate PRIME + 8.70% or Floor rate of 11.95%	$ 376	882	882
	Sustainable and Renewable Technology	Senior Secured	October 2017	Interest rate PRIME + 6.00% or Floor rate of 9.25%	$ 3,370	4,115	4,115
Total Modumetal, Inc.					$ 3,746	4,997	4,997
Stion Corporation (5) (14A)	Sustainable and Renewable Technology	Senior Secured	February 2017	Interest rate PRIME + 8.75% or Floor rate of 12.00%	$ 333	333	333
Sungevity, Inc. (12) (14D)	Sustainable and Renewable Technology	Senior Secured	October 2017	Interest rate PRIME + 3.70% or Floor rate of 6.95%	$ 35,000	39,834	29,709
	Sustainable and Renewable Technology	Senior Secured	October 2017	Interest rate PRIME + 3.70% or Floor rate of 6.95%	$ 20,000	20,000	14,917
Total Sungevity, Inc.					$ 55,000	59,834	44,626
Subtotal: Under 1 Year Maturity						66,714	51,506
1-5 Years Maturity							
FuelCell Energy, Inc. (11) (14B)	Sustainable and Renewable Technology	Senior Secured	October 2018	Interest rate PRIME + 5.50% or Floor rate of 9.50%	$ 20,000	20,488	20,707
Proterra, Inc. (10) (14A) (14B)	Sustainable and Renewable Technology	Senior Secured	June 2019	Interest rate PRIME + 6.95% or Floor rate of 10.20%	$ 30,000	30,670	30,592
	Sustainable and Renewable Technology	Senior Secured	June 2019	Interest rate PRIME + 5.75% or Floor rate of 9.25%	$ 10,000	9,921	9,916
Total Proterra, Inc.					$ 40,000	40,591	40,508
Rive Technology, Inc. (14A) (15)	Sustainable and Renewable Technology	Senior Secured	January 2019	Interest rate PRIME + 6.20% or Floor rate of 9.45%	$ 7,500	7,586	7,650
Tendril Networks (11) (14B)	Sustainable and Renewable Technology	Senior Secured	June 2019	Interest rate FIXED 7.25%	$ 15,000	15,405	15,324
Verdezyne, Inc. (14B) (15)	Sustainable and Renewable Technology	Senior Secured	April 2019	Interest rate PRIME + 8.25% or Floor rate of 11.75%	$ 15,000	15,084	15,098
Subtotal: 1-5 Years Maturity						99,154	99,287
Subtotal: Sustainable and Renewable Technology (19.14%)*						165,868	150,793
Total: Debt Investments (168.64%)*						**1,384,871**	**1,328,803**

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Portfolio Company	Sub-Industry	Type of Investment(1)	Series	Shares	Cost(2)	Value(3)
Equity Investments						
Biotechnology Tools						
NuGEN Technologies, Inc. (15)	Biotechnology Tools	Equity	Preferred Series C	189,394	$ 500	$ 575
Subtotal: Biotechnology Tools (0.07%)*					500	575
Communications & Networking						
Achilles Technology Management Co II, Inc. (6) (15)	Communications & Networking	Equity	Common Stock	100	4,000	3,396
GlowPoint, Inc. (3)	Communications & Networking	Equity	Common Stock	114,192	101	31
Peerless Network Holdings, Inc.	Communications & Networking	Equity	Preferred Series A	1,000,000	1,000	4,990
Subtotal: Communications & Networking (1.07%)*					5,101	8,417
Consumer & Business Products						
Market Force Information, Inc.	Consumer & Business Products	Equity	Common Stock	480,261	—	279
	Consumer & Business Products	Equity	Preferred Series B-1	187,970	500	273
Total Market Force Information, Inc.				668,231	500	552
Subtotal: Consumer & Business Products (0.07%)*					500	552
Diagnostic						
Singulex, Inc.	Diagnostic	Equity	Common Stock	937,998	750	574
Subtotal: Diagnostic (0.07%)*					750	574
Drug Delivery						
AcelRx Pharmaceuticals, Inc. (3) (9)	Drug Delivery	Equity	Common Stock	54,240	108	141
BioQ Pharma Incorporated (15)	Drug Delivery	Equity	Preferred Series D	165,000	500	542
Edge Therapeutics, Inc. (3)	Drug Delivery	Equity	Common Stock	161,856	1,000	2,023
Merrion Pharmaceuticals, Plc (4) (9)	Drug Delivery	Equity	Common Stock	20,000	9	—
Neos Therapeutics, Inc. (3) (15)	Drug Delivery	Equity	Common Stock	125,000	1,500	731
Revance Therapeutics, Inc. (3)	Drug Delivery	Equity	Common Stock	22,765	557	472
Subtotal: Drug Delivery (0.50%)*					3,674	3,909
Drug Discovery & Development						
Aveo Pharmaceuticals, Inc. (3) (9) (15)	Drug Discovery & Development	Equity	Common Stock	426,931	1,060	231
Cerecor, Inc. (3)	Drug Discovery & Development	Equity	Common Stock	119,087	1,000	105
Cerulean Pharma, Inc. (3)	Drug Discovery & Development	Equity	Common Stock	135,501	1,000	96
Dicerna Pharmaceuticals, Inc. (3) (15)	Drug Discovery & Development	Equity	Common Stock	142,858	1,000	411
Dynavax Technologies (3) (9)	Drug Discovery & Development	Equity	Common Stock	20,000	550	79
Epirus Biopharmaceuticals, Inc.	Drug Discovery & Development	Equity	Common Stock	200,000	1,000	—
Genocea Biosciences, Inc. (3)	Drug Discovery & Development	Equity	Common Stock	223,463	2,000	921
Inotek Pharmaceuticals Corporation (3)	Drug Discovery & Development	Equity	Common Stock	3,778	1,500	23
Insmed, Incorporated (3)	Drug Discovery & Development	Equity	Common Stock	70,771	1,000	936
Melinta Therapeutics	Drug Discovery & Development	Equity	Preferred Series 4	1,914,448	2,000	2,042
Paratek Pharmaceuticals, Inc. (p.k.a. Transcept Pharmaceuticals, Inc.) (3)	Drug Discovery & Development	Equity	Common Stock	76,362	2,743	1,175
Subtotal: Drug Discovery & Development (0.76%)*					14,853	6,019
Electronics & Computer Hardware						
Identiv, Inc. (3)	Electronics & Computer Hardware	Equity	Common Stock	6,700	34	21
Subtotal: Electronics & Computer Hardware (0.00%)*					34	21
Information Services						
DocuSign, Inc. (15)	Information Services	Equity	Common Stock	385,000	6,081	6,081
Subtotal: Information Services (0.77%)*					6,081	6,081

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Portfolio Company	Sub-Industry	Type of Investment(1)	Series	Shares	Cost(2)	Value(3)
Internet Consumer & Business Services						
Blurb, Inc. (15)	Internet Consumer & Business Services	Equity	Preferred Series B	220,653	$ 175	$ 197
Brigade Group, Inc. (p.k.a. Philotic, Inc.)	Internet Consumer & Business Services	Equity	Common Stock	9,023	93	—
Lightspeed POS, Inc. (4) (9)	Internet Consumer & Business Services	Equity	Preferred Series C	230,030	250	228
	Internet Consumer & Business Services	Equity	Preferred Series D	198,677	250	221
Total Lightspeed POS, Inc.				428,707	500	449
OfferUp, Inc. (15)	Internet Consumer & Business Services	Equity	Preferred Series A	286,080	1,663	1,663
	Internet Consumer & Business Services	Equity	Preferred Series A-1	108,710	632	632
Total OfferUp, Inc.				394,790	2,295	2,295
Oportun (p.k.a. Progress Financial)	Internet Consumer & Business Services	Equity	Preferred Series G	218,351	250	431
	Internet Consumer & Business Services	Equity	Preferred Series H	87,802	250	249
Total Oportun (p.k.a. Progress Financial)				306,153	500	680
RazorGator Interactive Group, Inc.	Internet Consumer & Business Services	Equity	Preferred Series AA	34,783	15	34
Tectura Corporation	Internet Consumer & Business Services	Equity	Preferred Series BB	1,000,000	—	—
Subtotal: Internet Consumer & Business Services (0.46%)*					3,578	3,655
Media/Content/Info						
Pinterest, Inc.	Media/Content/Info	Equity	Preferred Series Seed	620,000	4,085	4,085
Subtotal: Media/Content/Info (0.52%)*					4,085	4,085
Medical Devices & Equipment						
AtriCure, Inc. (3) (15)	Medical Devices & Equipment	Equity	Common Stock	7,536	266	147
Flowonix Medical Incorporated	Medical Devices & Equipment	Equity	Preferred Series AA	221,893	1,500	359
Gelesis, Inc. (15)	Medical Devices & Equipment	Equity	Common Stock	198,202	—	634
	Medical Devices & Equipment	Equity	Preferred Series A-1	191,210	425	687
	Medical Devices & Equipment	Equity	Preferred Series A-2	191,626	500	650
Total Gelesis, Inc.				581,038	925	1,971
Medrobotics Corporation (15)	Medical Devices & Equipment	Equity	Preferred Series E	136,798	250	216
	Medical Devices & Equipment	Equity	Preferred Series F	73,971	155	188
	Medical Devices & Equipment	Equity	Preferred Series G	163,934	500	514
Total Medrobotics Corporation				374,703	905	918
Optiscan Biomedical, Corp. (5) (15)	Medical Devices & Equipment	Equity	Preferred Series B	6,185,567	3,000	292
	Medical Devices & Equipment	Equity	Preferred Series C	1,927,309	655	85
	Medical Devices & Equipment	Equity	Preferred Series D	55,103,923	5,257	3,014
	Medical Devices & Equipment	Equity	Preferred Series E	13,573,546	1,136	1,138
Total Optiscan Biomedical, Corp.				76,790,345	10,048	4,529
Outset Medical, Inc. (p.k.a. Home Dialysis Plus, Inc.)	Medical Devices & Equipment	Equity	Preferred Series B	232,061	527	548
Quanterix Corporation	Medical Devices & Equipment	Equity	Preferred Series D	272,479	1,000	1,086
Subtotal: Medical Devices & Equipment (1.21%)*					15,171	9,558
Software						
Box, Inc. (3)	Software	Equity	Common Stock	611,442	4,709	8,475
CapLinked, Inc.	Software	Equity	Preferred Series A-3	53,614	51	86
Druva, Inc.	Software	Equity	Preferred Series 2	458,841	1,000	1,288
ForeScout Technologies, Inc.	Software	Equity	Preferred Series D	319,099	398	1,725
	Software	Equity	Preferred Series E	80,587	131	440
Total ForeScout Technologies, Inc.				399,686	529	2,165
HighRoads, Inc.	Software	Equity	Common Stock	190	307	—
NewVoiceMedia Limited (4) (9)	Software	Equity	Preferred Series E	669,173	963	1,025
Palantir Technologies	Software	Equity	Preferred Series E	727,696	5,431	5,431
WildTangent, Inc. (15)	Software	Equity	Preferred Series 3	100,000	402	148
Subtotal: Software (2.36%)*					13,392	18,618
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	—

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Portfolio Company	Sub-Industry	Type of Investment(1)	Series	Shares	Cost(2)	Value(3)
Surgical Devices						
Gynesonics, Inc. (15)	Surgical Devices	Equity	Preferred Series B	219,298	$ 250	$ 37
	Surgical Devices	Equity	Preferred Series C	656,538	282	52
	Surgical Devices	Equity	Preferred Series D	1,991,157	712	671
	Surgical Devices	Equity	Preferred Series E	2,786,367	429	450
Total Gynesonics, Inc.				5,653,360	1,673	1,210
Transmedics, Inc.	Surgical Devices	Equity	Preferred Series B	88,961	1,100	357
	Surgical Devices	Equity	Preferred Series C	119,999	300	291
	Surgical Devices	Equity	Preferred Series D	260,000	650	912
	Surgical Devices	Equity	Preferred Series F	100,200	500	523
Total Transmedics, Inc.				569,160	2,550	2,083
Subtotal: Surgical Devices (0.42%)*					4,223	3,293
Sustainable and Renewable Technology						
Flywheel Building Intelligence, Inc. (p.k.a. SCIEnergy, Inc.)	Sustainable and Renewable Technology	Equity	Common Stock	19,250	761	—
Glori Energy, Inc. (3)	Sustainable and Renewable Technology	Equity	Common Stock	18,208	165	1
Modumetal, Inc.	Sustainable and Renewable Technology	Equity	Preferred Series C	3,107,520	500	533
Proterra, Inc.	Sustainable and Renewable Technology	Equity	Preferred Series 5	99,280	500	512
Sungevity, Inc. (15)	Sustainable and Renewable Technology	Equity	Preferred Series D	68,807,339	6,750	—
TPI Composites, Inc. (3)	Sustainable and Renewable Technology	Equity	Common Stock	78,018	273	1,251
Subtotal: Sustainable and Renewable Technology (0.29%)*					8,949	2,297
Total: Equity Investments (8.59%)*					**81,641**	**67,654**

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(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment(1)	Series	Shares	Cost(2)	Value(3)
Warrant Investments						
Biotechnology Tools						
Exicure, Inc.	Biotechnology Tools	Warrant	Preferred Series C	104,348	$ 107	$ 181
Labcyte, Inc. (15)	Biotechnology Tools	Warrant	Preferred Series C	1,127,624	323	409
Subtotal: Biotechnology Tools (0.07%)*					430	590
Communications & Networking						
Intelepeer, Inc. (15)	Communications & Networking	Warrant	Common Stock	117,958	102	—
OpenPeak, Inc.	Communications & Networking	Warrant	Common Stock	108,982	149	—
PeerApp, Inc.	Communications & Networking	Warrant	Preferred Series B	298,779	61	14
Peerless Network Holdings, Inc.	Communications & Networking	Warrant	Preferred Series A	135,000	95	415
SkyCross, Inc. (6) (15)	Communications & Networking	Warrant	Preferred Series F	9,762,777	394	—
Spring Mobile Solutions, Inc.	Communications & Networking	Warrant	Common Stock	2,834,375	418	—
Subtotal: Communications & Networking (0.05%)*					1,219	429
Consumer & Business Products						
Antenna79 (p.k.a. Pong Research Corporation) (15)	Consumer & Business Products	Warrant	Common Stock	1,662,441	228	—
Intelligent Beauty, Inc. (15)	Consumer & Business Products	Warrant	Preferred Series B	190,234	230	354
IronPlanet, Inc.	Consumer & Business Products	Warrant	Preferred Series D	1,155,821	1,076	5,574
Nasty Gal (15)	Consumer & Business Products	Warrant	Preferred Series C	845,194	23	—
The Neat Company (15)	Consumer & Business Products	Warrant	Preferred Series C-1	540,540	365	—
Subtotal: Consumer & Business Products (0.75%)*					1,922	5,928
Drug Delivery						
AcelRx Pharmaceuticals, Inc. (3) (9) (15)	Drug Delivery	Warrant	Common Stock	176,730	785	92
Agile Therapeutics, Inc. (3)	Drug Delivery	Warrant	Common Stock	180,274	730	269
Aprecia Pharmaceuticals Company	Drug Delivery	Warrant	Preferred Series A-1	735,981	366	242
BIND Therapeutics, Inc. (15)	Drug Delivery	Warrant	Common Stock	152,586	488	—
BioQ Pharma Incorporated	Drug Delivery	Warrant	Common Stock	459,183	1	264
Celsion Corporation (3)	Drug Delivery	Warrant	Common Stock	194,986	428	—
Dance Biopharm, Inc. (15)	Drug Delivery	Warrant	Common Stock	110,882	74	—
Edge Therapeutics, Inc. (3)	Drug Delivery	Warrant	Common Stock	78,595	390	402
Kaleo, Inc. (p.k.a. Intelliject, Inc.)	Drug Delivery	Warrant	Preferred Series B	82,500	594	391
Neos Therapeutics, Inc. (3) (15)	Drug Delivery	Warrant	Common Stock	70,833	285	17
Pulmatrix Inc. (3)	Drug Delivery	Warrant	Common Stock	25,150	116	—
ZP Opco, Inc (p.k.a. Zosano Pharma) (3)	Drug Delivery	Warrant	Common Stock	72,379	266	—
Subtotal: Drug Delivery (0.21%)*					4,523	1,677

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Portfolio Company	Sub-Industry	Type of Investment(1)	Series	Shares	Cost(2)	Value(3)
Drug Discovery & Development						
ADMA Biologics, Inc. (3)	Drug Discovery & Development	Warrant	Common Stock	89,750	$ 295	$ 43
Anthera Pharmaceuticals, Inc. (3) (15)	Drug Discovery & Development	Warrant	Common Stock	40,178	984	—
Auris Medical Holding, AG (3) (4) (9)	Drug Discovery & Development	Warrant	Common Stock	156,726	249	51
Aveo Pharmaceuticals, Inc. (3) (9)	Drug Discovery & Development	Warrant	Common Stock	2,069,880	396	123
Brickell Biotech, Inc.	Drug Discovery & Development	Warrant	Preferred Series C	26,086	119	139
Cerecor, Inc. (3)	Drug Discovery & Development	Warrant	Common Stock	22,328	70	—
Cerulean Pharma, Inc. (3)	Drug Discovery & Development	Warrant	Common Stock	171,901	369	14
Chroma Therapeutics, Ltd. (4) (9)	Drug Discovery & Development	Warrant	Preferred Series D	325,261	490	—
Cleveland BioLabs, Inc. (3) (15)	Drug Discovery & Development	Warrant	Common Stock	7,813	105	—
Concert Pharmaceuticals, Inc. (3)	Drug Discovery & Development	Warrant	Common Stock	70,796	367	56
CTI BioPharma Corp. (p.k.a. Cell Therapeutics, Inc.) (3)	Drug Discovery & Development	Warrant	Common Stock	292,398	165	8
CytRx Corporation (3) (15)	Drug Discovery & Development	Warrant	Common Stock	634,146	416	78
Dicerna Pharmaceuticals, Inc. (3) (15)	Drug Discovery & Development	Warrant	Common Stock	200	28	—
Epirus Biopharmaceuticals, Inc.	Drug Discovery & Development	Warrant	Common Stock	64,194	276	—
Fortress Biotech, Inc. (p.k.a. Coronado Biosciences, Inc.) (3)	Drug Discovery & Development	Warrant	Common Stock	73,009	142	13
Genocea Biosciences, Inc. (3)	Drug Discovery & Development	Warrant	Common Stock	73,725	266	75
Immune Pharmaceuticals (3)	Drug Discovery & Development	Warrant	Common Stock	214,853	164	—
Mast Therapeutics, Inc. (3) (15)	Drug Discovery & Development	Warrant	Common Stock	2,272,724	203	85
Melinta Therapeutics	Drug Discovery & Development	Warrant	Preferred Series 3	1,382,323	626	295
Nanotherapeutics, Inc. (15)	Drug Discovery & Development	Warrant	Common Stock	171,389	838	767
Neothetics, Inc. (p.k.a. Lithera, Inc) (3) (15)	Drug Discovery & Development	Warrant	Common Stock	46,838	266	29
Neuralstem, Inc. (3) (15)	Drug Discovery & Development	Warrant	Common Stock	75,187	77	1
Paratek Pharmaceuticals, Inc. (p.k.a. Transcept Pharmaceuticals, Inc.) (3) (15)	Drug Discovery & Development	Warrant	Common Stock	69,840	152	157
PhaseRx,Inc. (3) (15)	Drug Discovery & Development	Warrant	Common Stock	63,000	125	15
Sorrento Therapeutics, Inc. (3) (9)	Drug Discovery & Development	Warrant	Common Stock	306,748	890	632
uniQure B.V. (3) (4) (9)	Drug Discovery & Development	Warrant	Common Stock	37,174	218	8
XOMA Corporation (3) (9) (15)	Drug Discovery & Development	Warrant	Common Stock	9,063	279	6
Subtotal: Drug Discovery & Development (0.33%)*					8,575	2,595
Electronics & Computer Hardware						
Clustrix, Inc.	Electronics & Computer Hardware	Warrant	Common Stock	50,000	12	—
Persimmon Technologies	Electronics & Computer Hardware	Warrant	Preferred Series D	63,348	40	509
Subtotal: Electronics & Computer Hardware (0.06%)*					52	509
Healthcare Services, Other						
Chromadex Corporation (3) (15)	Healthcare Services, Other	Warrant	Common Stock	139,673	157	137
Subtotal: Healthcare Services, Other (0.02%)*					157	137

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Portfolio Company	Sub-Industry	Type of Investment(1)	Series	Shares	Cost(2)	Value(3)
Information Services						
INMOBI Inc. (4) (9)	Information Services	Warrant	Common Stock	46,874	$ 82	$ —
InXpo, Inc. (15)	Information Services	Warrant	Preferred Series C	648,400	98	4
	Information Services	Warrant	Preferred Series C-1	1,165,183	74	6
Total InXpo, Inc.				1,813,583	172	10
RichRelevance, Inc. (15)	Information Services	Warrant	Preferred Series E	112,612	98	—
Subtotal: Information Services (0.00%)*					352	10
Internet Consumer & Business Services						
Aria Systems, Inc.	Internet Consumer & Business Services	Warrant	Preferred Series E	239,692	73	—
Blurb, Inc. (15)	Internet Consumer & Business Services	Warrant	Preferred Series C	234,280	636	96
CashStar, Inc. (15)	Internet Consumer & Business Services	Warrant	Preferred Series C-2	727,272	130	24
CloudOne, Inc.	Internet Consumer & Business Services	Warrant	Preferred Series E	968,992	19	46
Intent Media, Inc. (15)	Internet Consumer & Business Services	Warrant	Common Stock	140,077	168	167
Just Fabulous, Inc.	Internet Consumer & Business Services	Warrant	Preferred Series B	206,184	1,102	1,093
Lightspeed POS, Inc. (4) (9)	Internet Consumer & Business Services	Warrant	Preferred Series C	245,610	20	31
LogicSource (15)	Internet Consumer & Business Services	Warrant	Preferred Series C	79,625	30	59
Oportun (p.k.a. Progress Financial)	Internet Consumer & Business Services	Warrant	Preferred Series G	174,562	78	190
Prism Education Group, Inc. (15)	Internet Consumer & Business Services	Warrant	Preferred Series B	200,000	43	—
ShareThis, Inc. (15)	Internet Consumer & Business Services	Warrant	Preferred Series C	493,502	547	1
Snagajob.com, Inc.	Internet Consumer & Business Services	Warrant	Preferred Series A	1,575,000	640	1,075
Tapjoy, Inc.	Internet Consumer & Business Services	Warrant	Preferred Series D	748,670	316	19
Tectura Corporation	Internet Consumer & Business Services	Warrant	Preferred Series B-1	253,378	51	—
Subtotal: Internet Consumer & Business Services (0.36%)*					3,853	2,801
Media/Content/Info						
FanDuel, Inc.	Media/Content/Info	Warrant	Preferred Series E-1	4,648	730	682
Machine Zone, Inc. (16)	Media/Content/Info	Warrant	Common Stock	1,552,710	1,958	2,729
Rhapsody International, Inc. (15)	Media/Content/Info	Warrant	Common Stock	715,755	385	7
WP Technology, Inc. (Wattpad, Inc.) (4) (9)	Media/Content/Info	Warrant	Common Stock	127,909	1	6
Zoom Media Group, Inc.	Media/Content/Info	Warrant	Preferred Series A	1,204	348	14
Subtotal: Media/Content/Info (0.44%)*					3,422	3,438
Medical Devices & Equipment						
Amedica Corporation (3) (15)	Medical Devices & Equipment	Warrant	Common Stock	103,225	459	14
Aspire Bariatrics, Inc. (15)	Medical Devices & Equipment	Warrant	Preferred Series D	395,000	455	217
Avedro, Inc. (15)	Medical Devices & Equipment	Warrant	Preferred Series AA	300,000	401	254
Flowonix Medical Incorporated	Medical Devices & Equipment	Warrant	Preferred Series AA	155,325	362	21
Gamma Medica, Inc.	Medical Devices & Equipment	Warrant	Preferred Series A	450,956	170	234
Gelesis, Inc. (15)	Medical Devices & Equipment	Warrant	Preferred Series A-1	74,784	78	153
InspireMD, Inc. (3) (4) (9)	Medical Devices & Equipment	Warrant	Common Stock	39,364	242	20
IntegenX, Inc. (15)	Medical Devices & Equipment	Warrant	Preferred Series C	547,752	15	35
Medrobotics Corporation (15)	Medical Devices & Equipment	Warrant	Preferred Series E	455,539	370	292
Micell Technologies, Inc.	Medical Devices & Equipment	Warrant	Preferred Series D-2	84,955	262	347
NetBio, Inc.	Medical Devices & Equipment	Warrant	Preferred Series A	7,841	408	158
NinePoint Medical, Inc. (15)	Medical Devices & Equipment	Warrant	Preferred Series A-1	587,840	170	65
Optiscan Biomedical, Corp. (5) (15)	Medical Devices & Equipment	Warrant	Preferred Series D	10,535,275	1,252	170
Outset Medical, Inc. (p.k.a. Home Dialysis Plus, Inc.)	Medical Devices & Equipment	Warrant	Preferred Series A	500,000	402	355
Quanterix Corporation	Medical Devices & Equipment	Warrant	Preferred Series C	173,428	180	104
SonaCare Medical, LLC (p.k.a. US HIFU, LLC)	Medical Devices & Equipment	Warrant	Preferred Series A	6,464	188	—
Strata Skin Sciences, Inc. (p.k.a. MELA Sciences, Inc.) (3)	Medical Devices & Equipment	Warrant	Common Stock	69,320	402	—
ViewRay, Inc. (3) (15)	Medical Devices & Equipment	Warrant	Common Stock	128,231	333	2
Subtotal: Medical Devices & Equipment (0.31%)*					6,149	2,441

See notes to consolidated financial statements.

HERCULES CAPITAL, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS
December 31, 2016
(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment(1)	Series	Shares	Cost(2)	Value(3)
Semiconductors						
Achronix Semiconductor Corporation (15)	Semiconductors	Warrant	Preferred Series C	360,000	$ 160	$ 71
	Semiconductors	Warrant	Preferred Series D-1	500,000	7	25
Total Achronix Semiconductor Corporation				860,000	167	96
Aquantia Corp.	Semiconductors	Warrant	Preferred Series G	196,831	4	88
Avnera Corporation	Semiconductors	Warrant	Preferred Series E	141,567	46	114
Subtotal: Semiconductors (0.04%)*					217	298
Software						
Actifio, Inc.	Software	Warrant	Common Stock	73,584	249	83
	Software	Warrant	Preferred Series F	31,673	343	54
Total Actifio, Inc.				105,257	592	137
Braxton Technologies, LLC	Software	Warrant	Preferred Series A	168,750	188	—
CareCloud Corporation (15)	Software	Warrant	Preferred Series B	413,433	258	488
Clickfox, Inc. (15)	Software	Warrant	Preferred Series B	1,038,563	330	63
	Software	Warrant	Preferred Series C	592,019	730	76
	Software	Warrant	Preferred Series C-A	2,218,214	230	1,604
Total Clickfox, Inc.				3,848,796	1,290	1,743
Cloud Technology Partners, Inc.	Software	Warrant	Preferred Series C	113,960	34	35
Evernote Corporation (15)	Software	Warrant	Common Stock	62,500	106	110
JumpStart Games, Inc. (p.k.a Knowledge Holdings, Inc.) (15)	Software	Warrant	Preferred Series E	614,333	16	—
Mattersight Corporation (3)	Software	Warrant	Common Stock	357,143	538	386
Message Systems, Inc. (15)	Software	Warrant	Preferred Series C	503,718	334	325
Mobile Posse, Inc. (15)	Software	Warrant	Preferred Series C	396,430	130	102
Neos, Inc. (15)	Software	Warrant	Common Stock	221,150	22	64
NewVoiceMedia Limited (4) (9)	Software	Warrant	Preferred Series E	225,586	33	45
OneLogin, Inc. (15)	Software	Warrant	Common Stock	228,972	150	188
Poplicus, Inc. (15)	Software	Warrant	Preferred Series C	2,595,230	—	6
Quid, Inc. (15)	Software	Warrant	Preferred Series D	71,576	1	8
RedSeal Inc. (15)	Software	Warrant	Preferred Series C-Prime	640,603	66	65
Signpost, Inc. (15)	Software	Warrant	Preferred Series C	324,005	314	167
Soasta, Inc. (15)	Software	Warrant	Preferred Series E	410,800	691	190
Sonian, Inc. (15)	Software	Warrant	Preferred Series C	185,949	106	105
Subtotal: Software (0.53%)*					4,869	4,164
Specialty Pharmaceuticals						
Alimera Sciences, Inc. (3)	Specialty Pharmaceuticals	Warrant	Common Stock	1,717,709	860	421
QuatRx Pharmaceuticals Company	Specialty Pharmaceuticals	Warrant	Preferred Series E	155,324	308	—
Subtotal: Specialty Pharmaceuticals (0.05%)*					1,168	421
Surgical Devices						
Gynesonics, Inc. (15)	Surgical Devices	Warrant	Preferred Series C	180,480	75	14
	Surgical Devices	Warrant	Preferred Series D	1,575,965	320	240
Total Gynesonics, Inc.				1,756,445	395	254
Transmedics, Inc.	Surgical Devices	Warrant	Preferred Series B	40,436	225	16
	Surgical Devices	Warrant	Preferred Series D	175,000	100	405
	Surgical Devices	Warrant	Preferred Series F	50,544	38	56
Total Transmedics, Inc.				265,980	363	477
Subtotal: Surgical Devices (0.09%)*					758	731

See notes to consolidated financial statements.

HERCULES CAPITAL, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS
December 31, 2016
(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment(1)	Series	Shares	Cost(2)	Value(3)
Sustainable and Renewable Technology						
Agrivida, Inc. (15)	Sustainable and Renewable Technology	Warrant	Preferred Series D	471,327	$ 120	$ 99
Alphabet Energy, Inc. (15)	Sustainable and Renewable Technology	Warrant	Preferred Series A	86,329	82	—
American Superconductor Corporation (3)	Sustainable and Renewable Technology	Warrant	Common Stock	58,823	39	85
Beamreach Solar (p.k.a. Solexel, Inc.) (15)	Sustainable and Renewable Technology	Warrant	Preferred Series C	1,171,625	1,162	—
Brightsource Energy, Inc.	Sustainable and Renewable Technology	Warrant	Preferred Series 1	116,666	104	—
Calera, Inc. (15)	Sustainable and Renewable Technology	Warrant	Preferred Series C	44,529	513	—
EcoMotors, Inc. (15)	Sustainable and Renewable Technology	Warrant	Preferred Series B	437,500	308	30
Fluidic, Inc.	Sustainable and Renewable Technology	Warrant	Preferred Series D	61,804	102	20
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 Flywheel Building Intelligence, Inc. (p.k.a. SCIEnergy, Inc.)				537,040	231	—
Fulcrum Bioenergy, Inc.	Sustainable and Renewable Technology	Warrant	Preferred Series C-1	280,897	275	201
GreatPoint Energy, Inc. (15)	Sustainable and Renewable Technology	Warrant	Preferred Series D-1	393,212	548	—
Polyera Corporation (15)	Sustainable and Renewable Technology	Warrant	Preferred Series C	311,609	338	—
Proterra, Inc.	Sustainable and Renewable Technology	Warrant	Preferred Series 4	477,517	41	457
Rive Technology, Inc. (15)	Sustainable and Renewable Technology	Warrant	Preferred Series E	234,477	12	3
Stion Corporation (5)	Sustainable and Renewable Technology	Warrant	Preferred Series Seed	2,154	1,378	—
Sungevity, Inc.	Sustainable and Renewable Technology	Warrant	Common Stock	20,000,000	543	—
	Sustainable and Renewable Technology	Warrant	Preferred Series C	32,472,222	902	—
Total Sungevity, Inc.				52,472,222	1,445	—
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	219
Trilliant, Inc. (15)	Sustainable and Renewable Technology	Warrant	Preferred Series A	320,000	162	202
Subtotal: Sustainable and Renewable Technology (0.17%)*					7,348	1,316
Total: Warrant Investments (3.49%)*					**45,014**	**27,485**
Total Investments (180.72%)*					**$ 1,511,526**	**$ 1,423,942**

* 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 $24.7 million, $114.5 million and $89.8 million respectively. The tax cost of investments is $1.5 billion.
(3) Except for warrants in 37 publicly traded companies and common stock in 19 publicly traded companies, all investments are restricted at December 31, 2016 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.
(7) Debt is on non-accrual status at December 31, 2016, and is therefore considered non-income producing. Note that at December 31, 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 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 Bank Facility (as defined in Note 4).
(13) Denotes that all or a portion of the debt investment principal includes accumulated PIK 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 HT II, 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 December 31, 2016.
(17) Denotes that there is an unfunded contractual commitment available at the request of this portfolio company at December 31, 2016. Refer to Note 10.
(18) Repayment of debt investment is delinquent of the contractual maturity date as of December 31, 2016.
(19) The stated PIK interest rate may be reduced to 1.45% subject to achievement of a milestone by the portfolio company.

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 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 1940 Act. From incorporation through December 31, 2005, the Company was subject to tax 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 Financial Accounting Standards Board's ("FASB") 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 received 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 $111.8 million and $284.0 million in assets, respectively, and they accounted for approximately 5.4% and 13.8% of the Company's total assets, respectively, prior to consolidation at December 31, 2017.

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 financial reporting purposes and in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"), 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 Articles 6 and 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 or that provides services to the 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.

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."

Revision of Previously Issued Financial Statements

It was determined that there was a misclassification in the previously issued consolidated financial statements of $15.3 million, and $8.0 million in the distributions for the years ended December 31, 2015 and 2016 respectively. The amounts had been categorized as distributions of net investment income rather than distributions of realized gains and the components of net assets have been revised in the respective years to reflect the correct classification. In addition, the financial highlights in note 9 have been updated to reclassify $0.22 and $0.11 per share from distributions of net investment income to distributions of realized gains for the years ended December 31, 2015 and 2016 respectively. The amounts reclassified are not material individually, or in the aggregate, and there is no impact on previously reported net assets, total distributions, and earnings per share for the years ended December 2015 and 2016. The Company plans to reflect the revised amounts in its quarterly consolidated financial statements in future filings containing such information.

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 December 31, 2017, approximately 93.2% 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 publicly 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 December 31, 2017 and December 31, 2016. 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 year ended December 31, 2017, there were no transfers between Levels 1 or 2.

(in thousands) **Description**	**Balance December 31, 2017**	**Quoted Prices In Active Markets For Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Senior Secured Debt	$ 1,415,984	$ —	$ —	$ 1,415,984
Preferred Stock	40,683	—	—	40,683
Common Stock	48,678	22,825	—	25,853
Warrants	36,869	—	5,664	31,205
Escrow Receivable	752	—	—	752
Total	$ 1,542,966	$ 22,825	$ 5,664	$ 1,514,477

(in thousands) **Description**	**Balance December 31, 2016**	**Quoted Prices In Active Markets For Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Senior Secured Debt	$ 1,328,803	$ —	$ 4,825	$ 1,323,978
Preferred Stock	39,418	—	—	39,418
Common Stock	28,236	17,271	—	10,965
Warrants	27,485	—	3,239	24,246
Escrow Receivable	1,382	—	—	1,382
Total	$ 1,425,324	$ 17,271	$ 8,064	$ 1,399,989

The table below presents a reconciliation for all financial assets and liabilities measured at fair value on a recurring basis, excluding accrued interest components, using significant unobservable inputs (Level 3) for the years ended December 31, 2017 and December 31, 2016.

(in thousands)	Balance January 1, 2017	Net Realized Gains (Losses) (1)	Net Change in Unrealized Appreciation (Depreciation) (2)	Purchases (5)	Sales	Repayments (6)	Gross Transfers into Level 3 (3)	Gross Transfers out of Level 3 (3)	Balance December 31, 2017
Senior Debt	$ 1,323,978	$ (24,684)	$ 29,610	$ 776,648	$ —	$ (626,897)	$ —	$ (62,671)	$ 1,415,984
Preferred Stock	39,418	(7,531)	11,955	2,683	(468)	—	—	(5,374)	40,683
Common Stock	10,965	(487)	(49,462)	3,748	(1,582)	—	62,671	—	25,853
Warrants	24,246	727	8,450	5,449	(7,303)	—	—	(364)	31,205
Escrow Receivable	1,382	261	—	3,127	(4,018)	—	—	—	752
Total	$ 1,399,989	$ (31,714)	$ 553	$ 791,655	$ (13,371)	$ (626,897)	$ 62,671	$ (68,409)	$ 1,514,477

(in thousands)	Balance January 1, 2016	Net Realized Gains (Losses) (1)	Net Change in Unrealized Appreciation (Depreciation) (2)	Purchases (5)	Sales	Repayments (6)	Gross Transfers into Level 3 (4)	Gross Transfers out of Level 3 (4)	Balance December 31, 2016
Senior Debt	$ 1,102,396	$ (6,968)	$ (12,675)	$ 687,353	$ —	$ (441,567)	$ —	$ (4,561)	$ 1,323,978
Preferred Stock	35,245	(334)	(7,864)	13,873	(1,367)	—	626	(761)	39,418
Common Stock	1,527	—	(1,404)	6,081	—	—	4,761	—	10,965
Warrants	18,565	(116)	3,465	4,082	(1,186)	—	—	(564)	24,246
Escrow Receivable	2,967	(6)	—	2,009	(3,588)	—	—	—	1,382
Total	$ 1,160,700	$ (7,424)	$ (18,478)	$ 713,398	$ (6,141)	$ (441,567)	$ 5,387	$ (5,886)	$ 1,399,989

(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 year ended December 31, 2017 relate to the conversion of the Company's debt investment in Sungevity, Inc. and a portion of the Company's debt investment in Gamma Medica, Inc. to common stock through bankruptcy transactions, IPOs of ForeScout Technologies, Inc., Aquantia Corporation, and Quanterix Corporation, and merger of the Company's former portfolio company Cempra, Inc. and current portfolio company Melinta Therapeutics, Inc. into NASDAQ-listed company Melinta Theraputics, Inc. Transfers into Level 3 during the year ended December 31, 2017 relate to the conversion of the Company's debt investment in Sungevity, Inc. and a portion of the Company's debt investment in Gamma Medica, Inc. to common stock through bankruptcy transactions.

(4) Transfers out of Level 3 during the year ended December 31, 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 of Level 3 during the year ended December 31, 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.

(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 year ended December 31, 2017, approximately $4.2 million in net unrealized appreciation and $49.2 million 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. The depreciation on common stock during the period reflects the conversion of the Company's debt investment in Sungevity, Inc. to common stock at cost through a bankruptcy transaction and subsequent depreciation to fair value. For the same period, approximately $10.5 million in net unrealized depreciation and $9.0 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, 2016, approximately $9.1 million and $1.4 million 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 $25.7 million in net unrealized depreciation and $2.8 million in net unrealized appreciation 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 December 31, 2017 and December 31, 2016. 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 Three Debt Investments	Fair Value at December 31, 2017 (in thousands)	Valuation Techniques/ Methodologies	Unobservable Input (1)	Range	Weighted Average (2)
Pharmaceuticals	$ 44,301	Originated Within 6 Months	Origination Yield	10.71% - 12.61%	11.89%
	379,841	Market Comparable Companies	Hypothetical Market Yield	10.14% - 16.14%	12.94%
			Premium/(Discount)	(0.25%) - 0.75%	
	2,257	Liquidation (3)	Probability weighting of alternative outcomes	100.00%	
Technology	158,916	Originated Within 6 Months	Origination Yield	9.4% - 25.11%	11.68%
	290,561	Market Comparable Companies	Hypothetical Market Yield	9.47% - 19.21%	13.55%
			Premium/(Discount)	(0.25%) - 1.00%	
	22,020	Liquidation (3)	Probability weighting of alternative outcomes	5.00% - 100.00%	
Sustainable and Renewable	33,020	Originated Within 6 Months	Origination Yield	11.97% - 20.06%	15.31%
Technology	49,647	Market Comparable Companies	Hypothetical Market Yield	11.15% - 14.16%	12.13%
			Premium/(Discount)	0.00% - 0.25%	
Medical Devices	17,013	Originated Within 6 Months	Origination Yield	13.49%	13.49%
	89,869	Market Comparable Companies	Hypothetical Market Yield	9.66% - 17.57%	12.28%
			Premium/(Discount)	0.00% - 0.50%	
Lower Middle Market	97,291	Originated Within 6 Months	Origination Yield	8.29% - 12.68%	12.01%
	19,219	Liquidation (3)	Probability weighting of alternative outcomes	10.00% - 100.00%	
		Debt Investments Where Fair Value Approximates Cost			
	35,517	Imminent Payoffs (4)			
	176,512	Debt Investments Maturing in Less than One Year			
	$ 1,415,984	**Total Level Three Debt Investments**			

(1) 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 d ebt 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.

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

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

(4) 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 Three Debt Investments		Fair Value at December 31, 2016 (in thousands)	Valuation Techniques/ Methodologies	Unobservable Input (1)	Range	Weighted Average (2)
Pharmaceuticals	$	102,412	Originated Within 6 Months	Origination Yield	12.24% - 14.59%	13.64%
		434,718	Market Comparable Companies	Hypothetical Market Yield	9.07% - 15.62%	12.44%
				Premium/(Discount)	(0.25%) - 0.75%	
		2,693	Liquidation (3)	Probability weighting of alternative outcomes	25.00% - 100.00%	
Technology		93,674	Originated Within 6 Months	Origination Yield	7.29% - 16.53%	13.69%
		325,553	Market Comparable Companies	Hypothetical Market Yield	10.14% - 21.66%	12.69%
				Premium/(Discount)	(0.50%) - 0.50%	
		24,706	Liquidation (3)	Probability weighting of alternative outcomes	20.00% - 100.00%	
Sustainable and Renewable Technology		99,286	Market Comparable Companies	Hypothetical Market Yield	11.77% - 16.84%	13.45%
				Premium/(Discount)	0.00% - 0.25%	
		44,626	Liquidation (3)	Probability weighting of alternative outcomes	10.00% - 40.00%	
Medical Devices		88,983	Market Comparable Companies	Hypothetical Market Yield	10.25% - 18.60%	14.01%
				Premium/(Discount)	(0.25%) - 0.75%	
Lower Middle Market		25,017	Market Comparable Companies	Hypothetical Market Yield	8.85% - 15.79%	10.10%
				Premium/(Discount)	0.00% - 0.25%	
		13,148	Liquidation (3)	Probability weighting of alternative outcomes	100.00%	
			Debt Investments Where Fair Value Approximates Cost			
		25,000	Imminent Payoffs (4)			
		44,162	Debt Investments Maturing in Less than One Year			
	$	1,323,978	**Total Level Three Debt Investments**			

(1) 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.

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

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

(4) 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 Three Equity and Warrant Investments	Fair Value at December 31, 2017 (in thousands)	Valuation Techniques/ Methodologies	Unobservable Input (1)	Range	Weighted Average (6)
Equity Investments	$ 7,684	Market Comparable Companies	EBITDA Multiple (2)	5.1x - 40.2x	13.2x
			Revenue Multiple (2)	0.5x - 6.2x	2.9x
			Discount for Lack of Marketability (3)	7.49% - 12.97%	8.77%
			Average Industry Volatility (4)	27.8% - 77.3%	53.35%
			Risk-Free Interest Rate	1.40% - 1.90%	1.47%
			Estimated Time to Exit (in months)	3 - 10	5
	19,323	Market Adjusted OPM Backsolve	Market Equity Adjustment (5)	(16.43%) - 29.4%	11.79%
			Average Industry Volatility (4)	33.17% - 78.77%	68.99%
			Risk-Free Interest Rate	0.84% - 1.51%	1.42%
			Estimated Time to Exit (in months)	5 - 26	13
	39,529	Other (7)			
Warrant Investments	19,310	Market Comparable Companies	EBITDA Multiple (2)	5x - 40.2x	14.6x
			Revenue Multiple (2)	0.5x - 6.4x	2.6x
			Discount for Lack of Marketability (3)	5.16% - 27.41%	13.57%
			Average Industry Volatility (4)	27.8% - 102.77%	55.15%
			Risk-Free Interest Rate	1.31% - 2.09%	1.66%
			Estimated Time to Exit (in months)	2 - 48	13
	6,713	Market Adjusted OPM Backsolve	Market Equity Adjustment (5)	(68.52%) - 154.5%	11.76%
			Average Industry Volatility (4)	33.17% - 110.32%	66.97%
			Risk-Free Interest Rate	0.96% - 2.09%	1.59%
			Estimated Time to Exit (in months)	5 - 48	20
	5,182	Other (7)			
Total Level Three Warrant and Equity Investments	$ 97,741				

(1) 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, market equity adjustment factors, 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 would 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.

(2) Represents amounts used when the Company has determined that market participants would use such multiples when pricing the investments.

(3) Represents amounts used when the Company has determined market participants would take into account these discounts when pricing the investments.

(4) Represents the range of industry volatility used by market participants when pricing the investment.

(5) Represents the range of changes in industry valuations since the portfolio company's last external valuation event.

(6) Weighted averages are calculated based on the fair market value of each investment.

(7) The fair market value of these investments is derived based on recent private market and merger and acquisition transaction prices.

Investment Type - Level Three Equity and Warrant Investments	Fair Value at December 31, 2016 (in thousands)	Valuation Techniques/ Methodologies	Unobservable Input (1)	Range	Weighted Average (5)
Equity Investments	$ 9,258	Market Comparable Companies	EBITDA Multiple (2)	0.0x - 38.7x	12.3x
			Revenue Multiple (2)	0.9x - 8.7x	3.1x
			Discount for Lack of Marketability (3)	13.75% - 25.97%	16.73%
			Average Industry Volatility (4)	45.54% - 113.16%	61.06%
			Risk-Free Interest Rate	0.79% - 1.50%	0.91%
			Estimated Time to Exit (in months)	10 - 38	15
	19,836	Market Adjusted OPM Backsolve	Average Industry Volatility (4)	29.93%- 109.95%	73.49%
			Risk-Free Interest Rate	0.65% - 1.44%	0.92%
			Estimated Time to Exit (in months)	10 - 34	15
	21,289	Other (6)			
Warrant Investments	8,959	Market Comparable Companies	EBITDA Multiple (2)	2.6x - 51.4x	13.8x
			Revenue Multiple (2)	0.4x - 6.1x	2.5x
			Discount for Lack of Marketability (3)	11.74% - 27.25%	19.02%
			Average Industry Volatility (4)	38.58% - 111.15%	62.03%
			Risk-Free Interest Rate	0.68% - 1.68%	1.04%
			Estimated Time to Exit (in months)	7 - 47	20
	9,713	Market Adjusted OPM Backsolve	Average Industry Volatility (4)	29.93% - 116.29%	67.20%
			Risk-Free Interest Rate	0.45% - 1.84%	0.99%
			Estimated Time to Exit (in months)	3 - 47	20
	5,574	Other (6)			
Total Level Three Warrant and Equity Investments	$ 74,629				

(1) 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, market equity adjustment factors, 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 would 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.

(2) Represents amounts used when the Company has determined that market participants would use such multiples when pricing the investments.

(3) Represents amounts used when the Company has determined market participants would take into account these discounts when pricing the investments.

(4) Represents the range of industry volatility used by market participants when pricing the investment.

(5) Weighted averages are calculated based on the fair market value of each investment.

(6) The fair market value of these investments is derived based on recent private market and merger and acquisition transaction prices.

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 investment 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 an analysis of, 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 investment 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 investment 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 as of the valuation date.

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 December 31, 2017 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 gain and loss and changes in the Company's unrealized appreciation and depreciation on control and affiliate investments for the years ended December 31, 2017 and 2016, and affiliate investments for the year ended December 2015. The Company did not hold any control investments at December 31, 2015.

(in thousands)			Year Ended December 31, 2017			
Portfolio Company	**Type**	**Fair Value at December 31, 2017**	**Investment Income**	**Net Change in Unrealized Appreciation/ (Depreciation)**	**Reversal of Unrealized Appreciation/ (Depreciation) (1)**	**Realized Gain/(Loss)**
Control Investments						
Achilles Technology Management Co II, Inc.	Control	$ 242	$ 155	$ (2,254)	$ —	$ (486)
HercGamma, Inc.	Control	—	—	(523)	523	(487)
SkyCross, Inc.	Control	—	—	1,842	15,452	(15,452)
Tectura Corporation	Control	19,219	1,827	(1,079)	51	(51)
Second Time Around (Simplify Holdings, LLC)	Control	—	—	140	—	—
Total Control Investments		$ 19,461	$ 1,982	$ (1,874)	$ 16,026	$ (16,476)
Affiliate Investments						
Optiscan BioMedical, Corp.	Affiliate	$ 6,291	$ —	$ 1,419	$ —	$ —
Stion Corporation	Affiliate	—	2	—	—	—
Solar Spectrum Holdings LLC (p.k.a. Sungevity, Inc.)	Affiliate	25,004	842	(50,102)	—	—
Total Affiliate Investments		$ 31,295	$ 844	$ (48,683)	$ —	$ —
Total Control & Affiliate Investments		$ 50,756	$ 2,826	$ (50,557)	$ 16,026	$ (16,476)

(in thousands)			Year Ended December 31, 2016			
Portfolio Company	**Type**	**Fair Value at December 31, 2016**	**Investment Income**	**Net Change in Unrealized Appreciation/ (Depreciation)**	**Reversal of Unrealized Appreciation/ (Depreciation) (1)**	**Realized Gain/(Loss)**
Control Investments						
SkyCross, Inc.	Control	$ —	$ —	$ (3,421)	$ —	$ —
Achilles Technology Management Co II, Inc.	Control	4,700	84	(604)	—	—
Total Control Investments		$ 4,700	$ 84	$ (4,025)	$ —	$ —
Affiliate Investments						
Optiscan BioMedical, Corp.	Affiliate	$ 4,699	$ 12	$ (3,409)	$ —	$ —
Stion Corporation	Affiliate	333	148	539	648	—
Total Affiliate Investments		$ 5,032	$ 160	$ (2,870)	$ 648	$ —
Total Control & Affiliate Investments		$ 9,732	$ 244	$ (6,895)	$ 648	$ —

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

(1) Represents reversals of prior period net unrealized depreciation upon being realized as a loss due to write off or reversals of prior period collateral based impairments.

In July 2017, the Company acquired the primary assets of Second Time Around (Simplify Holdings, LLC) as part of an article 9 consensual foreclosure and public auction. These assets represent the remaining possible recovery on the Company's debt and as such this investment became classified as a control investment as of September 30, 2017.

In June 2017, the Company acquired 100% ownership of the equity in HercGamma, Inc. and classified it as a control investment in accordance with the requirements of the 1940 Act. In June 2017, HercGamma, Inc. acquired the assets of a medical device company that develops advanced digital imaging to detect breast cancer, as part of an article 9 consensual foreclosure and public auction for consideration with an estimated fair value of $1.2 million. In September 2017, the Company reduced the cost basis of its equity position by $646,000 with net proceeds from an asset sale and by $36,000 from a final distribution in October 2017. Subsequent to the distributions, the Company's investments were deemed wholly worthless and written off for a realized loss.

In April 2017, the Company's investment in Solar Spectrum Holdings LLC (p.k.a. Sungevity, Inc.) became classified as a control investment as a result of obtaining more than 25% of the portfolio company's voting securities. In April 2017, under Section 363 of the Bankruptcy Code, Sungevity, Inc. entered into a $50.0million asset purchase agreement and DIP financing facility with a group of investors, led by Northern Pacific Group and including the Company. On April 7, 2017, the U.S. Bankruptcy Court approved the DIP financing facility and on April 17, the U.S. Bankruptcy Court approved the asset purchase agreement. On April 26, 2017, Solar Spectrum Holdings LLC, a new company backed by the investment group, announced that it had acquired certain assets of Sungevity, Inc. as part of the bankruptcy court-approved sale. As a result, the cost basis of the Company's debt investment in Sungevity, Inc. was converted to an equity position in Solar Spectrum Holdings LLC and the Company's warrant and equity positions in Sungevity, Inc. were written off for a realized loss.

In August 2017, the Company's ownership in Solar Spectrum Holdings LLC was diluted below 25% as a result of additional equity contributions by other investors to fund the acquisition of Horizon Solar Power, Inc. by Solar Spectrum Holdings LLC. The Company made a $15.0 million debt investment to fund the acquisition. Accordingly, the Company's equity and new debt investment in Solar Spectrum Holdings LLC became classified as affiliate investments as of September 30, 2017.

In January 2017, the Company's investment in Tectura Corporation became classified as a control investment as a result of obtaining more than 50% representation on the portfolio company's board. In March 2017, the Company's warrants in Tectura Corporation expired and were written off for a realized loss.

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 September 2017, the Company's investments were deemed wholly worthless and written off for a realized loss.

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 and November 2016, the Company made a $1.0 million and $250,000 debt investment, respectively, in Achilles Technology Management II, Inc. to provide working capital under the terms of a loan servicing agreement.

In August 2017, the Company's debt investment in Achilles Technology Management II, Inc. was fully repaid by net proceeds from sales of the portfolio company's assets. In addition, the Company's equity investment in Achilles Technology Management II, Inc. was reduced by $900,000 in lieu of a success fee on the repayment of our debt investment. The remaining equity investment in Achilles Technology Management II, Inc. is carried on the consolidated statement of assets and liabilities at fair value.

The following table shows the fair value of the Company's portfolio of investments by asset class as of December 31, 2017 and December 31, 2016:

	December 31, 2017		December 31, 2016	
(in thousands)	**Investments at Fair Value**	**Percentage of Total Portfolio**	**Investments at Fair Value**	**Percentage of Total Portfolio**
Senior Secured Debt with Warrants	$ 880,115	57.1 %	$ 1,078,779	75.7 %
Senior Secured Debt	572,738	37.1 %	277,509	19.5 %
Preferred Stock	40,683	2.6 %	39,418	2.8 %
Common Stock	48,678	3.2 %	28,236	2.0 %
Total	$ 1,542,214	100.0 %	$ 1,423,942	100.0 %

The increase in senior secured debt and the decrease in senior secured debt with warrants during the period is primarily due to an increase in new debt investments that do not include detachable equity enhancement features.

A summary of the Company’s investment portfolio, at value, by geographic location as of December 31, 2017 and December 31, 2016 is shown as follows:

	December 31, 2017		December 31, 2016	
(in thousands)	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
United States	$ 1,404,235	91.1 %	$ 1,362,223	95.6 %
United Kingdom	91,105	5.9 %	18,395	1.3 %
Netherlands	20,783	1.3 %	20,089	1.4 %
Cayman Islands	14,954	1.0 %	—	0.0 %
Switzerland	10,581	0.7 %	12,377	0.9 %
Canada	556	0.0 %	8,095	0.6 %
Israel	—	0.0 %	2,763	0.2 %
Total	$ 1,542,214	100.0 %	$ 1,423,942	100.0 %

The following table shows the fair value of the Company’s portfolio by industry sector at December 31, 2017 and December 31, 2016:

	December 31, 2017		December 31, 2016	
(in thousands)	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
Drug Discovery & Development	$ 369,173	23.9 %	$ 422,550	29.7 %
Software	360,123	23.4 %	219,559	15.4 %
Internet Consumer & Business Services	154,909	10.0 %	97,047	6.8 %
Media/Content/Info	152,998	9.9 %	137,567	9.7 %
Sustainable and Renewable Technology	118,432	7.7 %	154,406	10.9 %
Medical Devices & Equipment	94,595	6.1 %	107,695	7.6 %
Drug Delivery	91,214	5.9 %	109,834	7.7 %
Healthcare Services, Other	72,337	4.7 %	30,200	2.1 %
Specialty Pharmaceuticals	37,501	2.4 %	38,944	2.7 %
Information Services	24,618	1.6 %	6,091	0.4 %
Consumer & Business Products	19,792	1.3 %	42,713	3.0 %
Surgical Devices	13,161	0.9 %	12,553	0.9 %
Semiconductors	10,406	0.7 %	11,326	0.8 %
Electronics & Computer Hardware	9,982	0.6 %	7,664	0.5 %
Communications & Networking	6,649	0.4 %	18,019	1.3 %
Biotechnology Tools	5,604	0.4 %	7,200	0.5 %
Diagnostic	720	0.1 %	574	0.0 %
Total	$ 1,542,214	100.0 %	$ 1,423,942	100.0 %

No single portfolio investment represents more than 10% of the fair value of the Company’s total investments as of December 31, 2017 or December 31, 2016.

Portfolio Activity

During the year ended December 31, 2017, the Company funded and or restructured investments in debt and equity securities totaling approximately $754.8 million and $10.0 million, respectively. During the year ended December 31, 2017, the Company converted approximately $62.7 million of debt to equity at cost in two portfolio companies. During the year ended December 31, 2017, the Company converted approximately $1.7 million of warrants to equity in two portfolio companies.

During the year ended December 31, 2016, the Company funded and or restructured investments in debt and equity securities totaling approximately $660.5 million and $20.2 million, respectively. During the year ended December 31, 2016, the Company converted approximately $4.6 million of debt to equity in two portfolio companies. During the year ended December 31, 2016, the Company converted approximately $512,000 of warrants to equity in two portfolio companies.

During the year ended December 31, 2017, the Company recognized net realized losses of approximately $26.7 million on the portfolio. These net realized losses included gross realized losses of approximately $40.9 million, primarily from the liquidation or write off of the Company's debt investments in five portfolio companies and the Company's warrant and equity investments in twenty-one portfolio companies. These losses were offset by gross realized gains of approximately $14.2 million, primarily from the sale of investments in five portfolio companies.

During the year ended December 31, 2016, the Company recognized net realized gains of approximately $4.6 million on the portfolio. These net realized gains included gross realized gains of approximately $15.2 million primarily from the sale of investments in six portfolio companies. These gains were partially offset by gross realized losses of approximately $10.6 million primarily from the liquidation or write off of the Company's warrant and equity investments in eight portfolio companies and the Company's debt investments in five portfolio companies, including the settlement of the Company's outstanding debt investment in one portfolio company.

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 December 31, 2017, approximately 79.9% of the Company's debt investments were in a senior secured first lien position, with 45.1% secured by a first priority security in all of the assets of the portfolio company, including its intellectual property and 34.8% 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. Another 19.8% 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 and 0.3% of the Company's debt investments were unsecured as a result of the terms of the acquisition of one of our portfolio companies during the period. At December 31, 2017 the Company had no equipment only liens on material investments in the Company's portfolio companies.

Cash and Cash Equivalents

Cash and cash equivalents consists solely of funds deposited with financial institutions and short-term liquid investments in money market deposit accounts. Cash and cash equivalents are carried at cost, which approximates fair value.

Other Assets

Other assets generally consists of prepaid expenses, deferred financing costs net of accumulated amortization, fixed assets net of accumulated depreciation, deferred revenues and deposits and other assets, including escrow receivable. The escrow receivable balance as of December 31, 2017 and December 31, 2016 was approximately $752,000 and $1.4 million, respectively, and was fair valued and held in accordance with ASC Topic 820.

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 December 31, 2017, the Company had five debt investments on non-accrual with a cumulative investment cost and fair value of approximately $14.8 million and $340,000 respectively. At December 31, 2016, the Company had five debt investments on non-accrual with a cumulative investment cost and fair value of approximately $43.9 million and $6.2 million, respectively. The decrease in the cumulative cost and fair value of debt investments on non-accrual between December 31, 2017 and December 31, 2016 is the result of the liquidation of two debt investments that were on non-accrual at December 31, 2016, offset by placing two new debt investments on non-accrual during the period. For the year ended December 31, 2017, the Company recognized a realized loss of approximately $24.2 million on the write off of two debt investments that were on non-accrual at December 31, 2016 and one investment placed on non-accrual and written-off during 2017.

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 the Company 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 $33.3 million of unamortized fees at December 31, 2017, of which approximately $29.3 million was included as an offset to the cost basis of its current debt investments and approximately $4.0 million was deferred contingent upon the occurrence of a funding or milestone. At December 31, 2016, the Company had approximately $38.2 million of unamortized fees, of which approximately $35.8 million was included 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 fee income, 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. The Company recorded approximately $8.5 million and $4.4 million in one-time fee income during the years ended December 31, 2017 and December 31, 2016, respectively.

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 December 31, 2017, the Company had approximately $27.5 million in exit fees receivable, of which approximately $23.9 million was included as an offset to the cost basis of its current debt investments and approximately $3.6 million was deferred related to expired commitments. At December 31, 2016, the Company had approximately $32.8 million in exit fees receivable, of which approximately $30.3 million was included as an offset to the cost basis of the Company's current debt investments and approximately $2.5 million was deferred 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 $10.0 million and $7.8 million in PIK income in the years ended December 31, 2017 and 2016, respectively.

To maintain the Company's ability to be subject to tax as a RIC, PIK and exit fee income generally must be accrued and distributed to stockholders in the form of dividends for U.S. federal income tax purposes even though the cash has not yet been collected. 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 years ended December 31, 2017 and December 31, 2016.

Other Income (Loss)

Other income (loss) generally consists of income or losses generated from sources other than the Company's investment portfolio. There was no other income (loss) for the year ended December 31, 2017. For the year ended December 31, 2016, it consisted of litigation settlement proceeds and for the year ended December 31, 2015, it consisted of loss on extinguishment of debt. Other income (loss) is classified as a component of net investment income in the Company's Consolidated Statement of Operations.

Equity Offering Expenses

The Company's offering costs are charged against the proceeds from equity offerings when received.

Stock Based Compensation

The Company has issued and may, from time to time, issue additional stock options and restricted stock to employees under the Company's 2004 Equity Incentive Plan and to Board members under the Company's 2006 Equity Incentive Plan prior to its expiration on June 21, 2017. Management follows the guidelines set forth under ASC Topic 718, ("Compensation – Stock Compensation") to account for stock options and restricted stocks 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.

Income Taxes

The Company intends to operate so as to qualify to be subject to tax 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 (including gains) distributed as dividends for U.S. federal income tax purposes 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.

As a RIC, the Company will be subject to a 4% nondeductible U.S. federal excise tax on certain undistributed income unless the Company makes distributions treated as dividends for U.S. federal income tax purposes in a timely manner to its 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 (adjusted for certain ordinary losses) 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 "Excise Tax Avoidance Requirement"). The Company will not be subject to this excise tax on any amount on which the Company incurred U.S. federal corporate income tax (such as the tax imposed on a RIC's 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 treated as dividends for U.S. federal income tax purposes 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 treated as dividends for U.S. federal income tax purposes 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, 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 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 intends to distribute 100% of its spillover earnings from ordinary income for the taxable year ended December 31, 2017 to the Company's stockholders during 2018. The Company distributed 100% of its spillover earnings, which consisted of ordinary income and long-term capital gains, from its taxable year ended December 31, 2016 to the Company's stockholders during 2017.

Because federal income tax regulations differ from accounting principles generally accepted in the United States, distributions in accordance with tax regulations may differ from net investment income and net realized securities gains recognized for financial reporting purposes. Differences may be permanent or temporary. Permanent differences are reclassified among capital accounts in the financial statements to reflect their appropriate tax character. Permanent differences may also result from the change in the classification of certain items, such as the treatment of short-term gains as ordinary income for tax purposes. Temporary differences arise when certain items of income, expense, gain or loss are recognized at some time in the future. Also, recent tax legislation requires that income be recognized for tax purposes no later than when recognized for financial reporting purposes.

Earnings Per Share ("EPS")

Basic EPS is calculated by dividing net earnings applicable to common shareholders by the weighted average number of common shares outstanding. Common shares outstanding includes common stock and restricted stock for which no future service is required as a condition to the delivery of the underlying common stock. Diluted EPS includes the determinants of basic EPS and, in addition, reflects the dilutive effect of the common stock deliverable pursuant to stock options and to restricted stock for which future service is required as a condition to the delivery of the underlying common stock.

Comprehensive Income

The Company reports all changes in comprehensive income in the Consolidated Statement of Operations. The Company did not have other comprehensive income in 2017, 2016, or 2015. The Company's comprehensive income is equal to its net increase in net assets resulting from operations.

Distributions

Distributions to common stockholders are approved by the Board of Directors on a quarterly basis and the distribution payable is recorded on the ex-dividend date.

The Company maintains an "opt out" dividend reinvestment plan that provides for reinvestment of the Company's distribution on behalf of the Company's stockholders, unless a stockholder elects to receive cash. As a result, if the Company declares a distribution, cash distributions will be automatically reinvested in additional shares of its common stock unless the stockholder specifically "opts out" of the dividend reinvestment plan and chooses to receive cash distributions. During 2017, 2016, and 2015, the Company issued 163,584, 144,308, and 199,894 shares, respectively, of common stock to shareholders in connection with the dividend reinvestment plan.

Segments

The Company lends to and invests in portfolio companies in various technology-related industries including technology, drug discovery and development, biotechnology, life sciences, healthcare, and sustainable and renewable technology. The Company separately evaluates the performance of each of its lending and investment relationships. However, because each of these loan and investment relationships has similar business and economic characteristics, they have been aggregated into a single lending and investment segment.

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. The Company does not believe that ASU 2016-01 will have a material impact 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 U.S 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 anticipates an increase in the recognition of right-of-use assets and lease liabilities, however, the Company does not believe that ASU 2016-02 will have a material impact 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. The Company has adopted this standard for the year ended December 31, 2017 and determined that the adoption did not have a material impact 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. The Company does not believe that ASU 2016-15 will have a material impact on its consolidated financial statements and disclosures.

In October 2016, the SEC adopted new rules and forms and amended other rules to enhance the reporting and disclosure of information by registered investment companies. As part of these changes, the SEC amended Regulation S-X to standardize and enhance disclosures in investment company financial statements. Implementation of the new or amended rules is required for reporting periods ending after August 1, 2017. The Company has reviewed the requirements and adopted the amendments to Regulation S-X on itsconsolidated financial statements and related disclosures for the periods presented.

In November 2016, the FASB issued ASU 2016-18, “Statement of Cash Flows (Topic 230),”which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The new guidance is effective for interim and annual periods beginning after December 15, 2017. The amendment should be adopted retrospectively. The Company does not believe that ASU 2016-18 will have a material impact on its consolidated financial statements and disclosures.

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 borrowings of the Company are recorded at amortized cost and not at fair value on the Consolidated Statement of Assets and Liabilities. The fair value of the Company’s outstanding borrowings is based on observable market trading prices or quotations and unobservable market rates as applicable for each instrument.

Based on market quotations on or around December 31, 2017, the 2022 Notes, 2021 Asset-Backed Notes and 2022 Convertible Notes were quoted for 1.014, 1.001 and 1.028 per dollar at par value, respectively. At December 31, 2017, the 2024 Notes were trading on the NYSE for $25.62 per unit at par value. The par value at underwriting for the 2024 Notes was $25.00 per unit. 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 is approximately $198.0 million, compared to the principal outstanding amount of $190.2 million as of December 31, 2017.

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 following tables provide additional information about the fair value and level in the fair value hierarchy of the Company’s outstanding borrowings at December 31, 2017 and December 31, 2016:

(in thousands) **Description** (1)	**December 31, 2017**	**Identical Assets (Level 1)**	**Observable Inputs (Level 2)**	**Unobservable Inputs (Level 3)**
2021 Asset-Backed Notes	$ 49,199	$ —	$ 49,199	$ —
2022 Convertible Notes	236,470	—	236,470	—
2022 Notes	152,091	—	152,091	—
2024 Notes	188,061	—	188,061	—
SBA Debentures	198,038	—	—	198,038
Total	$ 823,859	$ —	$ 625,821	$ 198,038

(in thousands) **Description**	**December 31, 2016**	**Identical Assets (Level 1)**	**Observable Inputs (Level 2)**	**Unobservable Inputs (Level 3)**
Wells Facility	$ 5,016	$ —	$ —	$ 5,016
2021 Asset-Backed Notes	109,376	—	109,376	—
April 2019 Notes (2)	65,909	—	65,909	—
September 2019 Notes (2)	46,920	—	46,920	—
2024 Notes	256,919	—	256,919	—
SBA Debentures	202,364	—	—	202,364
Total	$ 686,504	$ —	$ 479,124	$ 207,380

(1) As of December 31, 2017, there were no borrowings outstanding on both the Well Facility and Union Facility.

(2) The 2019 Notes were redeemed in full on February 24, 2017.

4. Borrowings

Outstanding Borrowings

At December 31, 2017 and December 31, 2016, the Company had the following available and outstanding borrowings:

	December 31, 2017			December 31, 2016		
(in thousands)	**Total Available**	**Principal**	**Carrying Value (1)**	**Total Available**	**Principal**	**Carrying Value (1)**
SBA Debentures (2)	$ 190,200	$ 190,200	$ 188,141	$ 190,200	$ 190,200	$ 187,501
2019 Notes (3)	—	—	—	110,364	110,364	108,818
2022 Notes	150,000	150,000	147,572	—	—	—
2024 Notes	183,510	183,510	179,001	252,873	252,873	245,490
2021 Asset-Backed Notes	49,153	49,153	48,650	109,205	109,205	107,972
2022 Convertible Notes	230,000	230,000	223,488	—	—	—
Wells Facility (4)	120,000	—	—	120,000	5,016	5,016
Union Bank Facility (4)	75,000	—	—	75,000	—	—
Total	$ 997,863	$ 802,863	$ 786,852	$ 857,642	$ 667,658	$ 654,797

(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 premium or discount, if any, associated with the loan as of the balance sheet date.
(2) At both December 31, 2017 and December 31, 2016, 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 2019 Notes were redeemed in full on February 24, 2017.
(4) Availability subject to the Company meeting the borrowing base requirements.

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 ASC Subtopic 835-30 ("Interest – Imputation of Interest"), 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 December 31, 2017 and December 31, 2016 were as follows:

(in thousands)	**December 31, 2017**	**December 31, 2016**
SBA Debentures	$ 2,059	$ 2,699
2019 Notes (1)	—	1,546
2022 Notes	1,633	—
2024 Notes	4,591	7,482
2021 Asset-Backed Notes	503	1,233
2022 Convertible Notes	3,715	—
Wells Facility (2)	227	501
Union Bank Facility (2)	379	768
Total	$ 13,107	$ 14,229

(1) The 2019 Notes were redeemed in full on February 24, 2017.
(2) 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 ASC Subtopic 835-30.

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 December 31, 2017, HT II has the capacity to issue a total of $41.2 million of SBA guaranteed debentures, subject to SBA approval, of which $41.2 million was outstanding as of December 31, 2017. As of December 31, 2017, HT II has paid the SBA commitment fees and facility fees of approximately $1.5 million and $3.6 million, respectively. As of December 31, 2017, the Company held investments in HT II in 34 companies with a fair value of approximately $90.3 million, accounting for approximately 5.8% of the Company's total investment portfolio. HT II held approximately $111.8 million in assets and accounted for approximately 5.4% of the Company's total assets prior to consolidation at December 31, 2017.

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 December 31, 2017, HT III has the capacity to issue a total of $149.0 million of SBA guaranteed debentures, subject to SBA approval, of which $149.0 million was outstanding as of December 31, 2017. As of December 31, 2017, HT III has paid the SBA commitment fees and facility fees of approximately $1.5 million and $3.6 million, respectively. As of December 31, 2017, the Company held investments in HT III in 48 companies with a fair value of approximately $229.1 million, accounting for approximately 14.9% of the Company's total portfolio. HT III held approximately $284.0 million in assets and accounted for approximately 13.8% of the Company's total assets prior to consolidation at December 31, 2017.

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 December 31, 2017 as a result of having sufficient capital as defined under the SBA regulations.

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

The average amount of debentures outstanding for the year ended December 31, 2017 for HT II was approximately $41.2 million with an average interest rate of approximately 4.49%. The average amount of debentures outstanding for the year ended December 31, 2017 for HT III was approximately $149.0 million with an average interest rate of approximately 3.41%.

For the years ended December 31, 2017, 2016 and 2015, the components of interest expense and related fees and cash paid for interest expense for the SBA debentures are as follows:

	Year Ended December 31,		
(in thousands)	**2017**	**2016**	**2015**
Interest expense	$ 6,969	$ 6,988	$ 6,969
Amortization of debt issuance cost (loan fees)	640	671	667
Total interest expense and fees	$ 7,609	$ 7,659	$ 7,636
Cash paid for interest expense	$ 6,942	$ 6,961	$ 6,942

In aggregate, at December 31, 2017, with the Company's net investment of $118.5 million, HT II and HT III have the capacity to issue a total of $190.2 million of SBA-guaranteed debentures, subject to SBA approval. At December 31, 2017, 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 December 31, 2017 and 2016:

(in thousands) Issuance/Pooling Date	Maturity Date	Interest Rate (1)	December 31, 2017	December 31, 2016
March 25, 2009	March 1, 2019	5.53%	$ 18,400	$ 18,400
September 23, 2009	September 1, 2019	4.64%	3,400	3,400
September 22, 2010	September 1, 2020	3.62%	6,500	6,500
September 22, 2010	September 1, 2020	3.50%	22,900	22,900
March 29, 2011	March 1, 2021	4.37%	28,750	28,750
September 21, 2011	September 1, 2021	3.16%	25,000	25,000
March 21, 2012	March 1, 2022	3.28%	25,000	25,000
March 21, 2012	March 1, 2022	3.05%	11,250	11,250
September 19, 2012	September 1, 2022	3.05%	24,250	24,250
March 27, 2013	March 1, 2023	3.16%	24,750	24,750
Total SBA Debentures			$ 190,200	$ 190,200

(1) Interest rate includes annual charge

2019 Notes

In April and July 2012, the Company issued $84.5 million in aggregate principal amount of 7.00% notes due 2019 (the "April 2019 Notes"). In September and October 2012, the Company issued $85.9 million in aggregate principal amount of 7.00% notes due 2019 (the "September 2019 Notes"). The April 2019 Notes and September 2019 Notes are together referred to as the "2019 Notes."

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. The remaining 2019 Notes were fully redeemed on February 24, 2017.

As of December 31, 2016, the 2019 Notes payable outstanding principal balance consisted of:

(in thousands)	December 31, 2016
April 2019 Notes	$ 64,490
September 2019 Notes	45,874
Total 2019 Notes principal outstanding	$ 110,364

The April 2019 Notes bore interest at a rate of 7.00% per year and traded on the NYSE under the trading symbol "HTGZ." The September 2019 Notes bore interest at a rate of 7.00% per year and traded on the NYSE under the trading symbol "HTGY." For the years ended December 31, 2017, 2016 and 2015, the components of interest expense and related fees and cash paid for interest expense for the 2019 Notes are as follows:

	Year Ended December 31,		
(in thousands)	2017	2016	2015
Interest expense	$ 1,159	$ 7,725	$ 10,899
Amortization of debt issuance cost (loan fees)	1,546	639	2,167
Total interest expense and fees	$ 2,705	$ 8,364	$ 13,066
Cash paid for interest expense	$ 1,911	$ 7,726	$ 11,132

2022 Notes

On October 23, 2017, the Company issued $150.0 million in aggregate principal amount of 4.625% Notes due 2022 (the "2022 Notes"). The 2022 Notes were issued pursuant to an Indenture, dated September 7, 2017 (the "2022 Notes Indenture"), between the Company and U.S. Bank, National Association, as trustee (the "2022 Trustee"). The sale of the 2022 Notes generated net proceeds of approximately $147.5 million, including a public offering discount of $826,500. Aggregate estimated offering expenses in connection with the transaction, including the underwriter's discounts and commissions of approximately $975,000, were approximately $1.7 million.

The 2022 Notes mature on October 23, 2022, unless previously repurchased in accordance with their terms. The 2022 Notes bear interest at a rate of 4.625% per year payable semiannually in arrears on April 23 and October 23 of each year, commencing on April 23, 2018.

The 2022 Notes are unsecured obligations of the Company that rank senior in right of payment to all of the Company's existing and future indebtedness that is expressly subordinated, or junior, in right of payment to the 2022 Notes. The 2022 Notes are not guaranteed by any of the Company's current or future subsidiaries. The 2022 Notes rank pari passu, or equally, in right of payment with all of the Company's existing and future liabilities that are not so subordinated, or junior. The 2022 Notes effectively rank subordinated, or junior, to any of the Company's secured indebtedness (including unsecured indebtedness that the Company later secures) to the extent of the value of the assets securing such indebtedness. The 2022 Notes rank structurally subordinated, or junior, to all existing and future indebtedness (including trade payables) incurred by subsidiaries, financing vehicles or similar facilities of the Company.

The Company may redeem some or all of the 2022 Notes at any time, or from time to time, at the redemption price set forth under the terms of the indenture after September 23, 2022. No sinking fund is provided for the 2022 Notes. The 2022 Notes were issued in denominations of $2,000 and integral multiples of $1,000 thereof. As of December 31, 2017, the Company was in compliance with the terms of the 2022 Notes Indenture.

As of December 31, 2017, the components of the carrying value of the 2022 Notes were as follows:

(in thousands)	December 31, 2017
Principal amount of debt	$ 150,000
Unamortized debt issuance cost	(1,633)
Original issue discount, net of accretion	(795)
Carrying value of 2022 Notes	$ 147,572

For the years ended December 31, 2017, 2016 and 2015, the components of interest expense and related fees and cash paid for interest expense for the 2022 Notes are as follows:

	Year Ended December 31,		
(in thousands)	2017	2016	2015
Interest expense	$ 1,305	$ —	$ —
Amortization of debt issuance cost (loan fees)	49	—	—
Accretion of original issue discount	31	—	—
Total interest expense and fees	$ 1,385	$ —	$ —
Cash paid for interest expense	$ —	$ —	$ —

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.

On October 11, 2016, the Company entered into a debt distribution agreement, pursuant to which it may offer for sale, from time to time, up to $150.0 million in aggregate principal amount of 2024 Notes through FBR Capital Markets & Co. acting as its sales agent (the "2024 Notes Agent"). Sales of the 2024 Notes may be made in negotiated transactions or transactions that are deemed to be "at the market offerings" as defined in Rule 415 under the Securities Act of 1933, as amended (the "Securities Act"), including sales made directly on the NYSE, or similar securities exchange or sales made through a market maker other than on an exchange at prices related to prevailing market prices or at negotiated prices.

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

During the year ended December 31, 2017, the Company sold 225,457 notes for approximately $5.6 million in aggregate principal amount. During the year ended December 31, 2016, the Company sold 317,125 notes for approximately $7.9 million in aggregate principal amount. As of December 31, 2017, approximately $136.4 million in aggregate principal amount remains available for issuance and sale under the debt distribution agreement.

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."

On October 24, 2017, the Board of Directors approved a redemption of $75.0 million of outstanding aggregate principal amount of the 2024 Notes. The Company redeemed this portion of the 2024 Notes on November 23, 2017. See "Note 14 – Subsequent Events."

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 and other distributions as well as the 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 of 1934, as amended (the "Exchange Act"). The Base Indenture provides for customary events of default and further provides that the 2024 Trustee or the holders of 25% in aggregate principal amount of the outstanding 2024 Notes in a series may declare such 2024 Notes immediately due and payable upon the occurrence of any event of default after expiration of any applicable grace period. As of December 31, 2017, the Company was in compliance with the terms of the Base Indenture as supplemented by the Third Supplemental Indenture.

As of December 31, 2017 and December 31, 2016, the components of the carrying value of the 2024 Notes were as follows:

(in thousands)	December 31, 2017	December 31, 2016
Principal amount of debt	$ 183,510	$ 252,873
Unamortized debt issuance cost	(4,591)	(7,482)
Original issue premium, net of amortization	82	99
Carrying value of 2024 Notes	$ 179,001	$ 245,490

For the years ended December 31, 2017, 2016 and 2015, the components of interest expense and related fees and cash paid for interest expense for the 2024 Notes are as follows:

	Year Ended December 31,		
(in thousands)	2017	2016	2015
Interest expense	$ 15,610	$ 11,775	$ 6,437
Amortization of debt issuance cost (loan fees)	3,050	686	333
Amortization of original issue premium	(56)	3	—
Total interest expense and fees	$ 18,604	$ 12,464	$ 6,770
Cash paid for interest expense	$ 16,370	$ 10,873	$ 6,437

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. 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 (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 Section 2(a)(51)(A) of the 1940 Act and pursuant to an exemption under the Securities Act and (B) to non-U.S. purchasers acquiring interest in the 2021 Asset-Backed Notes outside the United States in accordance with Regulation S under the Securities Act. The 2014 Securitization Issuer is not registered under the 1940 Act in reliance on an exemption provided by Section 3(c)(7) thereof and Rule 3a-7 thereunder. In addition, the 2014 Trust Depositor entered into an amended and restated trust agreement in respect of the 2014 Securitization Issuer, which includes customary representation, warranties and covenants.

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

At December 31, 2017 and December 31, 2016, the 2021 Asset-Backed Notes had an outstanding principal balance of $49.2 million and $109.2 million, respectively.

For the years ended December 31, 2017, 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:

	Year Ended December 31,		
(in thousands)	**2017**	**2016**	**2015**
Interest expense	$ 2,830	$ 4,366	$ 4,557
Amortization of debt issuance cost (loan fees)	731	1,071	902
Total interest expense and fees	$ 3,561	$ 5,437	$ 5,459
Cash paid for interest expense	$ 3,036	$ 4,396	$ 4,557

Under the terms of the 2021 Asset-Backed Notes, the Company is required to maintain a reserve cash balance, funded through interest and principal collections from the underlying securitized debt portfolio, which may be used to pay monthly interest and principal payments on the 2021 Asset-Backed Notes. The Company has segregated these funds and classified them as restricted cash. There was approximately $3.7 million and $8.3 million of restricted cash as of December 31, 2017 and December 31, 2016, respectively, funded through interest collections.

Convertible Notes

2016 Convertible Notes

In April 2011, the Company issued $75.0 million in aggregate principal amount of 6.00% convertible notes due 2016 (the "2016 Convertible Notes"). The 2016 Convertible 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 2016 Convertible Notes only under certain circumstances set forth in the indenture governing the 2016 Convertible 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 2016 Convertible Notes at any time. Throughout the life of the 2016 Convertible Notes, holders of approximately $74.8 million of the 2016 Convertible Notes exercised their conversion rights. These 2016 Convertible Notes were settled with a combination of cash equal to the outstanding principal amount of the 2016 Convertible Notes and approximately 1.6 million shares of the Company's common stock, or $24.3 million.

The 2016 Convertible Notes were accounted for in accordance with ASC Subtopic 470-20 ("Debt Instruments with Conversion and Other Options"). In accounting for the 2016 Convertible Notes, the Company estimated at the time of issuance that the values of the debt and the embedded conversion feature of the 2016 Convertible Notes were approximately 92.8% and 7.2%, respectively. The original issue discount of 7.2% attributable to the conversion feature of the 2016 Convertible 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%.

For the years ended December 31, 2017, 2016 and 2015, the components of interest expense, fees and cash paid for interest expense for the 2016 Convertible Notes were as follows:

	Year Ended December 31,		
(in thousands)	**2017**	**2016**	**2015**
Interest expense	$ —	$ 352	$ 1,007
Amortization of debt issuance cost (loan fees)	—	44	131
Accretion of original issue discount	—	82	246
Total interest expense and fees	$ —	$ 478	$ 1,384
Cash paid for interest expense	$ —	$ 440	$ 1,057

The estimated effective interest rate of the debt component of the 2016 Convertible Notes, equal to the stated interest of 6.0% plus the accretion of the original issue discount, was approximately 8.1% for the year ended December 31, 2016.

2022 Convertible Notes

On January 25, 2017, the Company issued $230.0 million in aggregate principal amount of 4.375% Convertible Notes due 2022 (the “2022 Convertible Notes”), which amount includes the additional $30.0 million aggregate principal amount of 2022 Convertible Notes issued pursuant to the initial purchaser’s exercise in full of its overallotment option. The 2022 Convertible Notes were issued pursuant to an Indenture, dated January 25, 2017 (the “2022 Convertible Notes Indenture”), between the Company and U.S. Bank, National Association, as trustee (the “2022 Trustee”). The sale of the 2022 Convertible Notes generated net proceeds of approximately $225.5 million, including $4.5 million of debt issuance costs.

The 2022 Convertible Notes mature on February 1, 2022, unless previously converted or repurchased in accordance with their terms. The 2022 Convertible Notes bear interest at a rate of 4.375% per year payable semiannually in arrears on February 1 and August 1 of each year, commencing on August 1, 2017.

The 2022 Convertible Notes are unsecured obligations of the Company and rank senior in right of payment to the Company’s future indebtedness that is expressly subordinated in right of payment to the 2022 Convertible Notes; equal in right of payment to the Company’s existing and future indebtedness that is not so subordinated; effectively junior in right of payment to any of the Company’s secured indebtedness (including unsecured indebtedness that the Company later secures) to the extent of the value of the assets securing such indebtedness; and structurally junior to all existing and future indebtedness (including trade payables) incurred by the Company’s subsidiaries, financing vehicles or similar facilities.

Prior to the close of business on the business day immediately preceding August 1, 2021, holders may convert their 2022 Convertible Notes only under certain circumstances set forth in the 2022 Convertible Notes Indenture. On or after August 1, 2021 until the close of business on the scheduled trading day immediately preceding the maturity date, holders may convert their 2022 Convertible Notes at any time. Upon conversion, the Company will pay or deliver, as the case may be, at its election, cash, shares of its common stock or a combination of cash and shares of its common stock. The conversion rate is initially 60.9366 shares of common stock per $1,000 principal amount of 2022 Convertible Notes (equivalent to an initial conversion price of approximately $16.41 per share of common stock). The conversion rate will be subject to adjustment in some events but will not be adjusted for any accrued and unpaid interest. In addition, if certain corporate events occur prior to the maturity date, the Company will increase the conversion rate for a holder who elects to convert its 2022 Convertible Notes in connection with such a corporate event in certain circumstances. As of December 31, 2017, the conversion rate was 60.9366 shares of common stock per $1,000 principal amount of Convertible Senior Notes (equivalent to an adjusted conversion price of approximately $16.41 per share of common stock).

The Company may not redeem the 2022 Convertible Notes at its option prior to maturity. No sinking fund is provided for the 2022 Convertible Notes. In addition, if certain corporate events occur, holders of the 2022 Convertible Notes may require the Company to repurchase for cash all or part of their 2022 Convertible Notes at a repurchase price equal to 100% of the principal amount of the 2022 Convertible Notes to be repurchased, plus accrued and unpaid interest through, but excluding, the required repurchase date.

The 2022 Convertible Notes Indenture contains certain covenants, including covenants requiring the Company to comply with Section 18(a)(1)(A) 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 2022 Convertible Notes and the 2022 Trustee if the Company ceases to be subject to the reporting requirements of the Exchange Act. These covenants are subject to important limitations and exceptions that are described in the 2022 Convertible Notes Indenture. The Company offered and sold the 2022 Convertible Notes to the initial purchaser in reliance on the exemption from registration provided by Section 4(a)(2) of the Securities Act, for resale by the initial purchaser to qualified institutional buyers (as defined in the Securities Act) pursuant to the exemption from registration provided by Rule 144A under the Securities Act. The

Company relied on these exemptions from registration based in part on representations made by the initial purchaser in connection with the sale of the 2022 Convertible Notes.

The 2022 Convertible Notes are accounted for in accordance with ASC Subtopic 470-20 ("Debt Instruments with Conversion and Other Options"). In accounting for the 2022 Convertible Notes, the Company estimated at the time of issuance that the values of the debt and the embedded conversion feature of the 2022 Convertible Notes were approximately 98.5% and 1.5%, respectively . The original issue discount of 1.5% or $3.4 million, attributable to the conversion feature of the 2022 Convertible Notes was recorded in "capital in excess of par value" in the Consolidated Statement of Assets and Liabilities. As a result, the Company records 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 4.76%.

As of December 31, 2017, the components of the carrying value of the 2022 Convertible Notes were as follows:

(in thousands)		December 31, 2017
Principal amount of debt	$	230,000
Unamortized debt issuance cost		(3,715)
Original issue discount, net of accretion		(2,797)
Carrying value of 2022 Convertible Notes	$	223,488

For the years ended December 31, 2017, 2016 and 2015, the components of interest expense, fees and cash paid for interest expense for the 2022 Convertible Notes were as follows:

	Year Ended December 31,					
(in thousands)		2017		2016		2015
Interest expense	$	9,392	$	—	$	—
Amortization of debt issuance cost (loan fees)		781		—		—
Accretion of original issue discount		615		—		—
Total interest expense and fees	$	10,788	$	—	$	—
Cash paid for interest expense	$	5,199	$	—	$	—

The estimated effective interest of the debt component of the 2022 Convertible Notes, equal to the stated interest rate of 4.375% plus the accretion of the original issue discount, was approximately 4.76% for the year ended December 31, 2017. As of December 31, 2017, the Company was in compliance with the terms of the indentures governing the 2022 Convertible Notes.

Credit Facilities

As of December 31, 2017and December 31, 2016, the Company has two available secured credit facilities, the Wells Facility and the Union Bank Facility.

Wells Facility

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

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

Under the Wells Facility, Wells Fargo Capital Finance, LLC made commitments of $75.0 million. Alostar Bank of Commerce made commitments of $20.0 million, and Everbank Commercial Finance Inc. made commitments of $25.0 million. The Wells Facility contains an accordion feature, in which the Company can increase the credit line up to an aggregate of $300.0 million, funded by additional lenders and with the agreement of Wells Fargo and subject to other customary conditions. The Company expects to continue discussions with various other potential lenders to join the facility; however, there can be no assurances that additional lenders will join the Wells Facility. Borrowings under the Wells Facility generally bear interest at a rate per annum equal to LIBOR plus 3.25%, and the Wells Facility has an advance rate of 50% against eligible debt investments. The Wells Facility is secured by all of the assets of Hercules Funding II. The Wells Facility requires payment of a non-use fee on a scale of 0.0% to 0.50% depending on the average monthly outstanding balance under the facility relative to the maximum amount of commitments at such time. For the years ended December 31, 2017 and 2016, this non-use fee was approximately $604,000 and $483,000, 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 December 31, 2017, the minimum tangible net worth covenant has increased to $737.0 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, the issuance of 7.3 million shares of common stock issued under an At-The-Market ("ATM") equity distribution agreement (the "Prior Equity Distribution Agreement") with JMP Securities ("JMP") for gross proceeds of $95.0 million during the year ended December 31, 2016 and the issuance of 4.9 million shares of common stock issued under the Prior Equity Distribution Agreement and a new ATM equity distribution agreement in September 2017 (the "Equity Distribution Agreement") with JMP for gross proceeds of $67.9 million during the year ended December 31, 2017. See "Note 6 – Stockholder's Equity."

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 $8.5 million on the available facility during the year ended December 31, 2017 offset by repayments of $13.5 million. There were no borrowings outstanding on the facility as of December 31, 2017 and $5.0 million of borrowings outstanding on this facility at December 31, 2016.

For the years ended December 31, 2017, 2016 and 2015, the components of interest expense and related fees and cash paid for interest expense for the Wells Facility are as follows:

	Year Ended December 31,		
(in thousands)	**2017**	**2016**	**2015**
Interest expense	$ 2	$ 539	$ 578
Amortization of debt issuance cost (loan fees)	324	492	361
Total interest expense and fees	$ 326	$ 1,031	$ 939
Cash paid for interest expense	$ 41	$ 577	$ 402

Union Bank Facility

On May 5, 2016, the Company, through a special purpose wholly owned subsidiary, Hercules Funding III LLC ("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 Hercules Funding III.

The Company paid a one-time $562,500 structuring fee in connection with the Union Bank Facility. 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. Although the Company did not incur any non-use fees under the Union Bank Facility prior to May 5, 2016, for the years ended December 31, 2017 and 2016, the Company incurred non-use fees under the Union Bank Facility and Prior Union Bank Facility of approximately $380,000 and $356,000, 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 Hercules Funding III, including covenants relating to certain changes of control of the Company and Hercules Funding 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 December 31, 2017, the minimum tangible net worth covenant increased to $783.9 million as a result of the March 2015 follow-on public offering of 7.6 million shares of common stock for total net proceeds of approximately $100.1 million, the issuance of 7.3 million shares of common stock issued under the Prior Equity Distribution Agreement for net proceeds of $92.8 million during the year ended December 31, 2016, and the issuance of 4.9 million shares of common stock issued under the Prior Equity Distribution Agreement and the Equity Distribution Agreement for net proceeds of $66.9 million during the year ended December 31, 2017. See "Note 6 – Stockholder's Equity."

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 terminated sooner in accordance with its terms.

In connection with the Union Bank Facility, the Company and Hercules Funding III also entered into the Sale Agreement, by and among Hercules Funding 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 Hercules Funding III under the Union Bank Facility and (ii) act as servicer for the loans sold or transferred.

The Company did not make any draws or repayments on the available facility during the year ended December 31, 2017. The Company had aggregate draws of $90.0 million during the year ended December 31, 2016 offset by repayments of $90.0 million. At December 31, 2017 and 2016, there were no borrowings outstanding on the Union Bank Facility.

For the years ended December 31, 2017, 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:

	Year Ended December 31,		
(in thousands)	**2017**	**2016**	**2015**
Interest expense	$ —	$ 189	$ —
Amortization of debt issuance cost (loan fees)	388	356	61
Total interest expense and fees	$ 388	$ 545	$ 61
Cash paid for interest expense	$ 80	$ 38	$ —

5. Income Taxes

The Company intends to operate so as to qualify to be subject to tax as a RIC under Subchapter M of the Code and, as such, will not be subject to U.S. federal income tax on the portion of taxable income (including gains) distributed as dividends for U.S. federal income tax purposes 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.

Because federal income tax regulations differ from accounting principles generally accepted in the United States, distributions in accordance with tax regulations may differ from net investment income and realized gains recognized for financial reporting purposes. Differences may be permanent or temporary in nature. Permanent differences are reclassified among capital accounts in the financial statements to reflect their appropriate tax character. Permanent differences may also result from the change in the classification of short-term gains as ordinary income for tax purposes. Temporary differences arise when certain items of income, expense, gain or loss are recognized at some time in the future. Also, recent tax legislation requires that income be recognized for tax purposes no later than when recognized for financial reporting purposes.

During the year ended December 31, 2017 and 2016, the Company reclassified for book purposes amounts arising from permanent book/tax differences primarily related to accelerated revenue recognition for income tax purposes, respectively, as follows:

	Year Ended December 31,	
(in thousands)	**2017**	**2016**
Undistributed net investment income (distributions in excess of investment income)	$ 1,347	$ 1,644
Accumulated realized gains	6,916	5,034
Additional paid-in capital	(8,263)	(7,020)

For income tax purposes, distributions paid to shareholders are reported as ordinary income, return of capital, long-term capital gains or a combination thereof. The tax character of distributions paid for the year ended December 31, 2017 was ordinary income in the amount of $89.3 million and long-term capital gains in the amount of $13.2 million. The tax character of distributions paid for the year ended December 31, 2016 was ordinary income in the amount of $91.1 million.

The aggregate gross unrealized appreciation of the Company's investments over cost for U.S. federal income tax purposes was $32.5 million and $24.7 million as of December 31, 2017 and 2016, respectively. The aggregate gross unrealized depreciation of the Company's investments under cost for U.S. federal income tax purposes was $119.7 million and $114.5 million as of December 31, 2017 and 2016, respectively. The net unrealized depreciation over cost for U.S. federal income tax purposes was $87.2 million and $89.8 million as December 31, 2017 and 2016, respectively. The aggregate cost of securities for U.S. federal income tax purposes was $1.6 billion and $1.5 billion as of December 31, 2017 and 2016, respectively.

At December 31, 2017 and 2016, the components of distributable earnings on a tax basis detailed below differ from the amounts reflected in the Company's Consolidated Statements of Assets and Liabilities by temporary book/tax differences primarily arising from the treatment of loan related yield enhancements.

	Year Ended December 31,	
(in thousands)	**2017**	**2016**
Accumulated Capital Gains	$ (4,435)	$ 14,893
Other Temporary Differences	(563)	1,306
Undistributed Ordinary Income	23,010	19,283
Unrealized Depreciation	(85,631)	(87,275)
Components of Distributable Earnings	$ (67,619)	$ (51,793)

As a RIC, the Company will be subject to a 4% nondeductible U.S. federal excise tax on certain undistributed income unless the Company makes distributions treated as dividends for U.S. federal income tax purposes in a timely manner to its stockholders in respect of each calendar year of an amount at least equal to the Excise Tax Avoidance Requirement. The Company will not be subject to this excise tax on any amount on which the Company incurred U.S. federal corporate income tax (such as the tax imposed on a RIC's 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, 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 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 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 and the portfolio investments held by the taxable subsidiaries are included in the Company's consolidated financial statements and are 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 generally would be subject to tax taxed at normal corporate tax rates based on its taxable income.

For the year ended December 31, 2017, the Company paid approximately $1.1 million of income tax and had no accrued but unpaid income tax as of the balance sheet. For the year ended December 31, 2016, the Company paid approximately $184,000 of income tax and had approximately $652,000 of accrued but unpaid tax expense as of the balance sheet date.

The Company evaluates tax positions taken in the course of preparing the Company's tax returns to determine whether the tax positions are "more-likely-than-not" to be sustained by the applicable tax authority. Tax benefits of positions not deemed to meet the more-likely-than-not threshold, or uncertain tax positions, would be recorded as a tax expense in the current year. It is the Company's policy to recognize accrued interest and penalties, if any, related to unrecognized tax benefits as a component of provision for income taxes.

Based on an analysis of the Company's tax position, there are no uncertain tax positions that met the recognition or measurement criteria. The Company is currently not undergoing any tax examinations. The Company does not anticipate any significant increase or decrease in unrecognized tax benefits for the next twelve months. The 2014-2016 federal tax years for the Company remain subject to examination by the Internal Revenue Service. The 2013-2016 state tax years for the Company remain subject to examination by the state taxing authorities.

6. Stockholders' Equity

On August 16, 2013, the Company entered into the Prior Equity Distribution Agreement with JMP. On March 7, 2016, the Company renewed the Prior Equity Distribution Agreement and on December 21, 2016, the Company further amended the agreement to increase the total shares available under the program. The Prior Equity Distribution Agreement, as amended, provided that the Company may offer and sell up to 12.0 million shares of its common stock from time to time through JMP, as its sales agent.

On September 7, 2017, the Company terminated the Prior Equity Distribution Agreement and entered into the new Equity Distribution Agreement. As a result, the remaining shares that were available under the Prior Equity Distribution agreement are no longer available for issuance. The Equity Distribution Agreement provides that the Company may offer and sell up to 12.0 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 year ended December 31, 2017, the Company sold 4.9 million shares of common stock, of which 3.3 million shares and 1.6 million were issued under the Prior Equity Distribution Agreement and the Equity Distribution Agreement, respectively. During the year ended December 31, 2017, the Company received total accumulated net proceeds of approximately $66.9 million, including $962,000 of offering expenses, from these sales, of which $46.9 million, including offering expenses of $532,000, was received under the Prior Equity Distribution Agreement and $20.0 million, including offering expenses of $430,000, was received under the Equity Distribution Agreement, respectively. During the year ended December 31, 2016, the Company sold 7.3 million shares of common stock under the Prior Equity Distribution Agreement for total accumulated net proceeds of approximately $92.8 million, including $2.2 million of offering expenses.

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 December 31, 2017, approximately 10.4 million shares remain available for issuance and sale under the Equity Distribution Agreement. See "Note 14 – Subsequent Events."

On August 27, 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 until August 23, 2016, after which the plan expired. In January 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 in subsequent months during 2016.

The Company has issued stock options for common stock subject to future issuance, of which 590,525 and 668,171 were outstanding at December 31, 2017 and December 31, 2016, 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. On June 21, 2017, the 2006 Plan expired in accordance with its terms and no additional awards may be granted under the 2006 Plan. In the future, we may adopt a Non-Employee Director Plan that, among other things, provides for the issuance of restricted stock to 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.

During 2012, the Compensation Committee adopted a policy that provided for awards with different vesting schedules for short and long-term awards. All restricted stock grants under the 2004 Plan made prior to March 4, 2013 continue to vest on a monthly basis following their one year anniversary over the succeeding 36 months. Under the 2004 Plan, restricted stock awarded subsequent to March 3, 2013 vests subject to continued employment based on two vesting schedules: short-term awards vest one-half on the one year anniversary of the date of the grant and quarterly over the succeeding 12 months, and long-term awards vest one-fourth on the one year anniversary of the date of grant and quarterly over the succeeding 36 months. No restricted stock was granted pursuant to the 2004 Plan prior to 2009.

On December 29, 2016, the Company's Board of Directors approved a further amendment and restatement of the 2004 Plan. The amended plan provides, in addition to the preexisting types of awards available for grant thereunder and among other things, (1) for the grant of restricted stock units; (2) for the deferral of the receipt of the shares of the Company's common stock underlying vested restricted stock units; (3) that grantees may receive up to 10% of the value of the tentative restricted stock unit grants proposed for any grantee in the form of an option to acquire shares of the Company's common stock; (4) that awards of restricted stock units may include performance vesting conditions; (5) that awards may require that all or a portion of the shares of the Company's common stock delivered in respect of any vested restricted stock unit award be subject to a specified post-delivery holding period; and (6) that restricted stock unit awards may accrue distribution equivalents in respect of the Company's common stock underlying any restricted stock unit award payable in the form of cash or additional shares of the Company's common stock to the extent, and in respect of, any vested restricted stock units.

In 2017, 2016, and 2015, the Company granted approximately 10,111, 555,547 and 676,340 shares, respectively, of restricted stock awards pursuant to the Plans. The Company determined that the fair value of restricted stock awards granted under the 2006 and 2004 Plans during the years ended December 31, 2017, 2016, and 2015 were approximately $150,000, $6.7 million and $9.2 million. As of December 31, 2017, there was approximately $2.6 million of total unrecognized compensation costs related to restricted stock awards. These costs are expected to be recognized over a weighted average period of 0.94 years.

The following table summarizes the activities for the Company's unvested restricted stock awards for each of the three periods ended, December 31, 2017, 2016, and 2015:

	Unvested Restricted Stock Awards	
	Restricted Stock Awards	Weighted Average Grant Date Fair Value
Unvested at December 31, 2014	1,302,780	$ 13.23
Granted	676,340	$ 13.67
Vested	(816,484)	$ 13.26
Forfeited	(312,564)	$ 13.16
Unvested at December 31, 2015	850,072	$ 13.59
Granted	555,547	$ 12.02
Vested	(569,118)	$ 13.58
Forfeited	(36,943)	$ 12.70
Unvested at December 31, 2016	799,558	$ 12.54
Granted	10,111	$ 14.83
Vested	(511,749)	$ 12.69
Forfeited	(36,675)	$ 11.91
Unvested at December 31, 2017	261,245	$ 12.43

In 2017, the Company granted approximately 600,461 shares of restricted stock units pursuant to the amended 2004 Plan. The Company determined that the fair value of restricted stock units granted under the 2004 Plan during the years ended December 31, 2017 was approximately $13.0 million. As of December 31, 2017, there was approximately $5.3 million of total unrecognized compensation costs related to restricted stock units. These costs are expected to be recognized over a weighted average period of 2.07 years.

The following table summarizes the activities for the Company's unvested restricted stock units for the year ended December 31, 2017:

	Unvested Restricted Stock Units	
	Restricted Stock Units	Weighted Average Grant Date Fair Value
Unvested at December 31, 2016	—	$ —
Granted	600,461	$ 14.21
Distribution Equivalent Unit Granted	54,674	$ 13.02
Vested	—	$ —
Forfeited	(60,813)	$ 13.40
Unvested at December 31, 2017	594,322	$ 12.99

During the years ended December 31, 2017, 2016, and 2015 the Company expensed approximately $7.2 million, $7.0 million and $9.2 million of compensation expense related to restricted stock awards and restricted stock units, respectively.

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.

The following table summarizes the common stock options activities under the Company's 2006 and 2004 Plans for each of the three periods ended December 31, 2017, 2016, and 2015:

	Common Stock Options	Weighted Average Exercise Price
Shares Outstanding at December 31, 2014	695,672	$ 14.58
Granted	163,500	$ 12.68
Exercised	(36,331)	$ 10.81
Forfeited	(190,006)	$ 14.83
Expired	(10,664)	$ 13.21
Shares Outstanding at December 31, 2015	622,171	$ 14.25
Granted	230,000	$ 12.16
Exercised	(36,500)	$ 11.05
Forfeited	(82,895)	$ 13.41
Expired	(64,605)	$ 15.05
Shares Outstanding at December 31, 2016	668,171	$ 13.73
Granted	115,000	$ 14.24
Exercised	(29,921)	$ 11.31
Forfeited	(39,394)	$ 13.98
Expired	(123,331)	$ 15.36
Shares Outstanding at December 31, 2017	590,525	$ 13.60
Shares Expected to Vest at December 31, 2017	201,590	$ 13.60

The following table summarizes stock options outstanding and exercisable at December 31, 2017:

(Dollars in thousands, except exercise price)	**Options outstanding**				**Options exercisable**			
Range of exercise prices	**Number of shares**	**Weighted Average Remaining Contractual Life**	**Aggregate Intrinsic Value**	**Weighted Average Exercise Price**	**Number of shares**	**Weighted Average Remaining Contractual Life**	**Aggregate Intrinsic Value**	**Weighted Average Exercise Price**
$9.25 - $14.02	330,941	5.49	$ 343,435	$ 12.22	180,351	4.92	$ 240,957	$ 11.90
$14.56 - $16.34	259,584	4.11	—	$ 15.35	208,584	3.61	—	$ 15.50
$9.25 - $16.34	590,525	4.88	$ 343,435	$ 13.60	388,935	4.22	$ 240,957	$ 13.83

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 December 31, 2017, options for approximately 388,935 shares were exercisable at a weighted average exercise price of approximately $13.83 per share with weighted average of remaining contractual term of 4.22 years.

The Company determined that the fair value of options granted under the 2006 and 2004 Plans during the years ended December 31, 2017, 2016, and 2015 was approximately $79,000, $837,000 and $57,000, respectively. During the years ended December 31, 2017, 2016, and 2015, approximately $73,000, $169,000 and $265,000 of share-based cost due to stock option grants was expensed, respectively. As of December 31, 2017, there was approximately $99,000 of total unrecognized compensation costs related to stock options. These costs are expected to be recognized over a weighted average period of 1.92 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 each of the three periods ended December 31, 2017, 2016, and 2015 is as follows:

	Year Ended December 31,		
	2017	2016	2015
Expected Volatility	23.07 %	23.73 %	18.94 %
Expected Dividends	10 %	10 %	10 %
Expected term (in years)	4.5	4.5	4.5
Risk-free rate	1.57% - 2.20%	0.87% - 1.98%	1.08% - 1.70%

8. Earnings Per Share

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

	Year Ended December 31,		
(in thousands, except per share data)	**2017**	**2016**	**2015**
Numerator			
Net increase in net assets resulting from operations	$ 78,998	$ 68,703	$ 42,916
Less: Distributions declared-common and restricted shares	(103,087)	(92,333)	(87,438)
Undistributed earnings	(24,089)	(23,630)	(44,522)
Undistributed earnings-common shares	(24,089)	(23,630)	(44,522)
Add: Distributions declared-common shares	102,516	91,065	85,959
Numerator for basic and diluted change in net assets per common share	$ 78,427	$ 67,435	$ 41,437
Denominator			
Basic weighted average common shares outstanding	82,519	73,753	69,479
Common shares issuable	121	22	184
Weighted average common shares outstanding assuming dilution	82,640	73,775	69,663
Change in net assets per common share			
Basic	$ 0.95	$ 0.91	$ 0.60
Diluted	$ 0.95	$ 0.91	$ 0.59

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 and restricted stock units are also included in the denominator for the purpose of calculating diluted earnings per share. For the year ended December 31, 2017, the effect of the 2022 Convertible Notes under the treasury stock method is anti-dilutive and, accordingly, is excluded from the calculation of diluted earnings per share. The 2016 Convertible Notes were fully settled on or before their contractual maturity date of April 15, 2016, as such there was no potential additional dilutive effect for the year ended December 31, 2016.

The calculation of change in net assets resulting from operations per common share—assuming dilution, excludes all anti-dilutive shares. For the year ended December 31, 2017, the number of anti-dilutive shares, as calculated based on the weighted average closing price of the Company's common stock for the periods, consisted of 2.8 million shares of 2022 Convertible Notes, 46,831 shares of unvested common stock options, and no shares of unvested restricted stock units. For the years ended 2016 and 2015, the number of anti-dilutive shares related to unvested common stock options was 676,133 shares and 627,483 shares, respectively.

At December 31, 2017 and 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 three years ended December 31, 2017, 2016 and 2015:

	Year Ended December 31, 2017	Year Ended December 31, 2016	Year Ended December 31, 2015
Per share data[1]:			
Net asset value at beginning of period	$ 9.90	$ 9.94	$ 10.18
Net investment income	1.17	1.36	1.06
Net realized gain (loss) on investments	(0.32)	0.06	0.07
Net unrealized appreciation (depreciation) on investments	0.11	(0.49)	(0.51)
Total from investment operations	0.96	0.93	0.62
Net increase in net assets from capital share transactions[1]	0.26	0.18	0.26
Distributions of net investment income[6] [7]	(1.07)	(1.14)	(1.04)
Distributions of capital gains[6] [7]	(0.18)	(0.11)	(0.22)
Stock-based compensation expense included in investment income[2]	0.09	0.10	0.14
Net asset value at end of period	$ 9.96	$ 9.90	$ 9.94
Ratios and supplemental data:			
Per share market value at end of period	$ 13.12	$ 14.11	$ 12.19
Total return[3]	1.47%	26.87%	(9.70%)
Shares outstanding at end of period	84,424	79,555	72,118
Weighted average number of common shares outstanding	82,519	73,753	69,479
Net assets at end of period	$ 840,967	$ 787,944	$ 717,134
Ratio of total expense to average net assets[4]	11.37%	11.25%	11.55%
Ratio of net investment income before investment gains and losses to average net assets[4]	11.61%	13.65%	10.15%
Portfolio turnover rate[5]	49.03%	36.22%	46.34%
Weighted average debt outstanding	$ 784,455	$ 635,365	$ 615,198
Weighted average debt per common share	$ 9.51	$ 8.61	$ 8.85

(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 years ended December 31, 2017, 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. 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.

(5) The portfolio turnover rate for the years ended December 31, 2017, 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.

(6) Includes distributions on unvested shares.

(7) The Company reclassified $8.0 million and $15.3 million of distributions from net investment income into distributions from realized gains as of December 31, 2016 and 2015 respectively. See "Note 2 – Summary of Significant Accounting Policies."

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 as of December 31, 2017 are dependent upon the portfolio company reaching certain milestones before the debt commitment becomes available. Furthermore, the Company's credit agreements contain customary lending provisions which allow the Company 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 December 31, 2017, the Company had approximately $73.6 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 $122.0 million of non-binding term sheets outstanding at December 31, 2017. 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 market indices and given the existence of milestones, conditions and/or obligations imbedded in the borrowing agreements.

As of December 31, 2017, the Company's unfunded contractual commitments available at the request of the portfolio company, including undrawn revolving facilities, and unencumbered by milestones are as follows:

(in thousands) Portfolio Company		Unfunded Commitments (1)
Myovant Sciences	$	15,000
Chemocentryx, Inc.		10,000
Evernote Corporation		10,000
Proterra, Inc.		10,000
Verastem, Inc.		10,000
Impact Radius Holdings, Inc.		7,500
Wrike, Inc.		5,000
MDX Medical, Inc.		4,500
Lithium Technologies, Inc.		878
Achronix Semiconductor Corporation		726
Total	$	73,604

(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 June 2027. Total rent expense amounted to approximately $1.8 million, $1.7 million and $1.7 million, during the years ended December 31, 2017, 2016, and 2015, respectively. The Company's contractual obligations as of December 31, 2017 include:

	Payments due by period (in thousands)				
Contractual Obligations (1)	Total	Less than 1 year	1 - 3 years	3 - 5 years	After 5 years
Borrowings (2)(3)(5)	$ 802,863	$ 149,153	$ 51,200	$ 494,250	$ 108,260
Operating Lease Obligations (4)	17,869	1,997	5,195	5,871	4,806
Total	$ 820,732	$ 151,150	$ 56,395	$ 500,121	$ 113,066

(1) Excludes commitments to extend credit to the Company's portfolio companies.
(2) Includes $190.2 million in principal outstanding under the SBA debentures, $183.5 million of the 2024 Notes, $230.0 million of the 2022 Convertible Notes, $49.2 million of the 2021 Asset-Backed Notes, and $150.0 million of the 2022 Notes. There are no outstanding borrowings on the Wells Facility or Union Facility as of December 31, 2017.
(3) Amounts represent future principal repayments and not the carrying value of each liability. See Note 4 to the Company's consolidated financial statements.
(4) Facility leases and licenses.
(5) Reflects announced redemption of a portion of the 2024 Notes in April 2018. See "Note 14 – Subsequent Events."

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. Indemnification

The Company has entered into indemnification agreements with our directors and executive officers. The indemnification agreements are intended to provide our directors and executive officers the maximum indemnification permitted under Maryland law and the 1940 Act. Each indemnification agreement provides that we shall indemnify the director or executive officer 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.

The Company and its 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.

12. Concentrations of Credit Risk

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

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 warrant or other equity-related interests, can fluctuate materially when a loan is paid off or a related warrant or equity interest is sold. Revenue recognition in any given year can be highly concentrated among several portfolio companies.

For the years ended December 31, 2017 and December 31, 2016, the Company's ten largest portfolio companies represented approximately 34.6% and 34.0% of the total fair value of the Company's investments in portfolio companies, respectively. At both December 31, 2017 and December 31, 2016, the Company had seven that represented 5% or more of the Company's net assets. At December 31, 2017, the Company had nine equity investments representing approximately 67.1% of the total fair value of the Company's equity investments, and each represented 5% or more of the total fair value of the Company's equity investments. At December 31, 2016, the Company had seven equity investments which represented approximately 54.7% of the total fair value of the Company's equity investments, and each represented 5% or more of the total fair value of such investments.

13. Selected Quarterly Data (Unaudited)

The following tables set forth certain quarterly financial information for each of the last eight quarters ended December 31, 2017. This information was derived from the Company's unaudited consolidated financial statements. Results for any quarter are not necessarily indicative of results for the full year or for any further quarter.

	Quarter Ended			
(in thousands, except per share data)	**March 31, 2017**	**June 30, 2017**	**September 30, 2017**	**December 31, 2017**
Total investment income	$ 46,365	$ 48,452	$ 45,865	$ 50,198
Net investment income	22,678	25,275	23,973	24,518
Net increase (decrease) in net assets resulting from operations	(5,588)	33,149	33,072	18,365
Change in net assets resulting from operations per common share (basic)	$ (0.07)	$ 0.40	$ 0.40	$ 0.22

	Quarter Ended			
	March 31, 2016	**June 30, 2016**	**September 30, 2016**	**December 31, 2016**
Total investment income	$ 38,939	$ 43,538	$ 45,102	$ 47,472
Net investment income	20,097	23,354	23,776	33,117
Net increase in net assets resulting from operations	14,295	9,475	30,812	14,121
Change in net assets resulting from operations per common share (basic)	$ 0.20	$ 0.13	$ 0.41	$ 0.18

14. Subsequent Events

Distribution Declaration

On February 14, 2018 the Company's Board of Directors declared a cash distribution of $0.31 per share to be paid on March 12, 2018 to shareholders of record as of March 5, 2018. This distribution represents the Company's fiftieth consecutive distribution since the Company's initial public offering, bringing the total cumulative distribution to date to $14.02 per share.

Restricted Stock Unit Grants

In January 2018, the Company granted 746,684 restricted stock units pursuant to the amended 2004 Plan.

ATM Equity Program Issuances

Subsequent to December 31, 2017 and as of February 16, 2018, the Company sold 478,000 shares of common stock for total accumulated net proceeds of approximately $6.2 million, including $56,000 of offering expenses, under the Equity Distribution Agreement with JMP. As of February 16, 2018 approximately 9.9 million shares remain available for issuance and sale under the equity distribution agreement.

Redemption of 2024 Notes

On February 9, 2018, the Company's Board of Directors approved a redemption of $100.0 million of outstanding aggregate principal amount of the 2024 Notes, and notice for such redemption has been provided. The Company has publicly announced its intention to redeem this portion of the 2024 Notes on April 2, 2018.

Portfolio Company Developments

As of February 16, 2018, the Company held warrants or equity positions in two companies that have filed registration statements on Form S-1 with the SEC in contemplation of potential initial public offerings. Both companies filed confidentially under the Jumpstart Our Business Startups Act of 2012. 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 December 31, 2017, the Company's portfolio companies announced or completed the following events:

1. In September 2017, the Company's portfolio company Inotek Pharmaceuticals Corporation announced they had entered into a definitive merger agreement with Rocket Pharmaceuticals Ltd. The deal was completed on January 4, 2018. The combined company will be named Rocket Pharmaceuticals, Inc. and is now listed on the NASDAQ Global Market under the symbol "RCKT" and began trading on January 5, 2018.
2. In October 2017, the Company's portfolio company Neothetics, Inc. announced they have entered into a definitive agreement under which privately-held Evofem Biosciences will merge with a wholly-owned subsidiary of Neothetics in an all-stock transaction. In January 2018, Evofem Biosciences completed the reverse merger acquisition of Neothetics and its stock began trading on the NASDAQ Capital Market under the ticker symbol "EVFM."

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

Not Applicable.

Item 9A. ***Controls and Procedures***

1. Disclosure Controls and Procedures

The Company's chief executive and chief financial officers, under the supervision and with the participation of the Company's management, conducted an evaluation of the Company's 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 Annual Report, the Company's chief executive and chief financial officers have concluded that the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in reports that the Company files or submits 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 the Company in the reports that the Company files or submits under the Exchange Act is accumulated and communicated to the Company's management, including the Company's chief executive and chief financial officers, as appropriate to allow timely decisions regarding required disclosure.

2. Internal Control Over Financial Reporting

a. Management's Annual Report on Internal Control over Financial Reporting

The Company is responsible for establishing and maintaining adequate internal control over financial reporting and for the assessment of the effectiveness of internal control over financial reporting. As defined by the SEC, internal control over financial reporting is a process designed under the supervision of the Company's principal executive and principal financial and accounting officer, approved and monitored by the Company's Board of Directors, and implemented by management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with U.S. GAAP.

The Company's internal control over financial reporting is supported by written policies and procedures, that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company's assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of the Company's management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management of the Company conducted an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2017 based on criteria established in *Internal Control— Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("the COSO Framework"). Based on this assessment, management has concluded that the Company's internal control over financial reporting was effective as of December 31, 2017.

Report of the Independent Registered Public Accounting Firm

The effectiveness of the Company's internal control over financial reporting as of December 31, 2017 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm who also audited the Company's consolidated financial statements, as stated in their report, which is included in this Annual Report on Form 10K.

Changes in Internal Control over Financial Reporting in 2017

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

Item 9B. ***Other Information***

None.

PART III

Item 10. ***Directors, Executive Officers and Corporate Governance***

Information in response to this Item is incorporated herein by reference to the information provided in the Company's definitive Proxy Statement for the Company's 2018 Annual Meeting of Shareholders (the "2018 Proxy Statement") to be filed with the SEC pursuant to Regulation 14A under the Exchange Act under the headings "Proposal I: Election Of Directors," "Information About Executive Officers Who Are Not Directors" and "Certain Relationships And Transactions."

The Company has adopted a code of business conduct and ethics that applies to directors, officers and employees. The code of business conduct and ethics is available on the Company's website at http//www.htgc.com. The Company will report any amendments to or waivers of a required provision of the code of business conduct and ethics on the Company's website or in a Form 8-K.

Item 11. ***Executive Compensation***

The information with respect to compensation of executives and directors is contained under the caption "Executive Compensation" in the Company's 2018 Proxy Statement and is incorporated in this Annual Report by reference in response to this item.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

The information with respect to security ownership of certain beneficial owners and management is contained under the captions "Security Ownership of Certain Beneficial Owners and Management" and "Executive Compensation" in the Company's 2018 Proxy Statement and is incorporated in this Annual Report by reference in response to this item.

Item 13. ***Certain Relationships and Related Transactions and Director Independence***

The information with respect to certain relationships and related transactions is contained under the caption "Certain Relationships and Transactions" and the caption "Proposal I: Election of Directors" in the Company's 2018 Proxy Statement and is incorporated in this Annual Report by reference in response to this item.

Item 14. ***Principal Accountant Fees and Services***

The information with respect to principal accountant fees and services is contained under the captions "Principal Accountant Fees and Services" and "Proposal II: Ratification of Selection of Independent Registered Public Accountants" in the Company's 2018 Proxy Statement and is incorporated in this Annual Report by reference to this item.

PART IV

Item 15. ***Exhibits and Financial Statement Schedules***

1. Financial Statements

The following financial statements of Hercules Capital, Inc. (formerly Hercules Technology Growth Capital, Inc.; the "Company" or the "Registrant") are filed herewith:

AUDITED FINANCIAL STATEMENTS

2. The following financial statement schedule is filed herewith:

3. Exhibits required to be filed by Item 601 of Regulation S-K.

Item 16. ***Form 10-K Summary***

Not applicable.

HERCULES CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS IN AND ADVANCES TO AFFILIATES
As of and for the year ended December 31, 2017
(in thousands)

Portfolio Company	Investment(1)	Amount of Interest Credited to Income(2)	Realized Gain (Loss)	As of December 31, 2016 Fair Value	Gross Additions (3)	Gross Reductions (4)	Net Change in Unrealized Appreciation/ (Depreciation)	As of December 31, 2017 Fair Value
Control Investments								
Majority Owned Control Investments								
Achilles Technology Management Co II, Inc.(5)	Senior Debt	$ 144	$ (486)	$ 1,304	$ 74	$ (1,378)	$ —	$ —
	Common Stock	—	—	3,396	—	(900)	(2,254)	242
HercGamma, Inc.(6)	Common Stock	—	(487)	—	1,169	(1,169)	—	—
Total Majority Owned Control Investments		$ 144	$ (973)	$ 4,700	$ 1,243	$ (3,447)	$ (2,254)	$ 242
Other Control Investments								
SkyCross, Inc.(5)	Senior Debt	$ —	$ (15,058)	$ —	$ —	$ (16,900)	$ 16,900	$ —
	Preferred Warrants	—	(394)	—	—	(394)	394	—
Tectura Corporation(5)	Senior Debt	1,827	—	—	20,538	(240)	(1,079)	19,219
	Preferred Warrants	—	(51)	—	51	(102)	51	—
Second Time Around (Simplify Holdings, LLC) (8)	Senior Debt	—	—	—	1,781	(1,921)	140	—
Total Other Control Investments		$ 1,827	$ (15,503)	$ —	$ 22,370	$ (19,557)	$ 16,406	$ 19,219
Total Control Investments		$ 1,971	$ (16,476)	$ 4,700	$ 23,613	$ (23,004)	$ 14,152	$ 19,461
Affiliate Investments								
Optiscan BioMedical, Corp.	Preferred Stock	$ —	$ —	$ 4,529	$ 173	$ —	$ 1,503	$ 6,205
	Preferred Warrants	—	—	170	—	—	(84)	86
Stion Corporation	Senior Debt	2	—	333	—	(333)	—	—
Solar Spectrum Holdings LLC (p.k.a. Sungevity, Inc.)(7)	Senior Debt	799	—	—	14,698	(1,094)	—	13,604
	Common Stock	—	—	—	61,502	—	(50,102)	11,400
Total Affiliate Investments		$ 801	$ —	$ 5,032	$ 76,373	$ (1,427)	$ (48,683)	$ 31,295
Total Control and Affiliate Investments		$ 2,772	$ (16,476)	$ 9,732	$ 99,986	$ (24,431)	$ (34,531)	$ 50,756

(1) Stock and warrants are generally non-income producing and restricted.

(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) As of March 31, 2017, the Company's investment in Tectura Corporation became classified as a control investment as of result of obtaining more than 50% representation on the portfolio company's board.

(6) As of June 30, 2017, the Company's wholly owned subsidiary HercGamma, Inc. became classified as a control investment as a result of an investment in a portfolio company whereby the subsidiary obtained a controlling financial interest.

(7) As of September 30, 2017, the Company's investment in Solar Spectrum Holdings LLC (p.k.a. Sungevity, Inc.) became classified as an affiliate investment due to a reduction in equity ownership. Note that this investment was classified as a control investment as of June 30, 2017 after the Company obtained a controlling financial interest.

(8) As of September 30, 2017, the Company's investment in Second Time Around (Simplify Holdings, LLC) became classified as a control investment as a result of obtaining a controlling financial interest.

HERCULES CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS IN AND ADVANCES TO AFFILIATES
As of and for the year ended December 31, 2017
(in thousands)

Portfolio Company	Industry	Type of Investment (1)	Maturity Date	Interest Rate and Floor	Principal or Shares	Cost	Value (2)
Control Investments							
Majority Owned Control Investments							
Achilles Technology Management Co II, Inc.	Communications & Networking	Common Stock			100	$ 3,100	$ 242
Total Majority Owned Control Investments (0.03%)*						3,100	242
Other Control Investments							
Tectura Corporation	Internet Consumer & Business Services	Senior Secured Debt	June 2021	Interest rate FIXED 6.00%, PIK Interest 3.00%	$ 20,298	20,298	19,219
	Internet Consumer & Business Services	Senior Secured Debt	June 2021	PIK Interest 8.00%	$ 11,015	240	—
	Internet Consumer & Business Services	Preferred Series BB Equity			1,000,000	—	—
Total Tectura Corporation						20,538	19,219
Second Time Around (Simplify Holdings, LLC)	Consumer & Business Products	Senior Secured Debt	February 2019	Interest rate PRIME + 7.25% or Floor rate of 10.75%, 4.75% Exit Fee	1,746	1,781	—
Total Other Control Investments (2.29%)*						22,319	19,219
Total Control Investments (2.31%)*						**$ 25,419**	**$ 19,461**
Affiliate Investments							
Optiscan BioMedical, Corp.	Medical Devices & Equipment	Preferred Series B Equity			6,185,567	$ 3,000	$ 402
	Medical Devices & Equipment	Preferred Series C Equity			1,927,309	655	114
	Medical Devices & Equipment	Preferred Series D Equity			55,103,923	5,257	4,232
	Medical Devices & Equipment	Preferred Series E Equity			15,638,888	1,307	1,457
	Medical Devices & Equipment	Preferred Series D Warrants			10,535,275	1,252	86
Total Optiscan BioMedical, Corp.						11,471	6,291
Stion Corporation	Sustainable & Renewable Energy Technology	Preferred Series Seed Warrants			2,154	1,378	—
Solar Spectrum Holdings LLC (p.k.a. Sungevity, Inc.)	Sustainable & Renewable Energy Technology	Senior Secured Debt	August 2019	Interest rate PRIME + 8.70% or Floor rate of 12.95%, 4.50% Exit Fee	$ 15,000	13,604	13,604
	Sustainable & Renewable Energy Technology	Common Stock			288	61,502	11,400
Total Solar Spectrum Holdings LLC (p.k.a. Sungevity, Inc.)						75,106	25,004
Total Affiliate Investments (3.72%)*						**$ 87,955**	**$ 31,295**
Total Control and Affiliate Investments (6.04%)*						**$ 113,374**	**$ 50,756**

* Value as a percent of net assets
(1) Stock and warrants are generally non-income producing and restricted.
(2) All of the Company's control and affiliate investments are Level 3 investments valued using significant unobservable inputs.

3. Exhibits

Please note that the agreements included as exhibits to this Form 10-K are included to provide information regarding their terms and are not intended to provide any other factual or disclosure information about us or the other parties to the agreements. The agreements contain representations and warranties by each of the parties to the applicable agreement that have been made solely for the benefit of the other parties to the applicable agreement and may not describe the actual state of affairs as of the date they were made or at any other time.

Exhibit Number	Description
3(a)	Articles of Amendment and Restatement.(3)
3(b)	Articles of Amendment, dated March 6, 2007.(7)
3(c)	Articles of Amendment, dated April 5, 2011.(22)
3(d)	Articles of Amendment, dated April 6, 2015.(43)
3(e)	Articles of Amendment, dated February 25, 2016.(49)
3(f)	Amended and Restated Bylaws.(49)
4(a)	Specimen certificate of the Company's common stock, par value $.001 per share.(60)
4(b)	Form of Dividend Reinvestment Plan.(1)
4(c)	Indenture between Hercules Funding Trust I and U.S. Bank National Association, dated as of August 1, 2005(2)
4(d)	Indenture between Hercules Technology Growth Capital, Inc. and U.S. Bank National Association, dated as of April 15, 2011.(23)
4(e)	Form of Note under the Indenture, dated as of April 15, 2011.(23)
4(f)	Indenture between the Registrant and U.S. Bank National Association, dated as of March 6, 2012(26)
4(g)	First Supplemental Indenture between the Registrant and U.S. Bank National Association, dated as of April 17, 2012(26)
4(h)	Second Supplemental Indenture between the Registrant and U.S. Bank National Association, dated as of September 24, 2012(29)
4(i)	Third Supplemental Indenture between the Registrant and U.S. Bank National Association, dated as of July 14, 2014(39)
4(j)	Form of 7.00% Senior Note due 2019, dated as of April 17, 2012 (Existing April 2019 Note) (included as part of Exhibit 4(g)).(26)
4(k)	Form of 7.00% Senior Note due 2019, dated as of July 6, 2012 (Additional April 2019 Note).(27)
4(l)	Form of 7.00% Senior Note due 2019, dated as of July 12, 2012 (Over-Allotment April 2019 Note).(28)
4(m)	Form of 7.00% Senior Note due 2019, dated as of September 24, 2012 (September 2019 Note) (included as part of Exhibit 4(h)).(29)
4(n)	Form of 7.00% Senior Note due 2019, dated as of October 2, 2012 (Over-Allotment September 2019 Note).(30)
4(o)	Form of 7.00% Senior Note due 2019, dated as of October 17, 2012 (Over-Allotment II September 2019 Note).(31)
4(p)	Form of 6.25% Note due 2024, dated as of July 14, 2014 (July 2024 Note) (included as part of Exhibit 4(i)).(39)
4(q)	Form of 6.25% Note due 2024, dated as of August 11, 2014 (Over-Allotment July 2024 Note).(40)
4(r)	Form of 6.25% Note due 2024, dated May 2, 2016 (Additional July 2024 Note).(52)
4(s)	Form of 6.25% Note due 2024, June 27, 2016 (Additional July 2024 Note).(53)
4(t)	Form of 6.25% Note due 2024, July 5, 2016 (Additional July 2024 Note).(54)
4(u)	Form of 6.25% Note due 2024, October 11, 2016 (Additional July 2024 Note).(56)
4(v)	Indenture, dated January 25, 2017, between Hercules Capital, Inc. and U.S. Bank, National Association, as Trustee(57)

Exhibit Number	Description
4(w)	Form of 4.375% Convertible Note Due 2022 (included as part of Exhibit 4(v)).(57)
4(x)	Statement of Eligibility of Trustee on Form T-1.(62)
4(y)	Fourth Supplemental Indenture, dated as of October 23, 2017, between the Registrant and U.S. Bank, National Association.(63)
4(z)	Form of 4.625% Note due 2022, dated October 23, 2017 (included as part of Exhibit 4(y)).(63)
10(a)	Credit Agreement between Hercules Technology Growth Capital, Inc. and Alcmene Funding, L.L.C., dated as of April 12, 2005.(3)
10(b)	Pledge and Security Agreement between Hercules Technology Growth Capital, Inc. and Alcmene Funding, L.L.C., dated as of April 12, 2005.(3)
10(c)	First Amendment to Credit and Pledge Security Agreement between Hercules Technology Growth Capital, Inc. and Alcmene Funding L.L.C., dated as of August 1, 2005.(2)
10(d)	Second Amendment to Credit and Pledge and Security Agreement by and among Hercules Technology Growth Capital, Inc. and Alcmene Funding, L.L.C., as lender and administrative agent for the lenders, dated as of March 6, 2006.(12)
10(e)	Loan Sale Agreement between Hercules Funding LLC and Hercules Technology Growth Capital, Inc., dated as of August 1, 2005(2)
10(f)	Sale and Servicing Agreement among Hercules Funding Trust I, Hercules Funding LLC, Hercules Technology Growth Capital, Inc., U.S. Bank National Association and Lyon Financial Services, Inc., dated as of August 1, 2005.(2)
10(g)	Note Purchase Agreement among Hercules Funding Trust I, Hercules Funding I LLC, Hercules Technology Growth Capital, Inc. and Citigroup Global Markets Realty Corp., dated as of August 1, 2005.(2)
10(h)	Hercules Capital, Inc. Amended and Restated 2004 Equity Incentive Plan.(10)
10(i)	Hercules Technology Growth Capital, Inc. 2006 Non-Employee Director Plan (2007 Amendment and Restatement).(11)
10(j)	Form of Custody Agreement between the Company and Union Bank of California(3)
10(k)	Form of Restricted Stock Unit Award Agreement.(10)
10(l)	Subscription Agreement by and among the Company and the subscribers named therein, dated as of March 2, 2006(17)
10(m)	Form of Incentive Stock Option Award under the 2004 Equity Incentive Plan(3)
10(n)	Form of Nonstatutory Stock Option Award under the 2004 Equity Incentive Plan(3)
10(o)	Form of Registrar Transfer Agency and Service Agreement between the Company and American Stock Transfer & Trust Company(3)
10(p)	Warrant Agreement, dated as of June 22, 2004, between the Company and American Stock Transfer & Trust Company, as warrant agent(9)
10(q)	Subscription Agreement, dated as of February 2, 2004, between the Company and the subscribers named therein(3)
10(r)	Lease Agreement, dated as of June 13, 2006, between the Company and 400 Hamilton Associates(4)
10(s)	Third Amendment to Sale and Servicing Agreement among Hercules Funding Trust I, Hercules Funding LLC, Hercules Technology Growth Capital, Inc., U.S. Bank National Association and Lyon Financial Services, Inc., dated as of July 28, 2006.(5)
10(t)	Second Omnibus Amendment by and among Hercules Funding Trust I, Hercules Funding I LLC, Hercules Technology Growth Capital, Inc., U.S. Bank National Association, Lyon Financial Services, Inc. and Citigroup Global Markets Realty Corp., dated as of December 6, 2006.(6)
10(u)	Fifth Amendment to Sale and Servicing Agreement by and among Hercules Funding Trust I, Hercules Funding I, LLC, Hercules Technology Growth Capital, Inc., U.S. Bank National Association, Lyon Financial Services, Inc. and Citigroup Global Markets Realty Corp., dated as of March 30, 2007.(13)

Exhibit Number	Description
10(v)	Amended and Restated Sale and Servicing Agreement by and among Hercules Funding Trust I, Hercules Funding I LLC, the Company, U.S. Bank National Association, Lyon Financial Services, Inc., Citigroup Global Markets Inc., and Deutsche Bank AG, dated as of May 2, 2007.(14)
10(w)	Fourth Amendment to the Warrant Participation Agreement by and among Hercules Technology Growth Capital, Inc. and Citigroup Global Markets Realty Corp., dated as of May 2, 2007.(15)
10(x)	Amended and Restated Note Purchase Agreement by and among the Company, Hercules Funding Trust I, Hercules Funding I LLC, and Citigroup Global Markets, Inc., dated as of May 2, 2007.(15)
10(y)	First Amendment to Amended and Restated Note Purchase Agreement by and among the Company, Hercules Funding Trust I, Hercules Funding I LLC, and Citigroup Global Markets, Inc., dated as of May 7, 2008.(16)
10(z)	Second Amendment to Amended and Restated Sale and Servicing Agreement by and among Hercules Funding Trust I, Hercules Funding I LLC, the Company, U.S. Bank National Association, Lyon Financial Services, Inc., Citigroup Global Markets Inc., and Deutsche Bank AG, dated as of May 7, 2008.(16)
10(aa)	Loan and Security Agreement by and among Hercules Funding II LLC and Wells Fargo Foothill, LLC, dated as of August 25, 2008(18)
10(bb)	Sale and Servicing Agreement among Hercules Funding II LLC, the Company, Lyon Financial Services, Inc., and Wells Fargo Foothill, LLC, dated as of August 25, 2008.(18)
10(cc)	Form of SBA Debenture.(19)
10(dd)	First Amendment to Loan and Security Agreement by and among Hercules Funding II, LLC and Wells Fargo Foothill, LLC, dated as of April 30, 2009.(20)
10(ee)	Loan and Security Agreement by Hercules Technology Growth Capital, Inc. and Union Bank, N.A., dated as of February 10, 2010(21)
10(ff)	Amended and Restated Loan and Security Agreement between the Company and Union Bank, N.A., dated as of November 2, 2011(25)
10(gg)	Second Amendment to Loan and Security Agreement by and among Hercules Funding II LLC and Wells Fargo Capital Finance, LLC (f/k/a Wells Fargo Foothill, LLC), dated as of June 20, 2011.(24)
10(hh)	First Amendment to Amended and Restated Loan and Security Agreement by and between Hercules Technology Growth Capital, Inc. and Union Bank, N.A., dated as of March 30, 2012.(32)
10(ii)	Third Amendment to Loan and Security Agreement by and among Hercules Funding II LLC and Wells Fargo Capital Finance, LLC (f/k/a Wells Fargo Foothill, LLC), dated as of August 1, 2012.(33)
10(jj)	Second Amendment to Amended and Restated Loan and Security Agreement by and between Hercules Technology Growth Capital, Inc. and Union Bank, N.A., dated as of September 17, 2012.(34)
10(kk)	Third Amendment to Amended and Restated Loan and Security Agreement by and between Hercules Technology Growth Capital, Inc. and Union Bank, N.A., dated as of December 17, 2012.(36)
10(ll)	First Omnibus Amendment by and among Hercules Funding Trust I, Hercules Funding I, LLC, Hercules Technology Growth Capital, Inc., U.S. Bank National Association, Lyon Financial Services, Inc. and Citigroup Global Markets Realty Corp., dated as of March 6, 2006.(12)
10(mm)	Intercreditor Agreement among Hercules Technology Growth Capital, Inc., Alcmene Funding, L.L.C. and Citigroup Global Markets Realty Corp., dated as of March 6, 2006.(12)
10(nn)	Warrant Participation Agreement between the Company and Citigroup Global Markets Realty Corp., dated as of August 1, 2005(35)
10(oo)	Indenture by and between Hercules Capital Funding Trust 2012-1 and U.S. Bank National Association, dated as of December 19, 2012(36)
10(pp)	Amended and Restated Trust Agreement by and between Hercules Capital Funding 2012-1 LLC and Wilmington Trust, National Association, dated as of December 19, 2012.(36)

Exhibit Number	Description
10(qq)	Sale and Servicing Agreement by and Among Hercules Capital Funding 2012-1 LLC, Hercules Capital Funding Trust 2012-1 LLC, Hercules Technology Growth Capital, Inc. and U.S. Bank National Association, dated as of December 19, 2012.(36)
10(rr)	Sale and Contribution Agreement by and between Hercules Technology Growth Capital, Inc. and Hercules Capital Funding 2012-1 LLC, dated as of December 19, 2012.(36)
10(ss)	Note Purchase Agreement among the Hercules Technology Growth Capital, Inc., Hercules Capital Funding 2012-1 LLC, as Trust Depositor, Hercules Capital Funding Trust 2012-1, as Issuer, and Guggenheim Securities, LLC, as Initial Purchaser, dated as of December 12, 2012.(36)
10(tt)	Administration Agreement between Hercules Capital Funding Trust 2012-1LLC, Hercules Technology Growth Capital, Inc., Wilmington Trust, National Association, and U.S. Bank National Association, dated as of December 19, 2012.(36)
10(uu)	Third Amendment to Amended and Restated Loan and Security Agreement by and between Hercules Technology Growth Capital, Inc. and Union Bank, N.A., dated as of December 19, 2012.(36)
10(vv)	Fourth Amendment to Amended and Restated Loan and Security Agreement by and between Hercules Technology Growth Capital, Inc. and Union Bank, N.A., dated as of December 2, 2013.(37)
10(ww)	Fifth Amendment to Amended and Restated Loan and Security Agreement by and between Hercules Technology Growth Capital, Inc. and MUFG Union Bank, N.A., dated as of January 31, 2014.(37)
10(xx)	Sixth Amendment to Amended and Restated Loan and Security Agreement by and between Hercules Technology Growth Capital, Inc. and MUFG Union Bank, N.A., dated as of July 8, 2014.(38)
10(yy)	Second Amended and Restated Loan and Security Agreement by and among Hercules Technology Growth Capital, Inc. and Union Bank, N.A., dated as of August 14, 2014.(41)
10(zz)	Fifth Amendment to Loan and Security Agreement by and among Hercules Funding II, LLC and Wells Fargo Capital Finance, LLC (f/k/a Wells Fargo Foothill, LLC), dated as of August 8, 2014.(42)
10(aaa)	Form of Amended and Restated Indemnification Agreement.(59)
10(bbb)	Seventh Amendment to Loan and Security Agreement by and among Hercules Funding II LLC and Wells Fargo Capital, LLC (f/k/a Wells Fargo Foothill, LLC), dated as of May 6, 2015.(44)
10(ccc)	Amended and Restated Loan and Security Agreement by and among Hercules Funding II LLC and Wells Fargo Capital Finance, LLC (f/k/a Wells Fargo Foothill, LLC), dated as of June 29, 2015.(45)
10(ddd)	Amended and Restated Sale and Servicing Agreement by and among Hercules Funding II LLC, Hercules Technology Growth Capital, Inc., and Wells Fargo Capital Finance, LLC (f/k/a Wells Fargo Foothill, LLC), dated as of June 29, 2015.(45)
10(eee)	First Amendment and Waiver to Second Amended and Restated Loan and Security Agreement by and among Hercules Technology Growth Capital, Inc. and MUFG Union Bank, N.A., dated as of November 3, 2015.(47)
10(fff)	First Amendment to Amended and Restated Loan and Security Agreement by and among Hercules Funding II LLC and Wells Fargo Capital Finance, LLC (f/k/a Wells Fargo Foothill, LLC), dated as of December 16, 2015.(48)
10(ggg)	Second Amendment to Amended and Restated Loan and Security Agreement by and among Hercules Funding II LLC and Wells Fargo Capital Finance, LLC (f/k/a Wells Fargo Foothill, LLC), dated as of March 8, 2016. (58)
10(hhh)	Third Amendment to Amended and Restated Loan and Security Agreement by and among Hercules Funding II LLC and Wells Fargo Capital Finance, LLC (f/k/a Wells Fargo Foothill, LLC), dated as of April 7, 2016.(50)
10(iii)	Loan and Security Agreement 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 from time to time, dated as of May 5, 2016.(51)
10(jjj)	Sale and Servicing Agreement by and among Hercules Funding III LLC, as borrower, Hercules Capital, Inc., as originator and servicer, and MUFG Union Bank, N.A., as agent, dated as of May 5, 2016.(51)

Exhibit Number	Description
10(kkk)	First Amendment to Loan and Security Agreement 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 from time to time, dated as of July 14, 2016.[55]
10(lll)	Form of Performance Restricted Stock Unit Award Agreement.[10]
10(mmm)	Fourth Amendment to the Amended and Restated Loan and Security Agreement, dated as of April 3, 2017, by and among Hercules Funding II LLC as borrower, Wells Fargo Capital Finance, LLC (f/k/a Wells Fargo Foothill, LLC), as Administrative Agent, and the Lenders party thereto from time to time.[61]
10(nnn)	Retention Agreement, dated as of October 26, 2017, by and between Hercules Capital, Inc. and Manual Henriquez[64]
10(ooo)	Retention Agreement, dated as of October 26, 2017, by and between Hercules Capital, Inc. and Mark Harris[64]
10(ppp)	Retention Agreement, dated as of October 26, 2017, by and between Hercules Capital, Inc. and Scott Bluestein[64]
10(qqq)	Asset Purchase Agreement, dated as of November 1, 2017 by and between Ares Capital Corporation, a Maryland corporation and, together with each Seller Designee permitted pursuant to the Agreement, and Bearcub Acquisitions LLC, a Delaware limited liability company.[65]
10(rrr)	Separation Agreement, dated as of November 2, 2017, by and between Hercules Capital, Inc. and Mark Harris[8]
11.1	Computation of per share earnings (included in the notes to the audited financial statements included in this report)
14.1*	Code of Ethics.
14.2	Code of Business Conduct and Ethics.[46]
21.1*	List of Subsidiaries.
23.1*	Consent of PricewaterhouseCoopers LLP, independent registered public accounting firm
31.1*	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended
31.2*	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended
32.1*	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350), as amended.
32.2*	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350), as amended.

(1) Previously filed as part of Pre-Effective Amendment No. 2, as filed on June 8, 2005 (Registration No. 333-122950), 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 August 5, 2005.
(3) Previously filed as part of Pre-Effective Amendment No. 1, as filed on May 17, 2005 (File No. 333-122950) to the Registration Statement on Form N-2 of the Company.
(4) Previously filed as part of the Current Report on Form 8-K of the Company, as filed on August 1, 2006.
(5) Previously filed as part of the Current Report on Form 8-K of the Company, as filed on August 3, 2006.
(6) Previously filed as part of the Current Report on Form 8-K of the Company, as filed on December 6, 2006.
(7) Previously filed as part of the Current Report on Form 8-K of the Company, as filed on March 9, 2007.
(8) Previously filed as part of the Current Report on Form 8-K of the Company, as filed on November 2, 2017.
(9) Previously filed as part of the Registration Statement on Form N-2 of the Company (File No. 333-122950), as filed on February 22, 2005.
(10) Previously filed as part of the Current Report on Form 8-K of the Company, as filed on January 5, 2017.
(11) Previously filed as part of the Securities to be Offered to Employees in Employee Benefit Plans on Form S-8, as filed on October 2, 2007.
(12) Previously filed as part of the Post-Effective Amendment No. 3, as filed on March 9, 2006 (File No. 333-126604), to the Registration Statement on Form N-2 of the Company.
(13) Previously filed as part of the Current Report on Form 8-K of the Company, as filed on April 3, 2007.
(14) Previously filed as part of the Current Report on Form 8-K of the Company, as filed on May 4, 2007.
(15) Previously filed as part of the Pre-Effective Amendment No. 1, as filed on May 15, 2007 (File No. 333-141828), to the Registration Statement on Form N-2 of the Company.

(16) Previously filed as part of Pre-Effective Amendment No. 2, as filed on June 5, 2008 (File No. 333-150403), to the Registration Statement on Form N-2 of the Company.

(17) Previously filed as part of the Post-Effective Amendment No. 3, as filed on March 9, 2006 (File No. 333-126604), to the Registration Statement on Form N-2 of the Company.

(18) Previously filed as part of the Current Report on Form 8-K of the Company, as filed on August 27, 2008.

(19) Previously filed as part of the Annual Report on Form 10-K of the Company, as filed on March 16, 2009.

(20) Previously filed as part of the Quarterly Report on Form 10-Q of the Company, as filed on May 11, 2009.

(21) Previously filed as part of the Current Report on Form 8-K of the Company, as filed on February 17, 2010.

(22) Previously filed as part of the Current Report on Form 8-K of the Company, as filed on April 11, 2011.

(23) Previously filed as part of the Current Report on Form 8-K of the Company, as filed on April 18, 2011.

(24) Previously filed as part of the Current Report on Form 8-K of the Company, as filed on June 24, 2011.

(25) Previously filed as part of the Current Report on Form 8-K of the Company, as filed on November 4, 2011.

(26) Previously filed as part of Post-Effective Amendment No. 1, as filed on April 17, 2012 (File No. 333-179431), to the Registration Statement on Form N-2 of the Company.

(27) Previously filed as part of Post-Effective Amendment No. 2, as filed on July 6, 2012 (File No. 333-179431), to the Registration Statement on Form N-2 of the Company.

(28) Previously filed as part of Post-Effective Amendment No. 3, as filed on July 12, 2012 (File No. 333-179431), to the Registration Statement on Form N-2 of the Company.

(29) Previously filed as part of Post-Effective Amendment No. 5, as filed on September 24, 2012 (File No. 333-179431), to the Registration Statement on Form N-2 of the Company.

(30) Previously filed as part of Post-Effective Amendment No. 7, as filed on October 2, 2012 (File No. 333-179431), to the Registration Statement on Form N-2 of the Company.

(31) Previously filed as part of Post-Effective Amendment No. 8, as filed on October 17, 2012 (File No. 333-179431), to the Registration Statement on Form N-2 of the Company.

(32) Previously filed as part of the Quarterly Report on Form 10-Q of the Company, as filed on May 8, 2012.

(33) Previously filed as part of the Current Report on Form 8-K of the Company, as filed on August 2, 2012.

(34) Previously filed as part of Post-Effective Amendment No. 4, as filed on September 19, 2012 (File No. 333-179431), to the Registration Statement on Form N-2 of the Company.

(35) Previously filed as part of the Pre-Effective Amendment No. 1, as filed on October 17, 2006 (File No. 333-136918), to the Registration Statement on Form N-2 of the Company.

(36) Previously filed as part of the Current Report on Form 8-K of the Company, as filed on December 20, 2012.

(37) Previously filed as part of the Annual report on Form 10-K of the Company, as filed on February 27, 2014.

(38) Previously filed as part of Post-Effective Amendment No. 4, as filed on July 11, 2014 (File No. 333-187447), to the Registration Statement on Form N-2 of the Company.

(39) Previously filed as part of Post-Effective Amendment No. 5, as filed on July 14, 2014 (File No. 333-187447), to the Registration Statement on Form N-2 of the Company.

(40) Previously filed as part of Post-Effective Amendment No. 6, as filed on August 11, 2014 (File No. 333-187447), to the Registration Statement on Form N-2 of the Company.

(41) Previously filed as part of the Current Report on Form 8-K of the Company, as filed on August 19, 2014.

(42) Previously filed as part of the Quarterly Report on Form 10-Q of the Company, as filed on November 6, 2014.

(43) Previously filed as part of the Registration Statement on Form N-2 of the Company (File No. 333-203511), as filed on April 20, 2015.

(44) Previously filed as part of the Quarterly Report on Form 10-Q of the Company, as filed on May 7, 2015.

(45) Previously filed as part of the Current Report on Form 8-K of the Company, as filed on June 30, 2015.

(46) Previously filed as part of the Current Report on Form 8-K of the Company, as filed on July 13, 2015.

(47) Previously filed as part of the Current Report on Form 8-K of the Company, as filed on November 13, 2015.

(48) Previously filed as part of the Current Report on Form 8-K of the Company, as filed on December 18, 2015.

(49) Previously filed as part of the Current Report on Form 8-K of the Company, as filed on February 25, 2016.

(50) Previously filed as part of the Current Report on Form 8-K of the Company, as filed on April 11, 2016.

(51) Previously filed as part of the Current Report on Form 8-K of the Company, as filed on May 10, 2016.

(52) Previously filed as part of Post-Effective Amendment No. 3, as filed on May 2, 2016 (File No. 333-203511), to the Registration Statement on Form N-2 of the Company.

(53) Previously filed as part of Post-Effective Amendment No. 6, as filed on June 27, 2016 (File No. 333-203511), to the Registration Statement on Form N-2 of the Company.

(54) 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.

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

(56) Previously filed as part of the Post-Effective Amendment No. 10, as filed on October 14, 2016 (File No. 333-203511), to the Registration Statement on Form N-2 of the Company.

(57) Previously filed as part of the Current Report on Form 8-K of the Company, as filed on January 25, 2017.

(58) Previously filed as part of the Current Report on Form 8-K of the Company, as filed on March 8, 2016.

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

(60) Previously filed as part of the Annual report on Form 10-K of the Company, as filed on February 25, 2015.

(61) Previously filed as part of the Current Report on Form 8-K of the Company, as filed on April 7, 2017.

(62) Previously filed as part of the Pre-Effective Amendment No. 2, as filed on September 5, 2017 (File No. 333-214767), to the Registration Statement on Form N-2 of the Company.

(63) Previously filed as part of the Post-Effective Amendment No. 2, as filed on October 25, 2017 (File No. 333-214767), to the Registration Statement on Form N-2 of the Company.

(64) Previously filed as part of the Current Report on Form 8-K of the Company, as filed on October 26, 2017.

(65) Previously filed as part of the Current Report on Form 8-K of the Company, as filed on November 2, 2017.

* Filed herewith

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities 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.

Date: February 22, 2018

By: /S/ Manuel A. Henriquez
Manuel A. Henriquez
Chief Executive Officer

In accordance with the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the following capacities on February 22, 2018.

Signature	Title	Date
/S/ Manuel A. Henriquez **Manuel A. Henriquez**	Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)	February 22, 2018
/S/ Gerard R. Waldt, Jr. **Gerard R. Waldt, Jr.**	Interim Chief Accounting Officer	February 22, 2018
/S/ Robert P. Badavas **Robert P. Badavas**	Director	February 22, 2018
/S/ Thomas Fallon **Thomas Fallon**	Director	February 22, 2018
/S/ Joseph F. Hoffman **Joseph F. Hoffman**	Director	February 22, 2018
/S/ Brad Koenig **Brad Koenig**	Director	February 22, 2018
/S/ Jorge Titinger **Jorge Titinger**	Director	February 22, 2018
/S/ Doreen Woo Ho **Doreen Woo Ho**	Director	February 22, 2018
/S/ Allyn C. Woodward, Jr. **Allyn C. Woodward, Jr.**	Director	February 22, 2018

CODE OF ETHICS

This Code of Ethics (the "***Code***") has been adopted by the Board of Directors (the "***Board***") of Hercules Capital, Inc. (the ***"Company"***) in accordance with Rule 17j-l(c) under the Investment Company Act of 1940, as amended (the ***"1940 Act"***). Rule 17j-1 generally describes fraudulent or manipulative practices with respect to purchases or sales of securities held or to be acquired by business development companies if affected by access persons of such companies.

The purpose of this Code is to reflect the following:

(1) the duty at all times to place the interests of shareholders first;

(2) the requirement that all personal securities transactions be conducted consistent with the Code and in such a manner as to avoid any actual or potential conflict of interest or any abuse of an individual's position of trust and responsibility; and

(3) the fundamental standard that business development company personnel should not take inappropriate advantage of their positions.

SECTION I: STATEMENT OF PURPOSE AND APPLICABILITY

(A) Statement of Purpose

It is the policy of the Company that no affiliated person of the Company will, in connection with the purchase or sale, directly or indirectly, by such person of any security held or to be acquired by the Company,

(1) Employ any device, scheme or artifice to defraud the Company;

(2) Make to the Company any untrue statement of a material fact or omit to state to the Company a material fact necessary in order to make the statement made, in light of the circumstances under which it is made, not misleading;

(3) Engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon the Company; or

(4) Engage in any manipulative practice with respect to the Company.

(B) Scope of the Code

In order to prevent Access Persons, as defined in Section II, paragraph (A) below, of the Company from engaging in any of these prohibited acts, practices or courses of business, the Board has adopted this Code.

SECTION II: DEFINITIONS

(A) Access Person. "Access Person" means any director, officer, or "Advisory Person" of the Company.

(B) Advisory Person. "Advisory Person" of the Company means: (i) any director, officer or employee of the Company or of any company in a control relationship to the Company, who, in connection with his or her regular functions or duties, makes, participates in, or obtains information regarding the purchase or sale of a Covered Security by the Company, or whose functions relate to the making of any recommendations with respect to such purchases or sales; and (ii) any natural person in a control relationship to the Company who obtains information concerning recommendations made to the Company with regard to the purchase or sale of a "Covered Security."

(C) Beneficial Interest. "Beneficial Interest" includes any entity, person, trust, or account with respect to which an Access Person exercises investment discretion or provides investment advice. A beneficial interest will be presumed to include all accounts in the name of or for the benefit of the Access Person, his or her spouse, dependent children, or any person living with him or her or to whom he or she contributes economic support.

(D) Beneficial Ownership. "Beneficial Ownership" will be determined in accordance with Rule 16a-1(a)(2) under the Securities Exchange Act of 1934, as amended (the ***"Exchange Act"***), except that the determination of direct or indirect Beneficial Ownership will apply to all securities, and not just equity securities, that an Access Person holds or acquires. Rule 16a1(a)(2) provides that the term "beneficial owner" means any person who, directly or indirectly, through any contract, arrangement, understanding, relationship, or otherwise, has or shares a direct or indirect pecuniary interest in any equity security. Therefore, an Access Person may be deemed to have Beneficial Ownership of securities held by members of his or her immediate family sharing the same household, or by certain partnerships, trusts, corporations, or other arrangements.

(E) Control. "Control" will have the meaning set forth in Section 2(a)(9) of the 1940 Act.

(F) Covered Security. "Covered Security" means a security as defined in Section 2(a)(36) of the 1940 Act, except that it does not include (i): direct obligations of the Government of the United States; (ii) banker's acceptances, bank certificates of deposit, commercial paper and high quality short-term debt instruments including repurchase agreements; and (iii) shares issued by registered open-end investment companies (i.e., mutual funds); however, exchange traded funds structured as unit investment trusts or open-end funds are considered "Covered Securities."

(G) Company. The "Company" means Hercules Capital, Inc., a Maryland corporation.

(H) Designated Officer. "Designated Officer" means the officer of the Company designated by the Board from time to time to be responsible for management of compliance with this Code and/or any person or persons designated by such officer to perform such functions on his or her behalf.

(I) Disinterested Director. "Disinterested Director" means a director of the Company who is not an "interested person" of the Company within the meaning of Section 2(a)(19) of the 1940 Act.

(J) Initial Public Offering. "Initial Public Offering" means an offering of securities registered under the Securities Act of 1933, as amended (the ***"Securities Act"***), the issuer of which, immediately before the registration, was not subject to the reporting requirements of Sections 13 or 15(d) of the Exchange Act.

(K) Investment Personnel. "Investment Personnel" means: (i) any employee of the Company (or of any company in a control relationship to the Company) who, in connection with his or her regular functions or duties, makes or participates in making recommendations regarding the purchase or sale of securities by the Company; and (ii) any natural person who controls the Company and who obtains information concerning recommendations regarding the purchase or sale of securities by the Company.

(L) Limited Offering. "Limited Offering" means an offering that is exempt from registration under the Securities Act pursuant to Section 4(2) or Section 4(6) or pursuant to Rule 504, Rule 505 or Rule 506 under the Securities Act.

(M) Purchase or Sale of a Covered Security. "Purchase or Sale of a Covered Security" is broad and includes, among other things, the writing of an option to purchase or sell a Covered Security, or the use of a derivative product to take a position in a Covered Security.

SECTION III: STANDARDS OF CONDUCT

(A) General Standards

(1) No Access Person will engage, directly or indirectly, in any business transaction or arrangement for personal profit that is inconsistent with the best interests of the Company or its shareholders.

(2) No Access Person will make use of any confidential information gained by reason of his or her employment by or affiliation with the Company or affiliates thereof in order to derive a personal profit for himself or herself or for any Beneficial Interest, in violation of the fiduciary duty owed to the Company or its shareholders.

(3) No Access Person will recommend or authorize the purchase or sale of a Covered Security by the Company or its affiliates without having disclosed, at the time of such recommendation or authorization, any Beneficial Interest in, or Beneficial Ownership of, such Covered Security or the issuer thereof.

(4) No Access Person will disclose any confidential information concerning securities holdings or securities transactions of the Company to persons outside the Company, without obtaining prior written approval from the Designated Officer, or such person or persons designated to act on his or her behalf. Notwithstanding the preceding sentence, such Access Person may dispense such information without obtaining prior written approval:

(a) when there is a public report containing the same information;

(b) when such information is dispensed in accordance with compliance procedures established to prevent conflicts of interest between the Company and its affiliates;

(c) when such information is reported to directors of the Company; or

(d) in the ordinary course of his or her duties on behalf of the Company.

(5) All personal securities transactions should be conducted consistent with this Code and in such amanner as to avoid actual or potential conflicts of interest, the appearance of a conflict of interest, or any abuse of an individual's position of trust and responsibility within the Company.

(B) Requirement to Obtain Preclearance

(1) Preclearance is Required before Trading. Preclearance of trades helps to prevent personal trading from conflicting with Company transactions. No Access Person will be able to purchase or sell, directly or indirectly, any Covered Security in which he or she has, or by reason of such transaction acquires, any direct or indirect Beneficial Ownership unless that Access Person has obtained preclearance prior to engaging in such transaction.

(2) How to Obtain Preclearance. Prior to conducting a trade, all Access Persons must enter transaction information into the ComplySci Preclearance System

("***ComplySci***") and follow the instructions to receive approval. If preclearance is granted, it will be valid for 5 business days from the day that approval was granted and the trade must take place within those days. If Preclearance approval is not granted, Access Persons will not be permitted to engage in the proposed transaction and may direct further inquiries to the CCO.

(3) Certain Transactions May be Denied Preclearance. The following transactions will generally be denied preclearance.

(a) Company Considering Purchase or Sale. Requests for preclearance regarding any securities that the Company is currently considering for purchase or sale will generally be denied.

(b) Company Same Day Purchase or Sale. Requests for preclearance regarding any securities that the Company has purchased or sold on the same business day as the preclearance request will generally be denied.

(c) Restricted Security List. Requests for preclearance regarding any security listed on the Company's Restricted Security List will generally be denied.

(d) Initial Public Offering or Limited Public Offering. Requests for preclearance regarding securities in any Initial Public Offering or in any Limited Offering will generally be denied.

(e) Blackouts for Investment Personnel. Requests from Investment Personnel for preclearance that fall within a "blackout" period will generally be denied.

(4) Approval of CCO's Transaction. The CCO will conduct transactions in the manner described herein for all Access Persons. The Chief Executive Officer or Chief Financial Officer will approve such transactions.

(5) Exclusions from Preclearance Requirement. The following transactions will generally be exempt from the preclearance requirement.

(a) Exchange Traded Fund transactions where no constituent security held by the Exchange Traded Fund amounts to greater than 5% of the Exchange Traded Fund's holdings.

(6) Other Restrictions

a. Company Acquisition of Shares in Companies that Investment Personnel Hold Through Limited Offerings. Investment Personnel who have been authorized to acquire securities in a Limited Offering must disclose that investment to the Designated Officer when they are involved in the Company's subsequent consideration of an investment in the issuer, and the Company's decision to purchase such securities must be independently reviewed by Investment Personnel with no personal interest in that issuer.

b. Gifts. No Access Person may accept, directly or indirectly, any gift, favor, or service or other consideration of more than a *de minimis* value (e.g., $250) from any person or entity that does business or proposes to do business with the Company, and/or with whom he or she transacts business on behalf of the Company, under circumstances when to do so would conflict with the Company's best interests or would impair the ability of such person to be completely disinterested when required, in the course of business, to make judgments and/or recommendations on behalf of the Company. An Access Person must pre-clear gifts over $250 in ComplySci.

c. Service as Director. No Access Person will serve on the board of directors of a portfolio company of the Company unless (i) such board service is consistent with the interests of the Company and its shareholders and (ii) such Access Person has obtained prior written approval from the Designated Officer for such service.

SECTION IV: PROCEDURES TO IMPLEMENT CODE OF ETHICS

The following reporting procedures have been established to assist Access Persons in avoiding a violation of this Code, and to assist the Company in preventing, detecting, and imposing sanctions for violations of this Code. Every Access Person must follow these procedures. Questions regarding these procedures should be directed to the Designated Officer.

(A) Applicability

All Access Persons are subject to the reporting requirements set forth in Section except:

(1) with respect to transactions effected for, and Covered Securities held in, any account over which the Access Person has no direct or indirect influence or control;

(2) a Disinterested Director, who would be required to make a report solely by reason of being a Director, need not make: (1) an initial holdings or an annual holdings report; and (2) a quarterly transaction report, unless the Disinterested Director knew or, in the ordinary course of fulfilling his or her official duties as a Director, should have known that during the 15-day period immediately before or after such Disinterested Director's transaction in a Covered Security, the Company purchased or sold the Covered Security, or the Company considered purchasing or selling the Covered Security.

(3) an Access Person need not make a quarterly transaction report if the report would duplicate information contained in broker trade confirmations or account statements received by the Company with respect to the Access Person in the time required by subsection (B)(2) of this Section IV, if all of the information required by subsection (B)(2) of this Section IV is contained in the broker trade confirmations or account statements, or in the records of the Company, as specified in subsection (B)(4) of this Section IV.

(B) Report Types

(1) Initial Holdings Report. An Access Person must file an initial report in ComplySci not later than 10 calendar days after that person became an Access Person.

(2) Quarterly Transaction Report. An Access Person must file a quarterly transaction report in ComplySci not later than 30 calendar days after the end of a calendar quarter.

(3) Annual Holdings Report. An Access Person must file an annual holdings report in ComplySci not later than 30 calendar days after the end of a fiscal year.

(4) Account Statements. In lieu of providing a quarterly transaction report, an Access Person may direct his or her broker to provide to the Designated Officer copies of periodic statements for all investment accounts in which they have Beneficial Ownership that provide the information required in quarterly transaction reports, as set forth above.

(5) Company Reports. No less frequently than annually, the Company must furnish to the Board, and the Board must consider, a written report that:

(a) describes any issues arising under the Code or procedures since the last report to the Board, including but not limited to, information about material violations of the Code or procedures and sanctions imposed in response to the material violations; and

(b) certifies that the Company has adopted procedures reasonably necessary to prevent Access Persons from violating the Code.

(C) Disclaimer of Beneficial Ownership. Any report required under this Section IV may contain a statement that the report will not be construed as an admission by the person making such report that he or she has any direct or indirect beneficial ownership in the Covered Security to which the report relates.

(D) Review of Reports. The reports required to be submitted under this Section IV will be delivered to the Designated Officer. The Designated Officer will review such reports to determine whether any transactions recorded therein constitute a violation of the Code. The Designated Officer will maintain copies of the reports as required by Rule 17j-1(f).

(E) Designated Officer Investigation. The Designated Officer may conduct such investigation as he or she considers necessary to determine if proposed trades comply with this Code, including post-transaction monitoring. The Designated Officer may impose additional measures to avoid perceived or actual conflicts of interest or to address any transactions that require additional review.

(F) Acknowledgment and Certification. Upon becoming an Access Person and annually thereafter, all Access Persons will sign an acknowledgment and certification of their receipt of and intent to comply with this Code in ComplySci. Each Access Person must also certify annually that he or she has read and understands the Code and recognizes that he or she is subject to the Code. In addition, each access person must certify annually that he or she has complied with the requirements of the Code and that he or she has disclosed or reported all personal securities transactions required to be disclosed or reported pursuant to the requirements of the Code.

(G) Records. The Company will maintain records with respect to this Code in the manner and to the extent set forth below, which records may be maintained on microfilm or electronic storage media under the conditions described in Rule 31a-2(f) under the 1940 Act and will be available for examination by representatives of the Securities and Exchange Commission (the "***SEC***"):

(1) A copy of this Code and any other code of ethics of the Company that is, or at any time within the past seven years has been, in effect will be maintained in an easily accessible place;

(2) A record of any violation of this Code and of any action taken as a result of such violation will be maintained in an easily accessible place for a period of not less than seven years following the end of the fiscal year in which the violation occurs;

(3) A copy of each report made by an Access Person or duplicate account statement received pursuant to this Code, including any information provided in lieu of the reports under subsection (A)(3) of this Section IV will be maintained for a period of not less than seven years from the end of the fiscal year in which it is made or the information is provided, the first two years in an easily accessible place;

(4) A record of all persons who are, or within the past seven years have been, required to make reports pursuant to this Code, or who are or were responsible for reviewing these reports, will be maintained in an easily accessible place;

(5) A copy of each report required under subsection (B)(5) of this Section IV will be maintained for at least seven years after the end of the fiscal year in which it is made, the first two years in an easily accessible place; and

(6) A record of any decision, and the reasons supporting the decision, to approve the direct or indirect acquisition by an Access Person of beneficial ownership in any securities in an Initial Public Offering or

(7) Limited Offering will be maintained for at least seven years after the end of the fiscal year in which the approval is granted.

(8) Obligation to Report a Violation. Every Access Person who becomes aware of a possible violation of this Code by any person must report it to the Designated Officer, who will report it to appropriate management personnel. The management personnel will take such action that they consider appropriate under the circumstances. In the case of officers or other employees of the Company, such action may include removal from office. The Board will be notified, in a timely manner, of remedial action taken with respect to violations of the Code.

(9) Confidentiality. All reports of Covered Securities transactions, duplicate confirmations, account statements and other information filed with the Company or furnished to any person pursuant to this Code will be treated as confidential, but are subject to review as provided herein and by representatives of the Securities and Exchange Commission or otherwise to comply with applicable law or the order of a court of competent jurisdiction.

(10) Waivers. The Designated Officer has the authority to exempt any employee or investment transaction from any or all of the provisions of this Code if the Designated Officer determines that such exemption would not be against the interests of any shareholders and is consistent with applicable laws and regulations, including Rule 204A-1 under the Advisers Act and Rule 17j-1 under the Investment Company Act. The Designated Officer will prepare and file a written memorandum of any exemption granted, describing the circumstances and reasons for the exemption.

SECTION V: SANCTIONS

Upon determination that a violation of this Code has occurred, management personnel of the Company may impose such sanctions as they deem appropriate, including, among other things, disgorgement of profits, a letter of censure or suspension or termination of the employment of the violator. All violations of this Code and any sanctions imposed with respect thereto will be reported in a timely manner to the Board.

SECTION VI: AMENDMENTS

This Code may be amended from time to time by resolution of the Board, or without a resolution of the Board to the extent the approval of such amendment is not required under the 1940 Act.

Amended and restated on July 7, 2015; Further amended and restated on October 12, 2016, November 30, 2016 and November 13, 2017

Exhibit 21.1

List of Subsidiaries

Hercules Technology II, L.P.

Hercules Technology III, L.P.

Hercules Technology IV, L.P.

Hercules Technology SBIC Management, LLC

Hercules Funding II, LLC

Hercules Funding III, LLC

Hercules Technology Management Co II Inc.

Hercules Technology Management Co III Inc.

Hercules Technology Management Co V Inc.

Hercules Technology II, LLC

Hercules Capital Funding Trust 2014-1

Hercules Capital Funding 2014-1 LLC

HercGamma, Inc. (1)

HercGamma I, LLC

Deuteros I, LLC

Bearcub Acquisitions LLC

Achilles Technology Management Co., Inc.

Achilles Technology Management Co I, Inc.

Achilles Technology Management Co II, Inc. (1)

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(1) Subsidiary is not consolidated for financial reporting purposes. The Company's investments are carried on the consolidated statement of assets and liabilities at fair value and are classified as control investments.

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No.333-144002, 333-146445, 333-189474 and 333-206633) of Hercules Capital, Inc. of our report dated February 22, 2018 relating to the financial statements, financial statement schedule and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

San Francisco, California
February 22, 2018

Exhibit 31.1

CERTIFICATION PURSUANT TO

**RULE 13a-14(a) and 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS AMENDED**

I, Manuel A. Henriquez, Chairman, and President, Chief Executive Officer and Director of the Company, certify that:

1. I have reviewed this annual report on Form 10-K of Hercules Capital, Inc. (the "registrant") for the year ended December 31, 2017;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 22, 2018

By: /S/ MANUEL A. HENRIQUEZ
Manuel A. Henriquez
Chairman, President, and Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO

RULE 13a-14(a) and 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

I, Gerard R. Waldt, Jr., Interim Chief Accounting Officer, certify that:

1. I have reviewed this annual report on Form 10-K of Hercules Capital, Inc. (the "registrant") for the year ended December 31, 2017;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 22, 2018

By: /S/ GERARD R. WALDT, JR.
Gerard R. Waldt, Jr.
Interim Chief Accounting Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the accompanying Annual Report of Hercules Capital, Inc. (the “Company”) on Form 10-K for the year ended December 31, 2017 (the “Report”) as filed with the Securities and Exchange Commission on the date hereof, I, Manuel A. Henriquez, Chairman, and President, Chief Executive Officer and Director of the Company, certify, to the best of my knowledge, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 22, 2018

By: /S/ MANUEL A. HENRIQUEZ
Manuel A. Henriquez
Chairman, President, and Chief Executive Officer

Exhibit 32.2

CERTIFICATION PURSUANT TO
SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the accompanying Annual Report of Hercules Capital, Inc. (the “Company”) on Form 10-K for the year ended December 31, 2017 (the “Report”) as filed with the Securities and Exchange Commission on the date hereof, I, Gerard R. Waldt, Jr., Interim Chief Accounting Officer of the Company, certify, to the best of my knowledge, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 22, 2018

By: /S/ GERARD R. WALDT, JR.
Gerard R. Waldt, Jr.
Interim Chief Accounting Officer