

HERCULES TECHNOLOGY GROWTH CAPITAL INC

Form 497

March 23, 2015

Table of Contents

Index to Financial Statements

Filed Pursuant to Rule 497
Registration No. 333-184312

This preliminary prospectus supplement relates to an effective registration statement under the Securities Act of 1933, but is not complete and may be changed. This preliminary prospectus supplement is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED MARCH 23, 2015

PRELIMINARY PROSPECTUS SUPPLEMENT

(To prospectus dated June 6, 2014)

6,600,000 Shares

Common Stock

We are offering 6,600,000 shares of our common stock. Our common stock is listed on the New York Stock Exchange, or the NYSE, under the trading symbol HTGC. The last sale price, as reported on the NYSE on March 20, 2015, was \$13.98 per share. The net asset value per share of our common stock at December 31, 2014 (the last date prior to the date of this prospectus supplement on which we determined net asset value) was \$10.18.

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

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

An investment in our common stock involves risks, including the risk of a total loss of your investment. In addition, the companies in which we invest are subject to special risks. See Risk Factors beginning on page S-12 in this prospectus supplement and the Risk Factors section beginning on page 11 of the accompanying prospectus to read about risks that you should consider before investing in our common stock, including the risk of leverage.

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

	PRICE \$	PER SHARE		
			Per Share	Total
Price to Public			\$	\$
Underwriting Discounts and Commissions			\$	\$
Proceeds to us ⁽¹⁾			\$	\$

⁽¹⁾ Expenses payable by us are estimated to be \$350,000.

The underwriters have an option to purchase up to an additional 990,000 shares from us at the public offering price, less the underwriting discounts and commissions, within 30 days from the date of this prospectus supplement to cover over-allotments. If the underwriters exercise this option in full, the total public offering price will be \$, the total underwriting discount and commissions (sales load) paid by us will be \$, and total proceeds, before expenses, will be \$.

Delivery of the shares of common stock will be made on or about March , 2015.

Joint Book-Running Managers

Wells Fargo Securities

Raymond James

Keefe, Bruyette & Woods

A Stifel Company

Lead Manager

JMP Securities

Co-Managers

BB&T Capital Markets

Wunderlich

The date of this prospectus supplement is March , 2015.

Table of Contents

Index to Financial Statements

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

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

TABLE OF CONTENTS

Prospectus Supplement

	Page
<u>FEES AND EXPENSES</u>	S-1
<u>FORWARD-LOOKING STATEMENTS; MARKET DATA</u>	S-3
<u>PROSPECTUS SUPPLEMENT SUMMARY</u>	S-5
<u>SELECTED CONSOLIDATED FINANCIAL DATA</u>	S-11
<u>RISK FACTORS</u>	S-12
<u>USE OF PROCEEDS</u>	S-51
<u>CAPITALIZATION</u>	S-52
<u>BUSINESS</u>	S-53
	Page
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	S-67
<u>SENIOR SECURITIES</u>	S-114
<u>UNDERWRITING</u>	S-116
<u>LEGAL MATTERS</u>	S-121
<u>EXPERTS</u>	S-121
<u>AVAILABLE INFORMATION</u>	S-121
<u>INDEX TO FINANCIAL STATEMENTS</u>	S-122

Prospectus

	Page
<u>SUMMARY</u>	1
<u>FEES AND EXPENSES</u>	7

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<u>SELECTED CONSOLIDATED FINANCIAL DATA</u>	9
<u>RISK FACTORS</u>	11
<u>FORWARD-LOOKING STATEMENTS</u>	45
<u>USE OF PROCEEDS</u>	47
<u>PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS</u>	48
<u>RATIO OF EARNINGS TO FIXED CHARGES</u>	51
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	52
<u>BUSINESS</u>	97
<u>PORTFOLIO COMPANIES</u>	109
<u>SENIOR SECURITIES</u>	133
<u>MANAGEMENT</u>	135
<u>CORPORATE GOVERNANCE</u>	141
<u>CONTROL PERSONS AND PRINCIPAL STOCKHOLDERS</u>	172
<u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</u>	174
<u>CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS</u>	175
	Page
<u>REGULATION</u>	184
<u>DETERMINATION OF NET ASSET VALUE</u>	190
<u>SALES OF COMMON STOCK BELOW NET ASSET VALUE</u>	186
<u>DIVIDEND REINVESTMENT PLAN</u>	194
<u>DESCRIPTION OF CAPITAL STOCK</u>	195
<u>DESCRIPTION OF OUR PREFERRED STOCK</u>	202
<u>DESCRIPTION OF OUR SUBSCRIPTION RIGHTS</u>	204
<u>DESCRIPTION OF WARRANTS</u>	206
<u>DESCRIPTION OF OUR DEBT SECURITIES</u>	208
<u>PLAN OF DISTRIBUTION</u>	221
<u>BROKERAGE ALLOCATION AND OTHER PRACTICES</u>	223
<u>CUSTODIAN, TRANSFER AND DIVIDEND PAYING AGENT AND REGISTRAR</u>	223
<u>LEGAL MATTERS</u>	223
<u>EXPERTS</u>	223
<u>CHANGE IN INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	220
<u>AVAILABLE INFORMATION</u>	224
<u>INDEX TO FINANCIAL STATEMENTS</u>	F-1

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

The following table is intended to assist you in understanding the various costs and expenses that an investor in our common stock will bear directly or indirectly, assuming that the underwriters do not exercise their over-allotment option. However, we caution you that some of the percentages indicated in the table below are estimates and may vary. Except where the context suggests otherwise, whenever this prospectus contains a reference to fees or expenses paid by you or us or that we will pay fees or expenses, stockholders will indirectly bear such fees or expenses as investors in Hercules Technology Growth Capital, Inc.

Stockholder Transaction Expenses (as a percentage of the public offering price):	
Sales load (as a percentage of offering price) ⁽¹⁾	%
Offering expenses	%(2)
Dividend reinvestment plan fees	(3)
Total stockholder transaction expenses (as a percentage of the public offering price)	%
Annual Expenses (as a percentage of net assets attributable to common stock):⁽⁸⁾	
Operating expenses	5.54% ⁽⁴⁾⁽⁵⁾
Interest and fees paid in connection with borrowed funds	5.18% ⁽⁶⁾
Total annual expenses	10.72%⁽⁷⁾

- (1) The sales load (underwriting discounts and commissions) with respect to our common stock sold in this offering, which is a one-time fee, is the only sales load paid in connection with this offering. For the purpose of calculating sales load, we assume the underwriters will sell to the public at a stock price of \$ per share, our closing stock price on March , 2015.
- (2) The percentage reflects estimated offering expenses of approximately \$350,000 (including up to \$10,000 in reimbursement of certain underwriters' counsel fees).
- (3) The expenses associated with the administration of our dividend reinvestment plan are included in Operating expenses. We pay all brokerage commissions incurred with respect to open market purchases, if any, made by the administrator under the plan. For more details about the plan, see Dividend Reinvestment Plan in this prospectus supplement and the accompanying prospectus.
- (4) Operating expenses represent our operating expenses incurred for the year ended December 31, 2014, including income tax expense (benefit) including excise tax and all fees and expenses of our consolidated subsidiaries and excluding interests and fees on indebtedness. This percentage for the year ended December 31, 2013 was 5.23%. See Management's Discussion and Analysis and Results of Operations, Management, and Compensation of Executive Officers and Directors in this prospectus supplement and the accompanying prospectus.
- (5) We do not have an investment adviser and are internally managed by our executive officers under the supervision of our Board of Directors. As a result, we do not pay investment advisory fees, but instead we pay the operating costs associated with employing investment management professionals.
- (6) Interest and fees paid in connection with borrowed funds represents interest and fee payments on borrowed funds incurred for the year ended December 31, 2014, including our Wells Facility, Union Bank Facility, the Convertible Senior Notes, the 2019 Notes, the 2024 Notes, the 2017 Asset-Backed Notes, the 2021 Asset-Backed Notes and the SBA debentures, each of which is defined herein. These expenses do not include the Loss on debt extinguishment (Long-term Liabilities - Convertible Senior Notes) for the year ended December 31, 2014. If this item were included in the annual expenses, the percentage would be 5.42%. This percentage for the year ended December 31, 2013 was 5.83%.
- (7) Total annual expenses is the sum of operating expenses, interest payments on borrowed funds and fees paid in connection with borrowed funds. This percentage for the year ended December 31, 2013 was 11.06%. Total annual expenses is presented as a percentage of weighted average net assets attributable to common stockholders, because the holders of shares of our common stock (and not the holders of our debt securities or preferred stock, if any) bear all of our fees and expenses, including the fees and expenses of our wholly-owned consolidated subsidiaries, all of which are included in this fee table presentation.
- (8) Net assets attributable to common stock equals the weighted average net assets for 2014, which is approximately \$655.8 million.

Table of Contents

Index to Financial Statements

Example

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

	1 Year	3 Years	5 Years	10 Years
You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return	\$	\$	\$	\$

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

Table of Contents

Index to Financial Statements

FORWARD-LOOKING STATEMENTS

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

our future operating results;

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

the impact of investments that we expect to make;

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

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

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

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

our ability to access debt markets and equity markets;

the ability of our portfolio companies to achieve their objectives;

our expected financings and investments;

our regulatory structure and tax status;

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

the adequacy of our cash resources and working capital;

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

the timing, form and amount of any dividend distributions;

the impact of fluctuations in interest rates on our business;

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

our ability to recover unrealized losses.

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

S-3

Table of Contents

Index to Financial Statements

Industry and Market Data

This prospectus supplement and the accompanying prospectus contains third-party estimates and data regarding valuations of venture capital-backed companies. This data was reported by Dow Jones VentureSource, an independent venture capital industry research company which we refer to as VentureSource. VentureSource is commonly relied upon as an information source in the venture capital industry. Although we have not independently verified any such data, we believe that the industry information contained in such releases and data tables and included in this prospectus supplement and the accompanying prospectus is reliable.

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

Table of Contents

Index to Financial Statements

PROSPECTUS SUPPLEMENT SUMMARY

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

Our Company

We are a specialty finance company focused on providing senior secured loans to venture capital-backed companies in technology-related industries, including technology, biotechnology, life science and energy and renewables technology, at all stages of development. Our investment objective is to maximize our portfolio total return by generating current income from our debt investments and capital appreciation from our equity-related investments. We are an internally-managed, non-diversified closed-end investment company that has elected to be regulated as a business development company under the Investment Company Act of 1940, as amended, or the 1940 Act. We have qualified as and have elected to be treated for tax purposes as a regulated investment company, or RIC, under the Internal Revenue Code of 1986, as amended, or the Code.

As of December 31, 2014, our total assets were approximately \$1.3 billion, of which our investments comprised \$1.0 billion at fair value and \$1.0 billion at cost. Since inception through December 31, 2014, we have made debt and equity commitments of approximately \$4.9 billion to our portfolio companies.

We also make investments in qualifying small businesses through two wholly-owned, small business investment company, or SBIC, subsidiaries, Hercules Technology II, L.P., or HT II, and Hercules Technology III, L.P., or HT III. At December 31, 2014, we have issued \$190.2 million in Small Business Administration, or SBA, guaranteed debentures in our SBIC subsidiaries. See Regulation-Small Business Administration Regulations in the accompanying prospectus for additional information regarding our SBIC subsidiaries.

As of December 31, 2014, our investment professionals, including Manuel A. Henriquez, our co-founder, Chairman, President and Chief Executive Officer, are currently comprised of 39 professionals who have, on average, more than 15 years of experience in venture capital, structured finance, commercial lending or acquisition finance with the types of technology-related companies that we are targeting. We believe that we can leverage the experience and relationships of our management team to successfully identify attractive investment opportunities, underwrite prospective portfolio companies and structure customized financing solutions.

Table of Contents

Index to Financial Statements

The following chart shows the ownership structure and relationship of certain entities with us.

Our Market Opportunity

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

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

Unfulfilled demand exists for structured debt financing to technology-related companies as the number of lenders has declined due to the recent financial market turmoil; and

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

Table of Contents

Index to Financial Statements

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, which 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 are generally refraining 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 and is continuing to show signs of increased investment activity. Therefore, to the extent we have capital available, we believe this is an opportune time to be active in the structured lending market for technology-related companies.

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

Our Business Strategy

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

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

Table of Contents

Index to Financial Statements

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 equity-related securities. We seek to mitigate the risk of loss on our debt investments through the combination of loan principal amortization, cash interest payments, relatively short maturities (generally 12-60 months), security interests in the assets of our portfolio companies, and on select investments covenants requiring prospective portfolio companies to have certain amounts of available cash at the time of our investment and the continued support from a venture capital or private equity firm at the time we make our investment.

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

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

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

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

Recent Developments

Departure of Chief Financial Officer

On March 20, 2015, we announced that Jessica Baron, our Chief Financial Officer, decided to resign from her position within the next few months or until we identify her permanent successor. Ms. Baron will continue to direct our finance activities as Chief Financial Officer until her departure date. We are in the process of conducting a national search for a new Chief Financial Officer and expect to announce a succession plan on or before Ms. Baron's departure date.

Ms. Baron has served as our Chief Financial Officer since June 2011. She joined the Company in 2006 and served in various roles within our finance group, prior to her promotion to Chief Financial Officer. Any unvested awards granted to Ms. Baron will cease to vest on her departure date.

Grants of Restricted Stock and Cash Bonuses

On March 10, 2015, the Compensation Committee awarded an aggregate amount of 576,500 shares of restricted stock, of which 385,891 shares were awarded to certain of our named executive officers, at a price of \$14.02. These awards were granted under our 2004 Equity Incentive Plan in recognition of the performance of each named executive officer during the 2014 fiscal year. For additional information regarding our 2004 Equity Incentive Plan, see Corporate Governance Executive Compensation 2004 Equity Incentive Plan in the accompanying prospectus. The Compensation Committee also awarded cash bonuses of \$3.2 million in aggregate amount, of which \$1.1 million was awarded to certain of our named executive officers.

Table of Contents

Index to Financial Statements

Appointment of Directors

Susanne D. Lyons

On March 7, 2015, our Board of Directors elected Ms. Susanne D. Lyons as a director of the Company. In connection with her election, the Board of Directors increased the size of the Board of Directors to five directors. There are no arrangements or understandings between Ms. Lyons and any other persons pursuant to which Ms. Lyons was elected as a director of the Company. Ms. Lyons will be entitled to applicable retainer and meeting fees and an option award pursuant to our director compensation arrangements, under terms consistent with those previously disclosed by us. Ms. Lyons also will be entitled to enter into an indemnification agreement with us.

Ms. Lyons joined the Company as a director in March 2015 and will hold office as a class I director for a term expiring in 2017. She will serve on the Audit, Compensation and Nominating and Corporate Governance Committees.

Ms. Lyons is a retired senior executive who has held top marketing and general management roles at some of the largest financial services companies in America, including VISA (USA), Charles Schwab & Co., Inc. and Fidelity Investments. She retired in September 2007 as the chief marketing officer for Visa (USA), where she was responsible for all aspects of brand, advertising and marketing services since June 2004.

In her ten year career at Charles Schwab & Co., Inc. from April 1992 to May 2001, Ms. Lyons held various marketing and general management positions, including enterprise president of retail client services. She also served as chief marketing officer from January 2000 to May 2001. Previously, Ms. Lyons spent ten years at Fidelity Investments from June 1982 to April 1992, where she held senior positions in marketing, product development and business strategy.

Ms. Lyons currently serves on the board of directors of the U.S. Olympic Committee, a position she has held since December 2010. She has been president of the board of directors of Wildcare, a not-for-profit organization, since September 2008. She previously served on the board of directors of CNET Networks, Inc. from April 2007 to July 2008, until its acquisition by CBS Corp., as well as Gain Capital Holdings, Inc. from December 2008 to June 2013. Ms. Lyons also served on the advisory board of Marketo, Inc., a marketing automation software company, from February 2008 to January 2011. Ms. Lyons received her undergraduate degree from Vassar College and received her masters in business administration from Boston University.

Thomas Fallon

On July 8, 2014, our Board of Directors elected Mr. Thomas Fallon as a director of the Company. In connection with his election, the Board of Directors increased the size of the Board of Directors to four directors. There are no arrangements or understandings between Mr. Fallon and any other persons pursuant to which Mr. Fallon was elected as a director of the Company. Mr. Fallon will be entitled to applicable retainer and meeting fees and an option award pursuant to the Company's director compensation arrangements, under terms consistent with those previously disclosed by the Company. Mr. Fallon also will be entitled to enter into an indemnification agreement with the Company.

Mr. Fallon joined the Company as a director in 2014 and will hold office for a term expiring in 2015. Mr. Fallon has served as Chief Executive Officer of Infinera Corporation since June 2013 and as a member of Infinera's board of directors since July 2009. From January 2010 to June 2013, Mr. Fallon served as Infinera's President and Chief Executive Officer, and Mr. Fallon served as Infinera's Chief Operating Officer from October 2006 to December 2009, and as its Vice President of Engineering and Operations from April 2004 to September 2006. From August 2003 to March 2004, Mr. Fallon was Vice President, Corporate Quality and Development Operations of Cisco Systems, Inc., a networking and telecommunications company. From May 2001 to August 2003, Mr. Fallon served as General Manager of Cisco Systems' Optical Transport Business Unit. Mr. Fallon

Table of Contents

Index to Financial Statements

holds a B.S.M.E. and M.B.A. from the University of Texas at Austin, and is currently a member of the Engineering Advisory Board of the University of Texas at Austin.

Interim Portfolio Update First Quarter 2015

As of March 20, 2015, we originated approximately \$170.0 million of debt and equity commitments to new and existing portfolio companies. We made seven new commitments to innovative growth stage companies, including approximately \$36.0 million to companies in the technology industry and approximately \$99.0 million to companies in the life sciences industry. We also provided approximately \$35.0 million of debt and equity commitments and renewals to existing portfolio companies. During the beginning of 2015, we have generally seen new commitments close later in the quarter, lowering our inter quarter weighted average loan balances and as a result we expect any earnings growth from fundings of such commitments to shift by one or two quarters.

As of March 20, 2015, we had unfunded debt commitments of approximately \$331.3 million, representing potential future portfolio growth. Approximately \$211.0 million of these unfunded commitments are contingent upon the portfolio company achieving certain performance milestones prior to debt commitments becoming available. These commitments will be subject to the same underwriting and ongoing portfolio maintenance as are the on-balance sheet financial instruments that we hold. Since these commitments may expire without being drawn upon, the total commitment amount does not necessarily represent our future cash requirements. Our commitments may include conditions, such as reaching certain milestones, before our debt commitment would become available. 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.

As of March 20, 2015, we received approximately \$53.4 million in principal repayments, exclusive of revolver payments, for the first quarter of 2015, of which approximately \$25.9 million were unscheduled early repayments.

As of March 20, 2015, we had warrant and equity positions in six portfolio companies that had filed registration statements in contemplation of a potential IPO, including Good Technology, ViewRay Incorporated and four companies filed confidentially with the SEC under the JOBS Act. There can be no assurances that these companies will complete their IPOs in a timely manner or at all.

In addition, three of our portfolio companies completed IPO liquidity events, including:

In January 2015, our portfolio company, Box, Inc. (NYSE: BOX), completed its IPO. The shares we hold in Box are subject to certain restrictions that govern the timing of our divestment and may thus impact our ultimate gain or (loss). In the case of Box, we are subject to a customary IPO lockup period and are restricted from selling shares of common stock for approximately six months from the date of the IPO. The potential gain is subject to the price of the shares when we exit the investment.

In January 2015, our portfolio company, Zosano Pharma Corporation (NASDAQ: ZSAN), completed its IPO.

In February 2015, our portfolio company, Inotek Pharmaceuticals Corporation (NASDAQ: ITEK), completed its IPO.

General Information

Our principal executive offices are located at 400 Hamilton Avenue, Suite 310, Palo Alto, California 94301, and our telephone number is (650) 289-3060. We also have offices in Boston, Massachusetts, New York, New York and McLean, Virginia. We maintain a website on the Internet at www.htgc.com. Information contained in our website is not incorporated by reference into this prospectus supplement or the accompanying prospectus, and you should not consider that information to be part of this prospectus supplement or the accompanying prospectus.

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

The selected consolidated financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations, Senior Securities and the consolidated financial statements and related notes included elsewhere herein. The selected balance sheet data as of the end of fiscal year 2014, 2013, 2012, 2011 and 2010 and the financial statement of operations data for fiscal 2014, 2013, 2012, 2011 and 2010 has been derived from our audited financial statements, which have been audited by PricewaterhouseCoopers LLP, our independent registered public accounting firm. The historical data are not necessarily indicative of results to be expected for any future period.

(in thousands, except per share amounts)	For the Years Ended December 31,				
	2014	2013	2012	2011	2010
Investment income:					
Interest	\$ 126,618	\$ 123,671	\$ 87,603	\$ 70,346	\$ 54,700
Fees	17,047	16,042	9,917	9,509	4,774
Total investment income	143,665	139,713	97,520	79,855	59,474
Operating expenses:					
Interest	28,041	30,334	19,835	13,252	8,572
Loan fees	5,919	4,807	3,917	2,635	1,259
General and administrative	10,209	9,354	8,108	7,992	7,086
Employee Compensation:					
Compensation and benefits	16,604	16,179	13,326	13,260	10,474
Stock-based compensation	9,561	5,974	4,227	3,128	2,709
Total employee compensation	26,165	22,153	17,553	16,388	13,183
Total operating expenses	70,334	66,648	49,413	40,267	30,100
Loss on debt extinguishment (Long-term Liabilities - Convertible Senior Notes)	(1,581)				
Net investment income	71,750	73,065	48,107	39,588	29,374
Net realized gain (loss) on investments	20,112	14,836	3,168	2,741	(26,382)
Net increase (decrease) in unrealized appreciation (depreciation) on investments	(20,674)	11,545	(4,516)	4,607	1,990
Total net realized and unrealized gain (loss)	(562)	26,381	(1,348)	7,348	(24,392)
Net increase in net assets resulting from operations	\$ 71,188	\$ 99,446	\$ 46,759	\$ 46,936	\$ 4,982
Change in net assets per common share (basic)	\$ 1.12	\$ 1.67	\$ 0.93	\$ 1.08	\$ 0.12
Cash dividends declared per common share	\$ 1.24	\$ 1.11	\$ 0.95	\$ 0.88	\$ 0.80

(in thousands, except per share amounts)	For the Years Ended December 31,				
	2014	2013	2012	2011	2010
Balance sheet data:					
Investments, at value	\$ 1,020,737	\$ 910,295	\$ 906,300	\$ 652,870	\$ 472,032
Cash and cash equivalents	227,116	268,368	182,994	64,474	107,014
Total assets	1,299,223	1,221,715	1,123,643	747,394	591,247
Total liabilities	640,359	571,708	607,675	316,353	178,716

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Total net assets	658,864	650,007	515,968	431,041	412,531
Other Data:					
Total debt investments, at value	923,906	821,988	827,540	585,767	401,618
Total warrant investments, at value	25,098	35,637	29,550	30,045	23,690
Total equity investments, at value	71,733	52,670	49,210	37,058	46,724
Unfunded Commitments	339,014	150,986	61,851	168,196	117,200
Net asset value per share ⁽¹⁾	\$ 10.18	\$ 10.51	\$ 9.75	\$ 9.83	\$ 9.50

(1) Based on common shares outstanding at period end

S-11

Table of Contents

Index to Financial Statements

RISK FACTORS

Investing in our common stock involves a number of significant risks. Before you invest in our securities, you should be aware of various risks, including those described below in this prospectus supplement and those set forth in the accompanying prospectus. You should carefully consider these risk factors, together with all of the other information included in this prospectus supplement and the accompanying prospectus, before you decide whether to make an investment in our common stock. The risks set out below and in the accompanying prospectus 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 events occur, our business, financial condition, results of operations and cash flows could be materially and adversely affected. In such case, our net asset value and the trading price of our common stock could decline and you may lose all or part of your investment. The risk factors described below, together with those set forth in the accompanying prospectus, are the principal risk factors associated with an investment in our common stock, as well as those factors generally associated with an investment company with investment objectives, investment policies, capital structure or trading markets similar to ours.

Risks Related to our Business Structure

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

We depend upon the members of our senior management, 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 of any other 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 and our senior management is not restricted from creating new investment vehicles subject to compliance with applicable law. We believe our future success will depend, in part, on our ability to identify, attract and retain sufficient numbers of highly skilled employees. If we do not succeed in identifying, attracting and retaining such personnel, we may not be able to operate our business as we expect.

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

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

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

A number of entities compete with us to make the types of investments that we plan to make in prospective portfolio companies. We compete with a large number of venture capital and private equity firms, as well as with other investment funds, business development companies, investment banks and other sources of financing,

Table of Contents

Index to Financial Statements

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 miss 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. 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. Failure to manage our future growth effectively could have a material adverse effect on our business, financial condition and results of operations.

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

In order to satisfy the tax requirements applicable to a RIC, to avoid payment of excise taxes and to minimize or avoid payment of income taxes, we intend to distribute to our stockholders substantially all of our net ordinary income and realized net capital gains except for certain realized net capital gains, which we may retain, pay applicable income taxes with respect thereto and elect to treat as deemed distributions to our stockholders. As a business development company, we generally are required to meet a coverage ratio of total assets to total borrowings and other senior securities, which includes all of our borrowings and any preferred stock that we may issue in the future, of at least 200%. This requirement limits the amount that we may borrow. This limitation may prevent us from incurring debt and require us to raise additional equity at a time when it may be disadvantageous to do so. We cannot assure you that debt and equity financing will be available to us on favorable terms, or at all, and debt financings may be restricted by the terms of any of our outstanding borrowings. If we are unable to incur additional debt, we may be required to raise additional equity at a time when it may be disadvantageous to do so. In addition, shares of closed-end investment companies have recently traded at discounts to their net asset values. This characteristic of closed-end investment companies is separate and distinct from the risk that our net asset value per share may decline. We cannot predict whether shares of our common stock will trade above, at or below our net asset value. If our common stock trades below its net asset value, 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 net asset value could decline. In addition, our results of operations and financial condition could be adversely affected.

Table of Contents**Index to Financial Statements**

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

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

Our secured credit facilities with Wells Fargo Capital Finance LLC (the Wells Facility) and MUFG Union Bank, N.A. (the Union Bank Facility, and together with the Wells Facility, our Credit Facilities) our Convertible Senior Notes, our 2019 Notes, our 2024 Notes, our 2017 Asset-Backed Notes and our 2021 Asset-Backed Notes (as each term is defined below) contain financial and operating covenants that could restrict our business activities, including our ability to declare dividends if we default under certain provisions.

As of December 31, 2014, we did not have any outstanding borrowings under our Credit Facilities. In addition, as of December 31, 2014, we had approximately \$190.2 million of indebtedness outstanding incurred by our SBIC subsidiaries, approximately \$17.7 million in aggregate principal amount of 6.00% convertible senior notes (the Convertible Senior Notes), approximately \$170.4 million in aggregate principal amount of 7.00% senior notes due 2019 (the 2019 Notes), approximately \$103.0 million in aggregate principal amount of 6.25% senior notes due 2024 (the 2024 Notes), approximately \$16.0 million in aggregate principal amount of fixed rate asset-backed notes issued in December 2012 (the 2017 Asset-Backed Notes) in connection with our \$230.7 million debt securitization (the 2012 Debt Securitization) and approximately \$129.3 million in aggregate principal amount of fixed rate asset-backed notes issued in November 2014 (the 2021 Asset-Backed Notes together with the 2017 Asset Backed Notes, the Asset-Backed Notes) in connection with our \$237.4 million debt securitization (the 2014 Debt Securitization, together with the 2012 Debt Securitization, the Debt Securitizations).

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

As a business development company, generally, we are not permitted to incur indebtedness unless immediately after such borrowing we have an asset coverage for total borrowings of at least 200% (i.e., the amount of debt may not exceed 50% of the value of our assets). In addition, we may not be permitted to declare any cash dividend or other distribution on our outstanding common shares, or purchase any such shares, unless, at the time of such declaration or purchase, we have asset coverage of at least 200% after deducting the amount of such dividend, distribution, or purchase price. If this ratio declines below 200%, we may not be able to incur additional debt and may need to sell a portion of our investments to repay some debt when it is disadvantageous to do so, and we may not be able to make distributions. As of December 31, 2014 our asset coverage ratio under our regulatory requirements as a business development company was 250.8% 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.

Table of Contents**Index to Financial Statements**

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

	Annual Return on Our Portfolio (Net of Expenses)				
	-10%	-5%	0%	5%	10%
Corresponding return to stockholder ⁽¹⁾	(24.83%)	(14.97%)	(5.11%)	4.74%	14.60%

(1) Assumes \$1.3 billion in total assets, \$626.6 million in debt outstanding, \$658.9 million in stockholders' equity, and an average cost of funds of 5.38%, which is the approximate average cost of borrowed funds, including our Credit Facilities, our Convertible Senior Notes, 2019 Notes, 2024 Notes, our SBA debentures and our Asset-Backed Notes for the period ended December 31, 2014. 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 in the collateral pool. 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 status 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 Credit Facilities, the Convertible Senior Notes, the 2019 Notes and the 2024 Notes contain various covenants which, if not complied with, could require accelerated repayment under the facility or require us to repurchase the Convertible Senior Notes, the 2019 Notes and the 2024 Notes thereby materially and adversely affecting our liquidity, financial condition, results of operations and ability to pay dividends.

The credit agreements governing our Credit Facilities, the Convertible Senior Notes, the 2019 Notes, and the 2024 Notes require us to comply with certain financial and operational covenants. These covenants require us to, among other things, maintain certain financial ratios, including asset coverage, debt to equity and interest coverage. Our ability to continue to comply with these covenants in the future depends on many factors, some of which are beyond our control. There are no assurances that we will be able to comply with these covenants. Failure to comply with these covenants would result in a default which, if we were unable to obtain a waiver from the lenders under our Credit Facilities or the trustee or holders under the Convertible Senior Notes and

Table of Contents

Index to Financial Statements

could accelerate repayment under the facilities or the Convertible Senior Notes, the 2019 Notes or 2024 Notes and thereby have a material adverse impact on our liquidity, financial condition, results of operations and ability to pay dividends. In addition, holders of the Convertible Senior Notes will have the right to require us to repurchase the Convertible Senior Notes upon the occurrence of a fundamental change at a repurchase price equal to 100% of their principal amount, plus accrued and unpaid interest, if any. 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 Results of Operations and Financial Condition Borrowings in the accompanying prospectus.

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.

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

On December 19, 2012, in connection with the 2012 Debt Securitization and the offering of the 2017 Asset-Backed Notes by Hercules Capital Funding Trust 2012-1 (the 2012 Securitization Issuer), we sold and/or contributed to Hercules Capital Funding 2012-1 LLC, as trust depositor (the 2012 Trust Depositor), certain senior loans made to certain of our portfolio companies (the 2012 Loans), which the 2012 Trust Depositor in turn sold and/or contributed to the 2012 Securitization Issuer in exchange for 100% of the equity interest in the 2012 Securitization Issuer, cash proceeds and other consideration. Following these transfers, the 2012 Securitization Issuer, and not the 2012 Trust Depositor or us, held all of the ownership interest in the 2012 Loans.

In addition, 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, together with the 2012 Securitization Issuer, the Securitization Issuers), we sold and/or contributed to Hercules Capital Funding 2014-1 LLC, as trust depositor (the 2014 Trust Depositor, together with the 2014 Trust Depositor, the Trust Depositors), certain senior loans made to certain of our portfolio companies (the 2014 Loans, together with the 2012 Loans, the 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 Debt Securitizations, we hold, indirectly through the 2012 Trust Depositor and the 2014 Trust Depositor, 100% of the equity interests in the 2012 Securitization Issuer and 2014 Securitization Issuer, respectively. As a result, we consolidate the financial statements of the Trust Depositors and the Securitization Issuers, as well as our other subsidiaries, in our consolidated financial statements. Because the Trust Depositors and the Securitization Issuers are disregarded as entities separate from their owners for U.S. federal income tax purposes, the sale or contribution by us to the Trust Depositors, and by the Trust Depositors to the Securitization Issuers, 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 2012 Securitization Issuer or 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 2012 Debt Securitization or the indenture under the 2014 Debt Securitization, respectively, upon which the trustee under the 2012 Debt Securitization (the 2012 Trustee) or the trustee under the 2014 Debt Securitization (the 2014 Trustee, together with the 2012 Trustee, the Trustees), respectively, may and will at the direction of a supermajority of the holders of the 2017 Asset-Backed Notes (the 2017 Noteholders)

Table of Contents

Index to Financial Statements

or at the direction of a supermajority of the holders of the 2021 Asset-Backed Notes (the 2021 Noteholders, together with the 2017 Noteholders, the Noteholders), respectively, declare the 2017 Asset-Backed Notes or 2021 Asset-Backed Notes, respectively, 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 2017 Asset-Backed Notes or the 2021 Asset-Backed Notes, respectively, or under the applicable indenture, enforce any judgment obtained, and collect from the 2012 Securitization Issuer or 2014 Securitization Issuer, respectively, and any other obligor upon the 2017 Asset-Backed Notes or the 2021 Asset-Backed Notes, respectively, 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 2012 Securitization Issuer or the 2014 Securitization Issuer, respectively; (iii) exercise any remedies as a secured party under the relevant UCC and take other appropriate action under applicable law to protect and enforce the rights and remedies of the 2012 Trustee or 2014 Trustee, respectively, and the 2017 Noteholders and 2021 Noteholders, respectively; or (iv) sell the property of the 2012 Securitization Issuer or the 2014 Securitization Issuer, respectively, 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 either 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 either 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 status as a RIC.

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

Apart from fees payable to us in connection with our role as servicer of the Loans and the reimbursement of related amounts under the documents governing the Debt Securitizations, we receive cash in connection with the Debt Securitizations only to the extent that the Trust Depositors receive payments in respect of their respective equity interests in the Securitization Issuers. The respective holders of the equity interests in the Securitization Issuers are the residual claimants on distributions, if any, made by the respective Securitization Issuers after the respective Noteholders and other claimants have been paid in full on each payment date or upon maturity of the Asset-Backed Notes, subject to the priority of payments under the Debt Securitization documents governing the Debt Securitizations. To the extent that the value of a 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 a Securitization Issuer to make cash distributions in respect of a Trust Depositor's equity interests would be negatively affected and consequently, the value of the equity interests in the Securitization Issuer would also be reduced. In the event that we fail to receive cash indirectly from the Securitization Issuers, we could be unable to make distributions, if at all, in amounts sufficient to maintain our status as a RIC.

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

The Asset-Backed Notes are debt obligations ranking senior in right of payment to the rights of the holder of the equity interests in the Securitization Issuers, as residual claimants in respect of distributions, if any, made by the Securitization Issuers. As such, there are circumstances in which the interests of the Noteholders may not be

Table of Contents

Index to Financial Statements

aligned with the interests of holders of the equity interests in the Securitization Issuers. For example, under the terms of the documents governing each Debt Securitization, the respective Noteholders have the right to receive payments of principal and interest prior to holders of the equity interests.

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

If an event of default occurs, the respective Noteholders will be entitled to determine the remedies to be exercised, subject to the terms of the documents governing the Debt Securitizations. For example, upon the occurrence of an event of default with respect to the Asset-Backed Notes, the applicable Trustee may and will at the direction of the holders of a supermajority of the applicable 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 applicable Securitization Issuer. The 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 applicable Loans or through the proceeds of the sale of the applicable Loans in the event of a bankruptcy or insolvency to repay in full the obligations under the Asset-Backed Notes, or to make any distribution to holders of the equity interests in the Securitization Issuers.

Remedies pursued by the Noteholders could be adverse to our interests as the indirect holder of the equity interests in the Securitization Issuers. The 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 Noteholders will be consistent with the best interests of the Trust Depositors or that we will receive, indirectly through the Trust Depositors, any payments or distributions upon an acceleration of the Asset-Backed Notes. Any failure of the Securitization Issuers 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 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 status as a RIC.

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

The following constitute rapid amortization events (Rapid Amortization Events) under the documents governing each Debt Securitization: (i) the aggregate outstanding principal balance of delinquent 2012 Loans or 2014 Loans, respectively, and restructured 2012 Loans or 2014 Loans, respectively, that would have been delinquent 2012 Loans or 2014 Loans, respectively, had such loans not become restructured loans exceeds 10% of the current aggregate outstanding principal balance of the 2012 Loans or 2014 Loans, respectively, for a period of three consecutive months; (ii) the aggregate outstanding principal balance of defaulted 2012 Loans or 2014 Loans, respectively, exceeds 5% of the initial outstanding principal balance of the 2012 Loans or outstanding principal balance of the 2014 Loans, respectively, determined as of December 19, 2012 for the 2012 Notes and November 13, 2014 for the 2014 Notes, for a period of three consecutive months; (iii) the aggregate outstanding principal balance of the 2017 Asset-Backed Notes or 2021 Asset-Backed Notes, respectively, exceeds the borrowing base for a period of three consecutive months; (iv) the 2012 Securitization Issuer's pool of 2012 Loans or the 2014 Securitization Issuer's pool of 2014 Loans contains 2012 Loans or 2014 Loans, respectively, to ten or fewer obligors; and (v) the occurrence of an event of default under the documents governing the respective Debt Securitization. After a Rapid Amortization Event has occurred, subject to the priority of payments under the documents governing each Debt Securitization, principal collections on the 2012 Loans or 2014 Loans, respectively, will be used to make accelerated payments of principal on the 2017 Asset-Backed Notes or the 2021 Asset-Backed Notes, respectively, until the principal balance of the 2017 Asset-Backed Notes or the 2021 Asset-Back Notes, respectively, is reduced to zero. Such an event could delay, reduce

Table of Contents

Index to Financial Statements

or eliminate the ability of either or both Securitization Issuers 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 status as a RIC.

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

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

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 net asset value.

At December 31, 2014, portfolio investments, which are valued at fair value by the Board of Directors, were approximately 78.6% 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 OID and 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 net asset value 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.

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,

Table of Contents

Index to Financial Statements

we may choose not to take certain actions to protect a debt investment in a control investment portfolio company. As a result, we could experience a decrease in the value of our portfolio company holdings and potentially incur a realized loss on the investment.

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

Our business will require a substantial amount of capital. We may acquire additional capital from the issuance of senior securities, including borrowings, securitization transactions or other indebtedness, or the issuance of additional shares of our common stock. However, we may not be able to raise additional capital in the future on favorable terms or at all. We may issue debt securities, other evidences of indebtedness or preferred stock, and we may borrow money from banks or other financial institutions, which we refer to collectively as senior securities, up to the maximum amount permitted by the 1940 Act. Under the 1940 Act, we are not permitted to incur indebtedness unless immediately after such borrowing we have an asset coverage for total borrowings of at least 200% (i.e., the amount of debt may not exceed 50% of the value of our assets). In addition, we may not be permitted to declare any cash dividend or other distribution on our outstanding common shares, or purchase any such shares, unless, at the time of such declaration or purchase, we have asset coverage of at least 200% after deducting the amount of such dividend, distribution, or purchase price. Our ability to pay dividends or issue additional senior securities would be restricted if our asset coverage ratio were not at least 200%. If the value of our assets declines, we may be unable to satisfy this test. If that happens, we may be required to liquidate a portion of our investments and repay a portion of our indebtedness at a time when such transaction may be disadvantageous. As a result of issuing senior securities, we would also be exposed to typical risks associated with leverage, including an increased risk of loss. If we issue preferred stock, the preferred stock would rank senior to common stock in our capital structure, preferred stockholders would have separate voting rights and might have rights, preferences, or privileges more favorable than those of our common stockholders and the issuance of preferred stock could have the effect of delaying, deferring, or preventing a transaction or a change of control that might involve a premium price for holders of our common stock or otherwise be in your best interest.

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

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

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

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

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

Table of Contents

Index to Financial Statements

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

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

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

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

The higher interest rates of OID and PIK instruments reflect the payment deferral and increased credit risk associated with these instruments, and OID and PIK instruments generally represent a significantly higher credit risk than coupon loans.

Even if the accounting conditions for income accrual are met, the borrower could still default when our actual collection is supposed to occur at the maturity of the obligation.

OID and PIK instruments may have unreliable valuations because their continuing accruals require continuing judgments about the collectability of the deferred payments and the value of any associated collateral. OID and PIK income may also create uncertainty about the source of our cash distributions.

For accounting purposes, any cash distributions to shareholders 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.

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

We elected to be treated as a RIC for federal income tax purposes with the filing of our federal corporate income tax return for 2006. We will not qualify for the tax treatment allowable to RICs if we are unable to comply with the source of income, asset diversification and distribution requirements contained in Subchapter M

Table of Contents

Index to Financial Statements

of the Code, or if we fail to maintain our election to be regulated as a business development company under the 1940 Act. If we fail to qualify for the federal income tax benefits allowable to RICs for any reason and become subject to a corporate-level income tax, the resulting taxes could substantially reduce our net assets, the amount of income available for distribution to our stockholders and the actual amount of our distributions. Such a failure would have a material adverse effect on us, the net asset value of our common stock and the total return, if any, obtainable from your investment in our common stock. Any net operating losses that we incur in periods during which we qualify as a RIC will not offset net capital gains (i.e., net realized long-term capital gains in excess of net realized short-term capital losses), and we cannot pass such net operating losses through to our stockholders.

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 include in income for tax purposes certain amounts that we have not yet received in cash, such as contractual PIK interest arrangements, which represents contractual interest added to a loan balance and due at the end of such loan's term. In addition to the cash yields received on our loans, in some instances, our loans generally include one or more of the following: end-of-term payments, exit fees, balloon payment fees, commitment fees, success fees or prepayment fees. In some cases our loans also include contractual PIK interest arrangements. The increases in loan balances as a result of contractual PIK arrangements are included in income for the period in which such PIK interest was accrued, which is often in advance of receiving cash payment, and are separately identified on our statements of cash flows. We also may be required to include in income for tax purposes certain other amounts prior to receiving the related cash.

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 original issue discount for tax purposes, which we must recognize as ordinary income, increasing the amount that we are required to distribute to qualify for the federal income tax benefits applicable to RICs. Because these warrants generally will not produce distributable cash for us at the same time as we are required to make distributions in respect of the related OID, if ever, we would need to obtain cash from other sources or to pay a portion of our distributions using shares of newly issued common stock, consistent with IRS requirements, to satisfy such distribution requirements.

Other features of the debt instruments that we hold may also cause such instruments to generate original issue discount, resulting in a dividend distribution requirement in excess of current cash interest received. Since in certain cases we may recognize income before or without receiving cash representing such income, we may have difficulty meeting the RIC tax requirement to distribute generally an amount equal to at least 90% of our net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any. Under such circumstances, we may have to sell some of our assets, raise additional debt or equity capital or reduce new investment originations to meet these distribution requirements. If we are unable to obtain cash from other sources and are otherwise unable to satisfy such distribution requirements, we may fail to qualify for the federal income tax benefits allowable to RICs and, thus, become subject to a corporate-level income tax on all our income.

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 dividends if we default under certain provisions.

Table of Contents

Index to Financial Statements

We have and may in the future choose to pay dividends 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 certain private rulings issued by the IRS, RICs are permitted to treat certain distributions payable in up to 80% in their stock, as taxable dividends that will satisfy their annual distribution obligations for federal income tax and excise tax purposes provided that shareholders have the opportunity to elect to receive the distribution in cash. Taxable stockholders receiving such dividends will be required to include the full amount of the dividend as ordinary income (or as long-term capital gain to the extent such distribution is properly designated as a capital gain dividend) to the extent of our current and accumulated earnings and profits for federal income tax purposes. As a result, a U.S. stockholder may be required to pay tax with respect to such dividends in excess of any cash received. If a U.S. stockholder sells the stock it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our stock at the time of the sale. Furthermore, with respect to non-U.S. stockholders, we may be required to withhold federal income tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. In addition, if a significant number of our stockholders determine to sell shares of our stock in order to pay taxes owed on dividends, then such sales may put downward pressure on the trading price of our stock. We may in the future determine to distribute taxable dividends that are partially payable in our common stock.

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

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

A significant increase in market interest rates could harm our ability to attract new portfolio companies and originate new loans and investments. We expect that most of our current initial investments in debt securities will be at floating rate with a floor. However, in the event that we make investments in debt securities at variable rates, a significant increase in market interest rates could also result in an increase in our non-performing assets and a decrease in the value of our portfolio because our floating-rate loan portfolio companies may be unable to meet higher payment obligations. 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.

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

Table of Contents**Index to Financial Statements**

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

Our realized gains are reduced by amounts paid pursuant to the warrant participation agreement.

Citigroup Global Markets Realty Corp. (Citigroup), a former credit facility provider to Hercules, has an equity participation right through a warrant participation agreement (the Warrant Participation Agreement) on the pool of loans and certain warrants formerly collateralized under its then existing credit facility (the Citibank Credit Facility). Pursuant to the Warrant Participation Agreement, we granted to Citigroup a 10% participation in all warrants held as collateral. As a result, Citigroup is entitled to 10% of the realized gains on certain warrants until the realized gains paid to Citigroup pursuant to the agreement equals \$3,750,000 (the Maximum Participation Limit). The obligations under the Warrant Participation Agreement continue even after the Citibank Credit Facility is terminated until the Maximum Participation Limit has been reached.

During the year ended December 31, 2014, we reduced our realized gain by approximately \$465,000 for Citigroup's participation in the realized gain on sale of equity securities that were obtained from exercising portfolio company warrants which were included in the collateral pool. We recorded a decrease on participation liability and an increase on unrealized appreciation by a net amount of approximately \$270,000 as a result of depreciation of fair value on the pool of warrants as a result of the sale of shares in Acceleron Pharma, Inc., Merrimack Pharmaceuticals, Inc., Portola Pharmaceuticals, Inc. and Everyday Health, Inc. that were subject to the agreement. The remaining value of their participation right on unrealized gains in the related equity investments was approximately \$101,000 as of December 31, 2014 and is included in accrued liabilities. There can be no assurances that the unrealized appreciation of the warrants will not be higher or lower in future periods due to fluctuations in the value of the warrants, thereby increasing or reducing the effect on the cost of borrowing. Since inception of the agreement, we have paid approximately \$2.1 million under the Warrant Participation Agreement thereby reducing our realized gains by this amount. We will continue to pay Citigroup under the Warrant Participation Agreement until the Maximum Participation Limit is reached or the warrants expire. Warrants subject to the Citigroup Warrant Participation Agreement are set to expire between February 2016 and January 2017.

Legislation may allow us to incur additional leverage.

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

Two of our wholly-owned subsidiaries are licensed by the U.S. Small Business Administration, and as a result, we will be subject to SBA regulations.

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 \$150.5 million and \$314.8 million in assets, respectively, and they accounted for approximately 9.1% and 19.1% of our total assets, respectively, prior to consolidation at December 31, 2014. 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

Table of Contents

Index to Financial Statements

procedures. The SBA regulations require, among other things, that a licensed SBIC be examined periodically and audited by an independent auditor to determine the SBIC's compliance with the relevant SBA regulations.

Under current SBA regulations, a licensed SBIC can provide capital to those entities that have a tangible net worth not exceeding \$19.5 million and an average annual net income after Federal income taxes not exceeding \$6.0 million for the two most recent fiscal years. In addition, a licensed SBIC must devote 25.0% of its investment activity to those entities that have a tangible net worth not exceeding \$6.0 million and an average annual net income after Federal income taxes not exceeding \$2.0 million for the two most recent fiscal years. The 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 factors such as the number of employees and gross sales. The SBA regulations permit licensed SBICs to make long-term loans to small businesses, invest in the equity securities of such businesses and provide them with consulting and advisory services. The SBA also places certain limitations on the financing terms of investments by SBICs in portfolio companies and prohibits SBICs from providing funds for certain purposes or to businesses in a few prohibited industries. Compliance with SBA requirements may cause HT II and HT III to forego attractive investment opportunities that are not permitted under SBA regulations.

Further, 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, 2014 as a result of having sufficient capital as defined under the SBA regulations. See Regulation Small Business Administration Regulations in the accompanying prospectus.

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 \$225.0 million. Bills have been proposed in the U.S. Senate that would increase the total SBIC leverage capacity for affiliated SBIC funds from \$225.0 million to \$350.0 million. However, the ultimate form and likely outcome of such legislation or any similar legislation cannot be predicted.

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, 2014, we have issued \$190.2 million in SBA-guaranteed debentures in our SBIC Subsidiaries, which is the maximum allowed for a group of SBICs under common control. 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.

Table of Contents

Index to Financial Statements

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

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 net ordinary income and net capital gain income, 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, 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 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, 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 may change our investment objective, operating policies and strategies without prior notice or stockholder approval, the effects of which may be adverse.

Our Board 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 BDC. We cannot predict the effect any changes to our current operating policies and strategies would have on our business, operating results and the market price of our common stock. Nevertheless, any such changes could materially and adversely affect our business and impair our ability to make distributions to our stockholders.

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

Changes in the laws or regulations, or the interpretations of the laws and regulations, which govern business development companies, SBICs, RICs or non-depository commercial lenders could significantly affect our

Table of Contents

Index to Financial Statements

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, or NYSE, have issued a significant number of new and increasingly complex requirements and regulations over the course of the last several years and continue to develop additional regulations and requirements in response to laws enacted by Congress. On July 21, 2010, the Dodd-Frank Wall Street Reform and Protection Act, or the Dodd-Frank Act, was enacted. There are significant corporate governance and executive compensation-related provisions in the Dodd-Frank Act, and the SEC has adopted, and will continue to adopt, additional rules and regulations that may impact us. Our efforts to comply with these requirements have resulted in, and are likely to continue to result in, an increase in expenses and a diversion of management's time from other business activities.

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

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.

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

Table of Contents

Index to Financial Statements

The 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.

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

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

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

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 dividends to our stockholders.

Risks Related to Current Economic and Market Conditions

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

The global capital markets have experienced a period of disruption as evidenced by a lack of liquidity in the debt capital markets, write-offs in the financial services sector, the re-pricing of credit risk and the failure of certain major financial institutions. While the capital markets have

improved, these conditions could deteriorate again in the future. During such market disruptions, we may have difficulty raising debt or equity capital, especially as a result of regulatory constraints.

S-28

Table of Contents

Index to Financial Statements

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 and Russia, may continue to contribute to increased market volatility, may have long-term effects on the United States and worldwide financial markets, and may cause further economic uncertainties or deterioration in the United States and worldwide. Several European Union (EU) countries, including Greece, Ireland, Italy, Spain, and Portugal, continue to face budget issues, some of which may have negative long-term effects for the economies of those countries and other EU countries. There is also continued concern about national-level support for the euro and the accompanying coordination of fiscal and wage policy among European Economic and Monetary Union member countries. The recent United States and global economic downturn, or a return to the recessionary period in the United States, could adversely impact our investments. 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, 2014, we had unfunded debt commitments of approximately \$339.0 million. Approximately \$191.3 million of these unfunded contractual commitments are dependent upon the portfolio company reaching certain milestones before the contractual commitment becomes available. 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 or future earning assets. Closed commitments generally fund 70-80% of the committed amount in aggregate over the life of the commitment. We intend to use cash flow from normal and early principal repayments, SBA debentures, our Credit Facilities and proceeds from the Convertible Senior Notes, 2019 Notes, 2024 Notes, and the Asset-Backed 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 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

Table of Contents**Index to Financial Statements**

reputational or other consequences that may have resulted from reporting inter-bank lending rates higher than those they actually submitted. A number of BBA member banks entered into settlements with their regulators and law enforcement agencies with respect to alleged manipulation of LIBOR, and investigations by regulators and governmental authorities in various jurisdictions are ongoing.

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

Risks Related to Our Investments

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

We have invested and intend to continue investing in a limited number of technology-related companies. A consequence of this limited number of investments is that the aggregate returns we realize may be significantly adversely affected if a small number of investments perform poorly or if we need to write down the value of any one investment. Beyond the asset diversification requirements to which we will be subject as 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, 2014, approximately 60.7% of the fair value of our portfolio was composed of investments in four industries: 26.2% was composed of investments in the drug discovery and development industry, 13.5% was composed of investments in the medical device and equipment industry, 12.3% was composed of investments in the software industry and 8.7% was composed of investments in the drug delivery industry.

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

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

Our total investment in companies may be significant individually or in the aggregate. As a result, if a significant investment in one or more companies fails to perform as expected, our financial results could be more 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, 2014 that represent greater than 5% of our net assets:

(in thousands)	December 31, 2014	
	Fair Value	Percentage of Net Assets
Merrimack Pharmaceuticals, Inc.	40,677	6.2%
IronPlanet, Inc.	37,412	5.7%
Alimera Sciences, Inc.	34,085	5.2%

Table of Contents

Index to Financial Statements

Merrimack Pharmaceuticals, Inc. is a biopharmaceutical company discovering, developing and preparing to commercialize innovative medicines paired with companion diagnostics for the treatment of serious diseases, with an initial focus on cancer.

IronPlanet, Inc. is a consumer and business products company that operates an online marketplace for used heavy equipment.

Alimera Sciences, Inc. is a biopharmaceutical company that specializes in the research, development and commercialization of prescription ophthalmic pharmaceuticals.

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, or IPO. As publicly traded companies, the securities of these companies may not trade at high volumes, and prices can be volatile, 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 BDC, 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

Table of Contents

Index to Financial Statements

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.

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.

Our investments in the energy technology industry are subject to many risks, including volatility, intense competition, unproven technologies, periodic downturns and potential litigation.

Our investments in energy 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, energy 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,

Table of Contents**Index to Financial Statements**

which can vary from market to market and period to period, resulting in volatility in production levels and profitability. In addition, our energy technology companies 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 energy technology companies can and often do fluctuate suddenly and dramatically and the markets in which energy technology companies operate are generally characterized by abrupt business cycles and intense competition. Demand for energy technology and renewable energy 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. Our investments in energy technology companies also face potential litigation, including significant warranty and product liability claims, as well as class action and government claims arising from the increased attention to the industry from the failure of Solyndra. Such litigation could adversely affect the business and results of operations of our energy technology portfolio companies. There is also particular uncertainty about whether agreements providing incentives for reductions in greenhouse gas emissions, such as the Kyoto Protocol, will continue and whether countries around the world will enact or maintain legislation that provides incentives for reductions in greenhouse gas emissions, without which such investments in energy technology dependent portfolio companies may not be economical or financing for such projects may become unavailable. As a result, these portfolio company investments face considerable risk, including the risk that favorable regulatory regimes expire or are adversely modified. This could, in turn, materially adversely affect the value of the energy technology companies in our portfolio.

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

In addition, there is considerable uncertainty about whether foreign, U.S., state and/or local governmental entities will enact or maintain legislation or regulatory programs that mandate reductions in greenhouse gas emissions or provide incentives for energy technology companies. Without such regulatory policies, investments in Energy Technology companies may not be economical and financing for energy 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.

Cyclical 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.

Table of Contents

Index to Financial Statements

Volatility of oil and natural gas prices could impair certain of our portfolio companies' operations and ability to satisfy obligations to their respective lenders and investors, including us, which could negatively impact our financial condition.

Some of our portfolio companies' businesses are heavily dependent upon the prices of, and demand for, oil and natural gas, which have recently declined significantly and such volatility could continue or increase in the future. A substantial or extended decline in oil and natural gas demand or prices may adversely affect the business, financial condition, cash flow, liquidity or results of operations of these portfolio companies and might impair their ability to meet capital expenditure obligations and financial commitments. A prolonged or continued decline in oil prices could therefore have a material adverse effect on our business, financial condition and results of operations.

Our investments in the life science 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 science 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 science 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 US 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.

Table of Contents

Index to Financial Statements

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

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

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

Price declines and illiquidity in the corporate debt markets could adversely affect the fair value of our portfolio investments, reducing our net asset value 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

Table of Contents

Index to Financial Statements

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 net asset value 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.

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

Table of Contents

Index to Financial Statements

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 losses 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 initial public offering, or IPO, opportunities may cause companies to stay in our portfolio longer, leading to lower returns, unrealized depreciation, or realized losses.

A lack of IPO 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. 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 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, or 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.

Table of Contents

Index to Financial Statements

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, 2014, approximately 54.2% of the Company's portfolio company debt investments were secured by a first priority security in all of the assets of the portfolio company, including their intellectual property, and 45.8% of the debt investments were to portfolio companies that were prohibited from pledging or encumbering their intellectual property, or subject to a negative pledge. At December 31, 2014 the Company had no equipment only liens on any of the Company's 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.

Table of Contents

Index to Financial Statements

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.

Table of Contents

Index to Financial Statements

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

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

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

In some cases, we collateralize our loans with a secured collateral position in a portfolio company's assets, which may include a negative pledge or, to a lesser extent, no security on their intellectual property. In the case of a negative pledge, the portfolio company cannot encumber or pledge their intellectual property without our permission. 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 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.

Table of Contents

Index to Financial Statements

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.

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 \$52.9 million or 5.2% of total investments at December 31, 2014. Investing in foreign companies may expose us to additional risks not typically associated with investing in U.S. companies. These risks include changes in exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than is generally the case in the U.S., higher transaction costs, less government supervision of exchanges, brokers and issuers, less developed bankruptcy laws, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility, among other things.

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

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

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

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

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

We generally invest in debt securities with terms of up to seven years and hold such investments until maturity, and we do not expect that our related holdings of equity securities will provide us with liquidity opportunities in the near-term. We invest and expect to continue investing in companies whose securities have no established trading market and whose securities are and will be subject to legal and other restrictions on resale or

Table of Contents

Index to Financial Statements

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 dividends, 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 equity related investments are highly speculative, and we may not realize gains from these investments. If our equity 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 securities as well. Our goal is ultimately to dispose of these equity interests and realize gains upon disposition of such interests. Over time, the gains that we realize on these equity interests may offset, to some extent, losses that we experience on defaults under debt securities that we hold. However, the equity interests that we receive may not appreciate in value and, in fact, may decline in value. Accordingly, we may not be able to realize gains from our equity interests, and any gains that we do realize on the disposition of any equity interests may not be sufficient to offset any other losses that we experience.

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

During 2014, we received debt investment early repayments and pay down of working capital debt investments of approximately \$494.1 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

Table of Contents

Index to Financial Statements

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 dividends, 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. We have made direct equity investments or received warrants in connection with loans. These investments represent approximately 9.5% of the outstanding balance of our portfolio as of December 31, 2014. 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

Table of Contents

Index to Financial Statements

bankruptcy. Any combination of these factors might lead to the loss in value of a company subject to such activity and may divert the time and attention of our management team and investment team to help to address such issues in a portfolio company.

Risks Related to Our Securities

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

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

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

If our common stock is trading below its net asset value 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 net asset value, 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 net asset value is separate and distinct from the risk that our net asset value per share may decline. We cannot predict whether shares of our common stock will trade above, at or below our net asset value.

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.

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

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

Any sale or other issuance of shares of our common stock at a price below net asset value per share has resulted and will continue to result in an immediate dilution to your interest in our common stock and a reduction of our net asset value per share. This dilution would occur as a result of a proportionately greater decrease in a

Table of Contents

Index to Financial Statements

stockholder's interest in our earnings and assets and voting interest in us than the increase in our assets resulting from such issuance. Because the number of future shares of common stock that may be issued below our net asset value per share and the price and timing of such issuances are not currently known, we cannot predict the actual dilutive effect of any such issuance. We also cannot determine the resulting reduction in our net asset value per share of any such issuance at this time. We caution you that such effects may be material, and we undertake to describe all the material risks and dilutive effects of any offering that we make at a price below our then current net asset value in the future in a prospectus supplement issued in connection with any such offering. We cannot predict whether shares of our common stock will trade above, at or below our net asset value.

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

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

Although we are not currently authorized to issue shares of our common stock at a price below our net asset value per share, we may seek stockholder approval of this proposal again at a special meeting of stockholders or our next annual meeting of shareholders. Our Board of Directors, subject to its fiduciary duties and regulatory requirements, has the discretion to determine the amount of the discount, and as a result, the discount could be up to 100% of net asset value per share. If we were to issue shares at a price below net asset value, such sales would result in an immediate dilution to existing common stockholders, which would include a reduction in the net asset value per share as a result of 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 discounts if we determine to conduct such offerings at prices below net asset value. As a result, investors will experience further dilution and additional discounts to the price of our common stock. Because the number of shares of common stock that could be so issued and the timing of any issuance is not currently known, the actual dilutive effect of an offering cannot be predicted. We did not sell any of our securities at a price below net asset value during the year ended December 31, 2014.

Our shares may trade at discounts from net asset value 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 net asset value that is attributable to those shares. Our shares have traded above and below our NAV. The possibility that our shares of common stock will trade at a discount from net asset value or at a premium that is unsustainable over the long term is separate and distinct from the risk that our net asset value may decrease. It is not possible to predict whether our shares will trade at, above or below net asset value in the future.

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

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

Table of Contents

Index to Financial Statements

Neither we nor any underwriter undertakes any obligation to maintain our credit ratings or to advise holders of our debt securities of any changes in our credit ratings. There can be no assurance that a credit rating will remain for any given period of time or that such credit ratings will not be lowered or withdrawn entirely if future circumstances relating to the basis of the credit rating, such as adverse changes in our company, so warrant. The conditions of the financial markets and prevailing interest rates have fluctuated in the past and are likely to fluctuate in the future.

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

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

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

The Convertible Senior Notes became convertible into shares of our common stock on July 1, 2014 and continue to be convertible as of December 31, 2014. Upon conversion of the Convertible Senior Notes, we have the choice to pay or deliver, as the case may be, at our election, cash, shares of our common stock or a combination of cash and shares of our common stock. The current conversion price of the Convertible Senior Notes is approximately \$11.36 per share of common stock, in each case subject to adjustment in certain circumstances. Since the Convertible Senior Notes became convertible, we have made the election to deliver the combination of cash and stock. If we continue to elect to deliver shares of common stock upon a conversion at the time our tangible book value per share exceeds the conversion price in effect at such time, our stockholders will incur dilution. In addition, our stockholders will experience dilution in their ownership percentage of common stock upon our issuance of common stock in connection with the conversion of the Convertible Senior Notes and any dividends paid on our common stock will also be paid on shares issued in connection with such conversion after such issuance.

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

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

price and volume fluctuations in the overall stock market from time to time;

significant volatility in the market price and trading volume of securities of RICs, business development companies or other financial services companies;

any inability to deploy or invest our capital;

fluctuations in interest rates;

any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;

the financial performance of specific industries in which we invest in on a recurring basis;

announcement of strategic developments, acquisitions, and other material events by us or our competitors, or operating performance of companies comparable to us;

changes in regulatory policies or tax guidelines with respect to RICs, SBICs or business development companies;

losing RIC status;

S-46

Table of Contents

Index to Financial Statements

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

departures of key personnel.

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

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

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

In addition, if the subscription price is less than the net asset value per share of our common stock, then our stockholders would experience an immediate dilution of the aggregate net asset value of their shares as a result of the offering. The amount of any decrease in net asset value is not predictable because it is not known at this time what the subscription price and net asset value 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.

S-47

Table of Contents

Index to Financial Statements

The 2019 Notes and 2024 Notes are unsecured and therefore are effectively subordinated to any secured indebtedness we have currently incurred or may incur in the future.

The 2019 Notes and 2024 Notes are not secured by any of our assets or any of the assets of our subsidiaries. As a result, the 2019 Notes and 2024 Notes are effectively subordinated to any secured indebtedness we or our subsidiaries have currently incurred and may incur in the future (or any indebtedness that is initially unsecured to which we subsequently grant security) to the extent of the value of the assets securing such indebtedness. In any liquidation, dissolution, bankruptcy or other similar proceeding, the holders of any of our existing or future secured indebtedness and the secured indebtedness of our subsidiaries may assert rights against the assets pledged to secure that indebtedness in order to receive full payment of their indebtedness before the assets may be used to pay other creditors, including the holders of the 2019 Notes and 2024 Notes.

The 2019 Notes and 2024 Notes are structurally subordinated to the indebtedness and other liabilities of our subsidiaries.

The 2019 Notes and 2024 Notes are obligations exclusively of Hercules Technology Growth Capital, Inc. and not of any of our subsidiaries. None of our subsidiaries are or act as guarantors of the 2019 Notes and 2024 Notes and neither the 2019 Notes nor the 2024 Notes is required to be guaranteed by any subsidiaries we may acquire or create in the future. Our secured indebtedness with respect to the SBA debentures is held through our SBIC subsidiaries. The assets of any such subsidiaries are not directly available to satisfy the claims of our creditors, including holders of the 2019 Notes and 2024 Notes.

Except to the extent we are a creditor with recognized claims against our subsidiaries, all claims of creditors (including holders of preferred stock, if any, of our subsidiaries) will have priority over our equity interests in such subsidiaries (and therefore the claims of our creditors, including holders of the 2019 Notes and 2024 Notes) with respect to the assets of such subsidiaries. Even if we are recognized as a creditor of one or more of our subsidiaries, our claims would still be effectively subordinated to any security interests in the assets of any such subsidiary and to any indebtedness or other liabilities of any such subsidiary senior to our claims. Consequently, the 2019 Notes and 2014 Notes are structurally subordinated to all indebtedness and other liabilities (including trade payables) of our subsidiaries and any subsidiaries that we may in the future acquire or establish as financing vehicles or otherwise. In addition, our subsidiaries may incur substantial additional indebtedness in the future, all of which would be structurally senior to the 2019 Notes and 2024 Notes.

The indenture under which the 2019 Notes and 2024 Notes were issued contains limited protection for their respective holders.

The indenture under which the 2019 Notes and 2024 Notes were issued offers limited protection to their respective holders. The terms of the indenture and the 2019 Notes and 2024 Notes do not restrict our or any of our subsidiaries' ability to engage in, or otherwise be a party to, a variety of corporate transactions, circumstances or events that could have an adverse impact on an investment in the 2019 Notes and 2024 Notes. In particular, the terms of the indentures and the 2019 Notes and 2024 Notes do not place any restrictions on our or our subsidiaries' ability to:

issue securities or otherwise incur additional indebtedness or other obligations, including (1) any indebtedness or other obligations that would be equal in right of payment to the 2019 Notes and 2024 Notes, (2) any indebtedness or other obligations that would be secured and therefore rank effectively senior in right of payment to the 2019 Notes and 2024 Notes to the extent of the values of the assets securing such debt, (3) indebtedness of ours that is guaranteed by one or more of our subsidiaries and which therefore would rank structurally senior to the 2019 Notes and 2024 Notes and (4) securities, indebtedness or other obligations issued or incurred by our subsidiaries that would be senior in right of payment to our equity interests in our subsidiaries and therefore would rank structurally senior in right of payment to the 2019 Notes and 2024 Notes with respect to the assets of our subsidiaries, in each case other than an incurrence of indebtedness or other obligation that would cause a violation of Section 18(a)(1)(A) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions;

Table of Contents

Index to Financial Statements

pay dividends on, or purchase or redeem or make any payments in respect of, capital stock or other securities ranking junior in right of payment to the 2019 Notes and 2024 Notes, in each case other than dividends, purchases, redemptions or payments that would cause a violation of Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions giving effect to any exemptive relief granted to us by the SEC (these provisions generally prohibit us from declaring any cash dividend or distribution 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 dividend or distribution or the purchase and after deducting the amount of such dividend, distribution or purchase;

sell assets (other than certain limited restrictions on our ability to consolidate, merge or sell all or substantially all of our assets);

enter into transactions with affiliates;

create liens (including liens on the shares of our subsidiaries) or enter into sale and leaseback transactions;

make investments; or

create restrictions on the payment of distributions or other amounts to us from our subsidiaries.

In the indenture and the 2019 and 2024 notes do not require us to offer to purchase the Notes in connection with a change of control or any other event.

Furthermore, the terms of the indenture and the 2019 Notes and 2024 Notes do not protect their respective holders in the event that we experience changes (including significant adverse changes) in our financial condition, results of operations or credit ratings, as they do not require that we or our subsidiaries adhere to any financial tests or ratios or specified levels of net worth, revenues, income, cash flow or liquidity, except as required under the 1940 Act.

Our ability to recapitalize, incur additional debt and take a number of other actions that are not limited by the terms of the 2019 Notes and 2024 Notes may have important consequences for their holders, including making it more difficult for us to satisfy our obligations with respect to the 2019 Notes and 2024 Notes or negatively affecting their trading value.

Certain of our current debt instruments include more protections for their respective holders than the indenture and the 2019 Notes and 2024 Notes. In addition, other debt we issue or incur in the future could contain more protections for its holders than the indenture and the 2019 Notes and 2024 Notes, including additional covenants and events of default. The issuance or incurrence of any such debt with incremental protections could affect the market for and trading levels and prices of the 2019 Notes and 2024 Notes.

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

Although the 2019 Notes are listed on the NYSE under the symbol HTGZ, in the case of the April 2019 Notes, HTGY in the case of the September 2019 Notes and HTGX, in the case of the 2024 Notes, we cannot provide any assurances that an active trading market will develop or be sustained for the April 2019 Notes, the September 2019 Notes, or the 2024 Notes or that any of the notes will be able to be sold. At various times, the 2019 Notes and 2024 Notes may trade at a discount from their initial offering price depending on prevailing interest rates, the market for similar securities, our credit ratings, general economic conditions, our financial condition, performance and prospects and other factors. To the extent an active trading market is not sustained, the liquidity and trading price for the 2019 Notes and 2024 Notes may be harmed.

Table of Contents

Index to Financial Statements

If we default on our obligations to pay our other indebtedness, we may not be able to make payments on the 2019 Notes and 2024 Notes.

Any default under the agreements governing our indebtedness, including a default under the Wells Facility, the Union Bank Facility and the Convertible Senior Notes or other indebtedness to which we may be a party that is not waived by the required lenders or holders, and the remedies sought by the holders of such indebtedness could make us unable to pay principal, premium, if any, and interest on the 2019 Notes and 2024 Notes and substantially decrease the market value of the 2014 Notes and 2024 Notes. If we are unable to generate sufficient cash flow and are otherwise unable to obtain funds necessary to meet required payments of principal, premium, if any, and interest on our indebtedness, or if we otherwise fail to comply with the various covenants, including financial and operating covenants, in the instruments governing our indebtedness, we could be in default under the terms of the agreements governing such indebtedness. In the event of such default, the holders of such indebtedness could elect to declare all the funds borrowed thereunder to be due and payable, together with accrued and unpaid interest, the lenders under the Wells Facility and the Union Bank Facility or other debt we may incur in the future could elect to terminate their commitments, cease making further loans and institute foreclosure proceedings against our assets, and we could be forced into bankruptcy or liquidation. If our operating performance declines, we may in the future need to seek to obtain waivers from the required lenders under the Wells Facility or Union Bank Facility or the required holders of our Convertible Senior Notes 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 the Convertible Senior Notes 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 the Convertible Senior Notes 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, the Union Bank Facility and the Convertible Senior Notes have, and any future credit facilities will likely have, customary cross-default provisions, if the indebtedness under the Notes, the Wells Facility, Union Bank Facility, the Convertible Senior Notes or under any future credit facility is accelerated, we may be unable to repay or finance the amounts due.

Table of Contents

Index to Financial Statements

USE OF PROCEEDS

We estimate that our net proceeds from the sale of the 6,600,000 shares of common stock we are offering will be approximately \$ million, and approximately \$ million if the underwriters' over-allotment option is exercised in full, and after deducting the underwriting discounts and commissions and estimated offering expenses payable by us. We may change the size of this offering based on demand and market conditions.

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

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

S-51

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

The following table sets forth our capitalization as of December 31, 2014:

(i) on an actual basis, and

(ii) on an as adjusted basis to the sale of 6,600,000 shares of our common stock in this offering (assuming no exercise of the underwriters' over-allotment option) at a price of \$ _____ per share, and after deducting the underwriting discounts and commissions and estimated offering expenses payable by us.

You should read this table together with the "Use of Proceeds" section and our statement of assets and liabilities included elsewhere in this prospectus supplement.

	As of December 31, 2014	
	Actual	As Adjusted (1)(2)(3) (in thousands)
Investments at fair value	\$ 1,020,737	\$ _____
Cash and cash equivalents	\$ 227,116	\$ _____
Debt:		
Wells Facility	\$ _____	\$ _____
Union Bank Facility		
Accounts payable and accrued liabilities	14,101	14,101
Long-term SBA debentures	190,200	190,200
Convertible Senior Notes	17,345	17,345
2019 Notes	170,364	170,364
2024 Notes	103,000	103,000
2017 Asset-Backed Notes	16,049	16,049
2021 Asset-Backed Notes	129,300	129,300
Total debt	\$ 640,359	\$ 640,359
Stockholders' equity:		
Common stock, par value \$0.001 per share; 100,000,000 shares authorized; 64,715,133 shares issued and outstanding, on an actual basis; _____ shares issued and outstanding on an as adjusted basis	\$ 65	\$ _____
Capital in excess of par value	657,233	
Unrealized appreciation (depreciation) on investments	(17,076)	
Accumulated realized gains (losses) on investments	14,079	
Undistributed net investment income	4,563	
Total stockholders' equity	\$ 658,864	\$ _____
Total capitalization	\$ 1,299,223	\$ _____

(1) Does not include the underwriters' over-allotment option.

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- (2) The above table does not reflect 576,500 restricted shares of our common stock issued to certain employees on March 10, 2015.
- (3) On February 24, 2015, our Board of Directors declared a quarterly cash dividend of \$0.31 per share that was paid on March 19, 2015 to stockholders of record as of March 12, 2015. This dividend is not reflected in this table.

S-52

Table of Contents

Index to Financial Statements

BUSINESS

We are a specialty finance company focused on providing senior secured loans to venture capital-backed companies in technology-related industries, including technology, biotechnology, life science, and energy and renewables technology at all stages of development. 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, and McLean, VA.

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, biotechnology, life science, and energy and renewables 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 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 equity-related investments. Our primary business objectives are to increase our net income, net operating income and net asset value by investing in structured debt with warrants and equity of venture capital-backed companies in technology-related industries with attractive current yields and the potential for equity appreciation and realized gains. Our equity ownership in our portfolio companies may exceed 25% of the voting securities of such companies, which represents a controlling interest under the Investment Company Act of 1940, as amended, 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 \$150.5 million and \$314.8 million in assets, respectively, and accounted for approximately 9.1% and 19.1% of our total assets, respectively, prior to consolidation at December 31, 2014. As of December 31, 2014, the maximum statutory limit on the dollar amount of combined outstanding Small Business Administration, or SBA, guaranteed debentures is \$225.0 million, subject to periodic adjustments by the SBA. At December 31, 2014, we have issued \$190.2 million in SBA-guaranteed debentures in our SBIC subsidiaries. See “Regulation Small Business Administration Regulations” for additional information regarding our SBIC subsidiaries.

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

Table of Contents

Index to Financial Statements

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.

Corporate History and Offices

We are a Maryland corporation formed in December 2003 that began investment operations in September 2004. 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 Regulation as a Business Development Company in the accompanying prospectus.

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 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 science. Within the life science sub-sector, we generally focus on medical devices, bio-pharmaceutical, drug discovery, drug delivery, health care services and information systems companies. Within the energy 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 assets in such businesses

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 Accounting Standards Codification (ASC) 946.

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 and McLean, VA. We maintain a website on the Internet at www.htgc.com. Information contained on our website is not incorporated by reference into this prospectus supplement or the accompanying prospectus, and you should not consider that information to be part of this prospectus supplement or the accompanying prospectus.

We file annual, quarterly and current periodic reports, proxy statements and other information with the Securities and Exchange Commission, or SEC, under the Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act. This information is available at the SEC's public reference room at 100 F Street,

Table of Contents

Index to Financial Statements

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

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

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

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

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

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

We believe that demand for structured debt financing is currently underserved. The venture capital market for the technology-related companies in which we invest has been active and is continuing to show signs of increased investment activity. 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.

Table of Contents

Index to Financial Statements

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

Our Business Strategy

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

Leverage the Experience and Industry Relationships of Our Management Team and Investment Professionals. We have assembled a team of experienced investment professionals with extensive experience as venture capitalists, commercial lenders, and originators of structured debt and equity investments in technology-related companies. 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 313 technology-related companies, representing over \$4.9 billion in commitments from inception to December 31, 2014, 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 should enable us to identify and attract well-positioned prospective portfolio companies.

We concentrate 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 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, security interests in the assets of our portfolio companies, and on select investment covenants requiring prospective portfolio companies to have certain amounts of available cash at the time of our investment and the continued support from a venture capital or private equity firm at the time we make our investment.

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

Table of Contents

Index to Financial Statements

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

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

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

Benefit from Our Efficient Organizational Structure. We believe that the perpetual nature of our corporate structure enables us to be a long-term partner for our portfolio companies in contrast to traditional investment funds, which typically have a limited life. In addition, because of our access to the equity markets, we believe that we may benefit from a lower cost of capital than that available to private investment funds. We are not 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, 2014, our proprietary SQL-based database system included approximately 42,000 technology-related companies and approximately 9,100 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

Table of Contents

Index to Financial Statements

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 12 months subject to market conditions.

We expect that our investments will generally range from \$1.0 million to \$40.0 million. 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 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 the prevailing U.S. prime rate, or Prime or the LIBOR rate to approximately 14% as of December 31, 2014. As of December 31, 2014, 98.2% of our loans were at floating rates or floating rates with a floor and 1.8% of the loans were at fixed rates.

In addition to the cash yields received on our loans, in some instances, our loans generally include one or more of the following: end-of-term payments, exit fees, balloon payment fees, commitment fees, success fees or prepayment fees. In some cases our loans also include contractual payment-in-kind, or 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 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 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. Traditional structured debt financing is a layer of high-coupon financing between debt and equity that most commonly takes the form of subordinated debt coupled with warrants, combining the cash flow and risk characteristics of both senior debt and equity. However, 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 have maturities of between two and seven years, and they may provide for full amortization after an interest only period. Our structured debt with warrants generally carry a contractual interest rate between the prevailing U.S. prime rate, or Prime or the LIBOR rate and approximately 14% and may include an additional end-of-term payment or contractual PIK interest arrangements. In most cases we collateralize our investments by obtaining security interests in our portfolio companies' assets, which may include their intellectual property. In other cases we may prohibit a company from pledging or otherwise encumbering their intellectual property. 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.

Table of Contents

Index to Financial Statements

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 will be 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 up to \$3.0 million but may be up to \$15.0 million for certain energy technology venture investments, 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 end of term 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 on certain debt investments 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, 2014, we held equity related securities in 143 portfolio companies.

Table of Contents**Index to Financial Statements**

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 floating or fixed rate	Cash pay-floating or fixed 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 diversify 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, 2014, approximately 60.7% of the fair value of our portfolio was composed of investments in four industries: 26.2% was composed of investments in the drug discovery and development industry, 13.5% was composed of investments in the medical devices and equipment industry, 12.3% was composed of investments in the software industry and 8.7% was composed of investments in the drug delivery 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.

Table of Contents

Index to Financial Statements

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 it has cash on its balance sheet, or is in the process of completing a financing so that it will have cash on its balance sheet, sufficient to support its operations for a minimum of six to 12 months.

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, or material adverse change provisions, require the portfolio company to provide periodic financial reports and operating metrics and will typically limit 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.

Table of Contents

Index to Financial Statements

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, 2014, our investment origination team, which consists of approximately 39 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 special opportunity lower middle market, technology, energy technology, and life science 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, identify 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.

S-62

Table of Contents

Index to Financial Statements

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

Loan and Compliance Administration

Our loan and compliance administration group, headed by our Chief Financial Officer and Chief Investment Officer, administers loans and tracks 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 loan and compliance administration group is also 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 loan and compliance administration group advises 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.

Table of Contents

Index to Financial Statements

The loan and compliance administration group monitors 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 loan and compliance administration group uses an investment grading system to characterize and monitor our outstanding loans. Our loan and compliance administration group 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 level 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, 2014, our investments had a weighted average investment grading of 2.24.

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

Table of Contents

Index to Financial Statements

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 shareholders, given the nature of our structure as an internally managed business development company. See Regulation Significant Managerial Assistance in the accompanying prospectus 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

Supplemental Risk Factors Risks Related to our Business and 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 Hercules, 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, 2014, we had 65 employees, including approximately 39 investment and portfolio management professionals, all of whom have extensive experience working on financing transactions for technology-related companies.

Table of Contents

Index to Financial Statements

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.

S-66

Table of Contents

Index to Financial Statements

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

We are a specialty finance company focused on providing senior secured loans to venture capital-backed companies in technology-related industries, including technology, biotechnology, life science, and energy and renewables technology at all stages of development. 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 and McLean, VA.

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

We also make investments in qualifying small businesses through our two wholly-owned SBICs. Our SBIC subsidiaries, HT II and HT III, hold approximately \$150.5 million and \$314.8 million in assets, respectively, and accounted for approximately 9.1% and 19.1% of our total assets, respectively, prior to consolidation at December 31, 2014. As of December 31, 2014, the maximum statutory limit on the dollar amount of combined outstanding SBA guaranteed debentures is \$225.0 million, subject to periodic adjustments by the SBA. In aggregate, at December 31, 2014, with our net investment of \$112.5 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. In March 2014, we repaid \$34.8 million of SBA debentures under HT II, priced at approximately 6.38%, including annual fees. At December 31, 2014, 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 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.

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.

Table of Contents

Index to Financial Statements

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

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

Portfolio and Investment Activity

The total fair value of our investment portfolio was \$1.0 billion at December 31, 2014 as compared to \$910.3 million at December 31, 2013.

The fair value of the debt investment portfolio at December 31, 2014 was approximately \$923.9 million, compared to a fair value of approximately \$822.0 million at December 31, 2013. The fair value of the equity portfolio at December 31, 2014 was approximately \$71.7 million, compared to a fair value of approximately \$52.7 million at December 31, 2013. The fair value of the warrant portfolio at December 31, 2014 was approximately \$25.1 million, compared to a fair value of approximately \$35.6 million at December 31, 2013.

Portfolio Activity

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

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.

Table of Contents**Index to Financial Statements**

Our portfolio activity for the years ended December 31, 2014 and 2013 was comprised of the following:

(in millions)	December 31, 2014	December 31, 2013
Debt Commitments⁽¹⁾		
New portfolio company	\$ 776.9	\$ 535.0
Existing portfolio company	118.0	165.1
Total	\$ 894.9	\$ 700.1
Funded Debt Investments		
New portfolio company	\$ 434.0	\$ 373.1
Existing portfolio company	177.0	118.0
Total	\$ 611.0	\$ 491.1
Funded Equity Investments		
New portfolio company	\$ 7.2	\$
Existing portfolio company	3.1	3.9
Total	\$ 10.3	\$ 3.9
Unfunded Contractual Commitments⁽²⁾		
Total	\$ 339.0	\$ 151.0
Non-Binding Term Sheets		
New portfolio company	\$ 104.0	\$ 28.0
Existing portfolio company	4.2	10.0
Total	\$ 108.2	\$ 38.0

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

(2) As of December 31, 2014, includes unfunded contractual commitments in 35 new and existing portfolio companies. Approximately \$191.3 million of these unfunded contractual commitments as of December 31, 2014 are dependent upon the portfolio company reaching certain milestones before the debt commitment becomes available.

We receive payments in our debt investment portfolio based on scheduled amortization of the outstanding balances. In addition, we receive principal repayments for some of our loans prior to their scheduled maturity date. The frequency or volume of these early principal repayments may fluctuate significantly from period to period. During the year ended December 31, 2014, we received approximately \$494.1 million in aggregate principal repayments. Of the approximately \$494.1 million of aggregate principal repayments, approximately \$135.8 million were scheduled principal payments, and approximately \$358.3 million were early principal repayments related to 39 portfolio companies. Of the approximately \$358.3 million early principal repayments, approximately \$69.0 million were early repayments due to M&A transactions and initial public offerings related to seven portfolio companies. Although we have experienced significant principal repayments during the year, we believe that future early repayments will not be significant based on our current portfolio. However, the yield on our loan portfolio may be lower.

Total portfolio investment activity (inclusive of unearned income) as of and for each of the years ended December 31, 2014 and 2013 was as follows:

(in millions)

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	December 31, 2014	December 31, 2013
Beginning portfolio	\$ 910.3	\$ 906.3
New fundings	566.6	473.6
Restructure fundings	54.7	23.6
Warrants not related to current period fundings	0.8	3.5
Principal payments received on investments	(135.8)	(176.2)
Early payoffs	(358.3)	(300.6)
Restructure payoffs		(9.8)
Accretion of loan discounts and paid-in-kind principal	24.5	31.9
Acceleration of loan discounts and loan fees due to early payoff or restructure	(3.3)	(0.7)
New loan fees	(9.2)	(14.3)
Warrants converted to equity	2.0	0.2
Sale of investments	(9.1)	(22.5)
Loss on investments due to write offs	(3.9)	(16.7)
Net change in unrealized appreciation (depreciation)	(18.6)	12.0
Ending portfolio	\$ 1,020.7	\$ 910.3

S-69

Table of Contents**Index to Financial Statements**

The following table shows the fair value of our portfolio of investments by asset class as of December 31, 2014 and December 31, 2013.

(in thousands)	December 31, 2014		December 31, 2013	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
Senior secured debt with warrants	\$ 740,659	72.6%	\$ 634,820	69.7%
Senior secured debt	208,345	20.4%	222,805	24.5%
Preferred stock	57,548	5.6%	35,554	3.9%
Common Stock	14,185	1.4%	17,116	1.9%
Total	\$ 1,020,737	100.0%	\$ 910,295	100.0%

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

(in thousands)	December 31, 2014		December 31, 2013	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
United States	\$ 967,803	94.8%	\$ 864,003	94.9%
India	24,175	2.4%		
Netherlands	19,913	2.0%	10,131	1.1%
Israel	6,498	0.6%	9,863	1.1%
Canada	2,314	0.2%	25,798	2.8%
England	34	0.0%	500	0.1%
Total	\$ 1,020,737	100.0%	\$ 910,295	100.0%

As of December 31, 2014, we held warrants or equity positions in seven companies that had filed registration statements on Form S-1 with the SEC in contemplation of potential initial public offerings, including Box, Inc., Good Technology Corp., Inotek Pharmaceuticals, Inc., Zosano Pharma, Inc. and three companies which 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.

Subsequent to December 31, 2014 the following portfolio companies in which we held investments as of December 31, 2014 completed initial public offerings:

1. In January 2015, Box, Inc. completed its initial public offering of 12,500,000 shares of its common stock at \$14.00 per share. The shares we hold in Box, Inc. are subject to certain restrictions that govern the timing of our divestment and may thus impact our ultimate gain or (loss). In the case of Box, Inc., we are subject to a customary IPO lockup period and are obligated not to sell the shares of common stock that we own for six months from the date of the initial public offering. The potential gain depends on the price of the shares when we exit the investment.
2. In January 2015, Zosano Pharma, Inc. completed its initial public offering of 4,500,000 shares of its common stock at \$11.00 per share.
- 3.

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In February 2015, Inotek Pharmaceuticals Corporation, completed its initial public offering of 6,667,000 shares of its common stock at a price to the public of \$6.00 per share.

Changes in Portfolio

We generate revenue in the form of interest income, primarily from our investments in debt securities and related fees. Fees generated in connection with our debt investments are recognized over the life of the loan or, in some cases, recognized as earned. In addition, we generate revenue in the form of capital gains, if any, on warrants or other equity-related securities that we acquire from our portfolio companies. Our investments generally range from \$1.0 million to \$40.0 million. As of December 31, 2014, our debt investments have a term of between two and seven years and typically bear interest at a rate ranging from the prevailing U.S. prime rate,

S-70

Table of Contents

Index to Financial Statements

or Prime, or the London Interbank Offered Rate, or LIBOR, to approximately 14%. In addition to the cash yields received on our debt investments, in some instances, our debt investments may also include any of the following: end-of-term payments, exit fees, balloon payment fees, commitment fees, success fees, PIK provisions or prepayment fees which may be required to be included in income prior to receipt.

Loan origination and commitment fees received in full at the inception of a loan are deferred and amortized into fee income as an enhancement to the related loan's yield over the contractual life of the loan. We recognize nonrecurring fees amortized over the remaining term of the loan commencing in the quarter relating to specific loan modifications. 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 had approximately \$4.5 million and \$4.0 million of unamortized fees at December 31, 2014 and December 31, 2013, respectively, and approximately \$19.3 million and \$14.4 million in exit fees receivable at December 31, 2014 and December 31, 2013, respectively.

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 added to the principal balance of the loan and recorded as interest income. To maintain our status as a RIC, this non-cash source of income must be paid out to stockholders in the form of dividends even though we have not yet collected the cash. Amounts necessary to pay these dividends may come from available cash or the liquidation of certain investments. We recorded approximately \$3.3 million and \$3.5 million in PIK income in the years ended December 31, 2014 and December 31, 2013, respectively.

In the majority of cases, we collateralize our investments by obtaining a first priority security interest in a portfolio company's assets, which may include its intellectual property. In other cases, we obtain a negative pledge covering a company's intellectual property. At December 31, 2014, approximately 54.2% 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, and 45.8% of the debt investments were to portfolio companies that were prohibited from pledging or encumbering their intellectual property, or subject to a negative pledge. At December 31, 2014 we had no equipment only liens on any of our portfolio companies.

Interest on debt securities is generally payable monthly, with amortization of principal typically occurring over the term of the investment. In addition, 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.

The core yield on our debt investments, which excludes any benefits from the accretion of fees and income related to early loan repayments attributed to the acceleration of unamortized fees and income as well as prepayment of fees, was 13.6% and 14.4% during the years ended December 31, 2014 and 2013, respectively. The effective yield on our debt investments, which includes the effects of fee and income accelerations attributed to early payoffs, restructuring, loan modifications and other one-time event fees, was 16.8% and 15.9% for the years ended December 31, 2014 and 2013, respectively. The effective yield is derived by dividing total investment income by the weighted average earning investment portfolio assets outstanding during the year, which exclude non-interest earning assets such as warrants and equity investments.

Portfolio Composition

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

Table of Contents**Index to Financial Statements**

As of December 31, 2014, approximately 60.7% of the fair value of our portfolio was composed of investments in four industries: 26.2% was composed of investments in the drug discovery and development industry, 13.5% was composed of investments in the medical devices and equipment industry, 12.3% was composed of investments in the software industry and 8.7% was composed of investments in the drug delivery industry.

The following table shows the fair value of our portfolio by industry sector at December 31, 2014 and December 31, 2013:

(in thousands)	December 31, 2014		December 31, 2013	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
Drug Discovery & Development	\$ 267,618	26.2%	\$ 219,169	24.1%
Medical Devices & Equipment	138,046	13.5%	103,614	11.4%
Software	125,412	12.3%	65,218	7.2%
Drug Delivery	88,491	8.7%	62,022	6.8%
Internet Consumer & Business Services	69,655	6.8%	122,073	13.4%
Energy Technology	68,280	6.7%	164,466	18.1%
Consumer & Business Products	63,225	6.2%	2,995	0.3%
Communications & Networking	61,433	6.0%	35,979	4.0%
Specialty Pharmaceuticals	51,536	5.0%	20,055	2.2%
Media/Content/Info	29,219	2.9%	8,679	1.0%
Information Services	27,016	2.6%	46,565	5.1%
Healthcare Services, Other	10,527	1.0%	29,080	3.2%
Surgical Devices	9,915	1.0%	10,307	1.0%
Semiconductors	5,126	0.5%	4,685	0.5%
Biotechnology Tools	3,721	0.4%	5,275	0.6%
Diagnostic	825	0.1%	902	0.1%
Electronics & Computer Hardware	692	0.1%	9,211	1.0%
Total	\$ 1,020,737	100.0%	\$ 910,295	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 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, 2014 and 2013, our ten largest portfolio companies represented approximately 28.6% and 29.3% of the total fair value of our investments in portfolio companies, respectively. At December 31, 2014 and December 31, 2013, we had three and one investments, respectively, that represented 5% or more of our net assets. At December 31, 2014 and December 31, 2013, we had three and six equity investments representing approximately 61.5% and 75.7%, 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.

As of December 31, 2014, 100.0% of our debt investments were in a senior secured first lien position, and more than 98.2% of the debt investment portfolio was priced at floating interest rates or floating interest rates with a Prime or LIBOR based interest rate floor. As a result, we believe we are well positioned to benefit should market interest rates rise. Our investments in senior secured debt with warrants have equity enhancement features, typically in the form of warrants or other equity-related securities designed to provide us with an opportunity for capital appreciation. Our warrant coverage generally ranges from 3% to 20% of the principal amount invested in a portfolio company, with a strike price generally equal to the most recent equity financing round. As of December 31, 2014, we held warrants in 124 portfolio companies, with a fair value of approximately \$25.1 million. The fair value of our warrant portfolio decreased by approximately 29.5%, as compared to a fair value of \$35.6 million at December 31, 2013 primarily related to the reversal of unrealized appreciation related to the exercise of our warrant positions in Box, Inc. (\$8.3 million) and Neuralstem, Inc. (\$751,000) to preferred stock and unrealized depreciation related to collateral based impairments of approximately \$3.3 million on 11 of our warrant positions due to poor company performance.

Table of Contents**Index to Financial Statements**

Our existing warrant holdings currently would require us to invest approximately \$86.0 million to exercise such warrants as of December 31, 2014. 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 warrant gain multiples in the range of approximately 1.02x to 14.93x based on the historical rate of return on our investments. However, our warrants may not appreciate in value and, in fact, may decline in value. Accordingly, we may not be able to realize gains from our warrant portfolio.

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

The following table summarizes our realized and unrealized gain and loss and changes in our unrealized appreciation and depreciation on affiliate investments for the years ended December 31, 2014, 2013, and 2012. We did not hold any control investments at December 31, 2014, 2013 or 2012.

(in thousands)

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

(in thousands)

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

(in thousands)

Portfolio Company	Type	Fair Value at December 31, 2012	Investment Income	Year ended December 31, 2012		
				Unrealized (Depreciation)/ Appreciation	Reversal of Unrealized (Depreciation)/ Appreciation	Realized Gain/(Loss)
E-Band Communications, Corp.	Affiliate	\$	\$ 4	\$ (18)	\$	\$
Gelesis, Inc.	Affiliate	1,665	712	672		
Optiscan BioMedical, Corp.	Affiliate	10,207	1,649	(2,722)		

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Total	\$	11,872	\$ 2,365	\$	(2,068)	\$	\$
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During the year ended December 31, 2013, Stion Corporation became classified as an affiliate. Our investment in E-Band Communications, Corp., a company that was an affiliate investment as of December 31, 2012, was liquidated during the year ended December 31, 2013. Approximately \$3.3 million of realized losses and a reversal of \$3.3 million of previously recorded unrealized depreciation was recognized on this affiliate equity investment during the year ended December 31, 2013.

S-73

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

We use an investment grading system, which grades each debt investment on a scale of 1 to 5, to characterize and monitor our expected level of risk on the debt investments in our portfolio with 1 being the highest quality. 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, 2014 and 2013, respectively:

(in thousands)	December 31, 2014			December 31, 2013		
	Number of Companies	Debt Investments at Fair Value	Percentage of Total Portfolio	Number of Companies	Debt Investments at Fair Value	Percentage of Total Portfolio
Investment Grading						
1	19	\$ 195,819	21.2%	15	\$ 162,586	19.8%
2	45	479,037	51.8%	42	429,804	52.3%
3	16	183,522	19.9%	18	184,692	22.5%
4	6	39,852	4.3%	4	30,687	3.7%
5	8	25,676	2.8%	5	14,219	1.7%
		\$ 923,906	100.0%		\$ 821,988	100.0%

As of December 31, 2014, our debt investments had a weighted average investment grading of 2.24, as compared to 2.20 at December 31, 2013. 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 our debt investments in these portfolio companies have been downgraded until their funding is complete or their operations improve.

At December 31, 2014, we had four debt investments on non-accrual with cumulative investment cost and fair value of approximately \$28.9 million and \$10.6 million, respectively. Comparatively, at December 31, 2013, we had two debt investments on non-accrual with a cumulative investment cost and fair value of \$23.3 million and \$12.6 million, respectively.

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

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

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

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

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

S-74

Table of Contents

Index to Financial Statements

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

Fee Income

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

In certain investment transactions, we may earn income from advisory services; however, we had no income from advisory services in the years ended December 31, 2014 and 2013, respectively.

Operating Expenses

Our operating expenses are comprised of interest and fees on our borrowings, general and administrative expenses and employee compensation and benefits. Operating expenses totaled approximately \$70.3 million and \$66.6 million during the years ended December 31, 2014 and 2013, respectively.

Interest and Fees on our Borrowings

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

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

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

General and Administrative Expenses

General and administrative expenses include legal fees, consulting fees, accounting fees, printer fees, insurance premiums, rent, expenses associated with the workout of underperforming investments and various other expenses. Our general and administrative expenses increased to \$10.2 million from \$9.3 million for the years ended December 31, 2014 and 2013, respectively. These increases were primarily due to increases in facility rent, marketing, corporate legal expenses and outside consulting services partially offset by a decrease in accounting expenses.

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

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

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

Loss on Extinguishment of Convertible Senior Notes

Upon meeting the stock trading price conversion requirement as set forth in the Indenture, dated April 15, 2011, between us and U.S. Bank National Association, during the three months ended June 30, 2014, the Convertible Senior Notes became convertible on July 1, 2014 and continued to be convertible through December 31, 2014. As of December 31, 2014, holders of approximately \$57.3 million of our Convertible Senior Notes exercised their conversion rights and these Convertible Senior Notes were settled with a combination of cash equal to the outstanding principal amount of the converted notes and approximately 1.5 million shares of the Company's common stock, or \$24.3 million.

We recorded a loss on extinguishment of debt for the proportionate amount of unamortized debt issuance costs and original issue discount. The loss was partially offset by a gain in the amount of the difference between the outstanding principal balance of the converted notes and the fair value of the debt instrument. The net loss on extinguishment of debt we recorded for the year ended December 31, 2014 was approximately \$1.6 million and was classified as a component of net investment income in our Consolidated Statements of Operations.

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

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

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

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

During the year ended December 31, 2014, we recognized net realized gains of approximately \$20.1 million on the portfolio. These net realized gains included gross realized gains of approximately \$24.0 million primarily from the sale of investments in seven portfolio companies including Acceleron Pharma, Inc., (\$7.9 million), Merrimack Pharmaceuticals, Inc., (\$4.3 million), Neuralstem, Inc., (\$2.7 million), IPA Holdings, LLC., (\$1.5 million), Cell Therapeutics, Inc., (\$1.3 million), Trulia, Inc. (\$1.0 million), and Portola Pharmaceuticals, Inc. (\$700,000). These gains were partially offset by gross realized losses of approximately \$3.9 million primarily from the liquidation of our investments in fifteen portfolio companies.

During the year ended December 31, 2013, we recognized net realized gains of approximately \$14.8 million. These net realized gains include gross realized gains of approximately \$32.6 million primarily from the

Table of Contents**Index to Financial Statements**

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

The net unrealized appreciation and depreciation of our investments is based on the fair value of each investment determined in good faith by our Board of Directors. The following table summarizes the change in net unrealized appreciation/depreciation of investments for the years ended December 31, 2014 and 2013:

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

During the year ended December 31, 2014, we recorded approximately \$20.7 million of net unrealized depreciation, of which \$18.6 million is net unrealized depreciation from our debt, equity and warrant investments. Of the \$18.6 million, approximately \$14.2 million is attributed to net unrealized depreciation on our debt investments which primarily related to \$23.2 million unrealized depreciation for collateral based impairments on 12 portfolio companies offset by the reversal of collateral based impairments of \$4.1 on two portfolio companies. Approximately \$15.8 million is attributed to net unrealized depreciation on our warrant investments which primarily related to \$8.3 million of net unrealized depreciation due to the exercise of our warrants in Box, Inc. to equity and \$2.4 million of net unrealized depreciation due to the reversal of prior period net unrealized appreciation upon being realized as a gain. This unrealized depreciation was offset by approximately \$11.4 million attributed to net unrealized appreciation on our equity investments, including approximately \$13.0 million of net unrealized appreciation on Box, Inc., including the exercise of our remaining warrants in Box, Inc. to equity and approximately \$7.7 million of net unrealized appreciation on our public equity portfolio. This was offset by approximately \$12.7 million unrealized depreciation due to reversal of prior period net unrealized appreciation upon being realized as a gain.

Net unrealized appreciation decreased by approximately \$1.9 million as a result of estimated taxes payable for the year ended December 31, 2014.

Net unrealized appreciation further decreased by approximately \$465,000 as a result of reducing escrow receivables for the year ended December 31, 2014 related to merger and acquisition transactions closed on former portfolio companies.

During the year ended December 31, 2014, net unrealized depreciation was offset by approximately \$270,000 due to net depreciation of fair value on the pool of warrants collateralized under the Citigroup Warrant Participation Agreement as a result of the sale of shares in Acceleron Pharma, Inc., Merrimack Pharmaceuticals, Inc., Portola Pharmaceuticals, Inc. and Everyday Health, Inc. that were subject to the agreement.

During the year ended December 31, 2013, we recorded approximately \$11.5 million of net unrealized appreciation, of which \$12.0 million is net unrealized appreciation from our debt, equity and warrant

Table of Contents**Index to Financial Statements**

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

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

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

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

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

(in millions)	Year Ended December 31, 2014			
	Debt	Equity	Warrants	Total
Collateral based impairments	\$ (23.2)	\$ (1.2)	\$ (3.3)	\$ (27.7)
Reversals of Prior Period Collateral based impairments	4.1	0.6		4.7
Reversals due to Debt Payoffs & Warrant/Equity sales		(11.1)	(9.7)	(20.8)
Fair Value Market/Yield Adjustments*				
Level 1 & 2 Assets		7.6	(2.9)	4.7
Level 3 Assets	4.9	15.5	0.1	20.5
Total Fair Value Market/Yield Adjustments	4.9	23.1	(2.8)	25.2
Total Unrealized Appreciation/(Depreciation)	\$ (14.2)	\$ 11.4	\$ (15.8)	\$ (18.6)
(in millions)	Year Ended December 31, 2013			
	Debt	Equity	Warrants	Total
Collateral based impairments	\$ (21.2)	\$	\$ (0.1)	(21.3)
Reversals of Prior Period Collateral based impairments				
Reversals due to Debt Payoffs & Warrant/Equity sales	13.0	(5.8)	(10.6)	(3.4)
Fair Value Market/Yield Adjustments*				
Level 1 & 2 Assets		7.6	3.5	11.1
Level 3 Assets		13.9	11.7	25.6
Total Fair Value Market/Yield Adjustments		21.5	15.2	36.7
Total Unrealized Appreciation/(Depreciation)	\$ (8.2)	\$ 15.7	\$ 4.5	\$ 12.0

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

Income and Excise Taxes

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We account for income taxes in accordance with the provisions of ASC 740, Income Taxes, which requires that deferred income taxes be determined based upon the estimated future tax effects of differences between the financial statement and tax basis of assets and liabilities given the provisions of the enacted tax law. Valuation

S-78

Table of Contents**Index to Financial Statements**

allowances are used to reduce deferred tax assets to the amount likely to be realized. We intend to distribute approximately \$16.7 million of spillover earnings from the year ended December 31, 2014 to our shareholders in 2015.

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

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

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

For the purpose of calculating diluted earnings per share for years ended December 31, 2014 and 2013, the dilutive effect of the Convertible Senior Notes under the treasury stock method is included in this calculation as our share price was greater than the conversion price of \$11.36 in effect as of December 31, 2014 and \$11.63 as of December 31, 2013 for the Convertible Senior Notes for such periods.

Comparison of periods ended December 31, 2013 and 2012***Investment Income******Interest Income***

Total investment income for the year ended December 31, 2013 was approximately \$139.7 million as compared to approximately \$97.5 million for the year ended December 31, 2012.

Interest income for the year ended December 31, 2013 totaled approximately \$123.7 million as compared to approximately \$87.6 million for the year ended December 31, 2012. The increase in interest income is primarily attributable to an increase of loan interest income of approximately \$25.0 million for the year ended December 31, 2013, related to both new loans originated during 2013 and an overall increase in amortization during 2013 on loans originated during 2012. This increase in interest income was partially offset by pay-offs during the year ended December 31, 2013.

The following table shows the lending activity involving PIK interest arrangements for the years ended December 31, 2013 and 2012, at cost:

(in thousands)	Year Ended December 31,	
	2013	2012
Beginning PIK loan balance	\$ 3,309	\$ 2,041
PIK interest capitalized during the period	3,103	1,400
Payments received from PIK loans	(1,123)	(132)
Realized loss	(307)	
Ending PIK loan balance	\$ 4,982	\$ 3,309

The increase in payments received from PIK loans and PIK interest capitalized during the year ended December 31, 2013 is due to the addition of nine PIK loans which have incurred PIK capitalizations during the period offset by the payoff of four PIK loans during the period ended December 31, 2013.

Fee Income

Income from commitment, facility and loan related fees for the year ended December 31, 2013 totaled approximately \$16.0 million as compared to approximately \$9.9 million for the year ended December 31, 2012. The increase in fee income is primarily attributable to additional fee

accelerations and one time fees due to early pay-offs during the year ended December 31, 2013 as compared to the same period in 2012.

S-79

Table of Contents

Index to Financial Statements

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, 2013 and 2012, 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 \$66.6 million and \$49.4 million during the years ended December 31, 2013 and 2012, respectively.

Interest and Fees on our Borrowings

Interest and fees on our borrowings totaled approximately \$35.1 million for the year ended December 31, 2013 as compared to approximately \$23.8 million for the year ended December 31, 2012. This increase was primarily attributable to interest and fee expenses of approximately \$12.9 million for the year ended December 31, 2013 related to the 2019 Notes issued in April and September 2012, which is \$7.3 million greater than \$5.6 million of interest and fees incurred during the year ended December 31, 2012, and approximately \$5.1 million of interest and fee expense incurred due to the Asset-Backed Notes issued in December 2012. These expenses were partially offset by a decrease in interest and fees of approximately \$749,000 for the year ended December 31, 2013 associated with our SBA debentures due to the pay down in August 2012 of debentures that had a weighted average cost of debt of 6.40% and borrowings of \$24.75 million of debentures in November 2012 that had a weighted average cost of debt of 3.05%.

Additionally, we incurred approximately \$1.1 million of non-cash interest expense during the period ended December 31, 2013 attributed to the accretion of the fair value of the conversion feature on the Convertible Senior Notes. We had a weighted average cost of debt, comprised of interest and fees, of approximately 6.1% for the year ended December 31, 2013, as compared to 6.6% during the year ended December 31, 2012. The decrease was primarily driven by the Asset-Backed Notes issued in December 2012, which account for approximately 18.9% of our outstanding debt and accrue interest at 3.3%. As of December 31, 2013 the weighted average debt outstanding was approximately \$580.1 million.

General and Administrative Expenses

General and administrative expenses include legal fees, consulting fees, accounting fees, printer fees, insurance premiums, rent, expenses associated with the workout of underperforming investments and various other expenses. Our general and administrative expenses increased to \$9.3 million from \$8.1 million for the years ended December 31, 2013 and 2012, respectively. These increases were primarily due to increases of approximately \$689,000 and \$442,000 related to corporate legal expenses and outside consulting services, partially offset by a reduction of approximately \$249,000 for accounting fees.

Employee Compensation

Employee compensation and benefits totaled approximately \$16.2 million for the year ended December 31, 2013 as compared to approximately \$13.3 million for the year ended December 31, 2012. This increase was due to increasing our staff to 62 active employees at December 31, 2013 from 52 active employees at December 31, 2012 and increasing our variable compensation (bonus) accrual based on performance improvements. Stock-based compensation totaled approximately \$6.0 million for the year ended December 31, 2013 as compared to approximately \$4.2 million for the year ended December 31, 2012. These increases were due primarily to the expense on restricted stock grants for 607,001 shares granted during the year ended December 31, 2013.

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

Table of Contents**Index to Financial Statements**

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, 2013 and 2012 is as follows:

(in thousands)	Year Ended December 31,	
	2013	2012
Realized gains	\$ 32,577	\$ 17,481
Realized losses	(17,741)	(14,313)
Net realized gains	\$ 14,836	\$ 3,168

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

During the year ended December 31, 2012, we recognized net realized gains of \$3.2 million. These net realized gains include gross realized gains of approximately \$17.5 million primarily from the sale of equity and warrant investments in NEXX Systems, Inc., (\$5.1 million), BARRX Medical (\$3.1 million), DeCode Genetics (\$2.6 million), Aegerion Pharmaceuticals (\$2.4 million) and Annie s (\$2.4 million). These gains were partially offset by gross realized losses of approximately \$14.3 million from the liquidation of our equity and warrant investments in MaxVision Holding, L.L.C (\$8.7 million), Razorgator Interactive Group (\$2.2 million), Zeta Interactive Corporation (\$672,000) and Magi.com (\$463,000) pka Hi5 Networks, Inc.

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, 2013 and 2012:

(in thousands)	Year Ended December 31,	
	2013	2012
Gross unrealized appreciation on portfolio investments	\$ 80,616	\$ 65,871
Gross unrealized depreciation on portfolio investments	(63,855)	(73,158)
Reversal of prior period net unrealized appreciation upon a realization event	(26,489)	(12,575)
Reversal of prior period net unrealized depreciation upon a realization event	21,763	14,944
Net unrealized appreciation (depreciation) on taxes payable	(898)	
Net unrealized appreciation (depreciation) on escrow receivables	465	
Citigroup Warrant Participation	(57)	402
Net unrealized appreciation (depreciation) on portfolio investments	\$ 11,545	\$ (4,516)

During the year ended December 31, 2013, we recorded approximately \$11.5 million of net unrealized appreciation, of which \$12.0 million is net unrealized appreciation from our debt, equity and warrant investments. Of the \$12.0 million, approximately \$15.7 million is attributed to net unrealized appreciation on equity, including approximately \$5.6 million of net unrealized depreciation due to the reversal of prior period net

S-81

Table of Contents**Index to Financial Statements**

unrealized appreciation upon being realized as a gain. Approximately \$4.5 million is attributed to net unrealized appreciation on our warrant investments, including approximately \$9.4 million of net unrealized depreciation due to the reversal of prior period net unrealized appreciation upon being realized as a gain. This unrealized appreciation was partially offset by approximately \$8.2 million of net unrealized depreciation on our debt investments, which primarily related to \$21.2 million of unrealized depreciation for collateral based impairments, offset by the reversal of approximately \$13.0 million of prior period net unrealized depreciation upon being realized as a loss due to the write-off or early payoff of debt investments.

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

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

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

During the year ended December 31, 2012, we recorded approximately \$4.5 million of net unrealized depreciation from our debt, equity and warrant investments. Approximately \$3.4 million and \$2.3 million is attributed to net unrealized depreciation on warrant investments and debt investments, respectively, of which approximately \$6.6 million is due to the reversal of prior period net unrealized appreciation upon being realized as a gain and \$9.2 million is due to the reversal of prior period net unrealized depreciation upon being realized as a loss. The remainder is related to fluctuations in current market interest rates during the year ended December 31, 2012. This unrealized depreciation was partially offset by approximately \$1.3 million of net unrealized appreciation on our equity investments, of which approximately \$6.0 million is due to the reversal of prior period net unrealized appreciation upon being realized as a gain and \$5.7 million is due to the reversal of prior period net unrealized depreciation upon being realized as a loss.

The following table summarizes the change in net unrealized appreciation/ (depreciation) in the investment portfolio by investment type for the years ended December 31, 2013 and December 31, 2012.

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

(in millions)	Year Ended December 31, 2012			
	Debt	Equity	Warrants	Total
Collateral based impairments	\$ (11.4)	\$ (2.1)	\$ (1.2)	(14.7)
Reversals of Prior Period Collateral based impairments	10.0	0.5	0.7	11.2
Reversals due to Debt Payoffs & Warrant/Equity sales	7.0	(0.3)	(5.0)	1.7
Fair Value Market/Yield Adjustments*				
Level 1 & 2 Assets		(6.5)		