
Section 1: 10-Q (10-Q)

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For The Quarterly Period Ended September 30, 2014

OR

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

Commission File Number: 814-00702

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

(Exact Name of Registrant as Specified in its Charter)

Maryland
(State or Jurisdiction of
Incorporation or Organization)

400 Hamilton Ave., Suite 310
Palo Alto, California
(Address of Principal Executive Offices)

743113410
(IRS Employer
Identification No.)

94301
(Zip Code)

(650) 289-3060

(Registrant's Telephone Number, Including Area Code)

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

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

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

On November 3, 2014, there were 64,199,024 shares outstanding of the Registrant's common stock, \$0.001 par value.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.
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PART I: FINANCIAL INFORMATION

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

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.
CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES
(unaudited)
(dollars in thousands, except per share data)

| | <u>September 30, 2014</u> | <u>December 31, 2013</u> |
|---|---------------------------|--------------------------|
| Assets | | |
| Investments: | | |
| Non-control/Non-affiliate investments (cost of \$996,338 and \$891,059, respectively) | \$ 990,068 | \$ 899,314 |
| Affiliate investments (cost of \$15,959 and \$15,238, respectively) | 8,845 | 10,981 |
| Total investments, at value (cost of \$1,012,297 and \$906,297, respectively) | <u>998,913</u> | <u>910,295</u> |
| Cash and cash equivalents | 158,627 | 268,368 |
| Restricted cash | 2,096 | 6,271 |
| Interest receivable | 9,146 | 8,962 |
| Other assets | 30,556 | 27,819 |
| Total assets | <u>\$ 1,199,338</u> | <u>\$ 1,221,715</u> |
| Liabilities | | |
| Accounts payable and accrued liabilities | \$ 11,613 | \$ 14,268 |
| Long-term Liabilities (Convertible Senior Notes) | 40,012 | 72,519 |
| Asset-Backed Notes | 27,951 | 89,557 |
| 2019 Notes | 170,364 | 170,364 |
| 2024 Notes | 103,000 | — |
| Long-term SBA Debentures | <u>190,200</u> | <u>225,000</u> |
| Total liabilities | <u>\$ 543,140</u> | <u>\$ 571,708</u> |
| Commitments and Contingencies (Note 10) | | |
| Net assets consist of: | | |
| Common stock, par value | 65 | 62 |
| Capital in excess of par value | 670,711 | 656,594 |
| Unrealized appreciation (depreciation) on investments | (14,706) | 3,598 |
| Accumulated realized losses on investments | (2,233) | (15,240) |
| Undistributed net investment income | <u>2,361</u> | <u>4,993</u> |
| Total net assets | <u>\$ 656,198</u> | <u>\$ 650,007</u> |
| Total liabilities and net assets | <u>\$ 1,199,338</u> | <u>\$ 1,221,715</u> |
| Shares of common stock outstanding (\$0.001 par value, 100,000,000 authorized) | 64,182 | 61,837 |
| Net asset value per share | \$ 10.22 | \$ 10.51 |

See notes to consolidated financial statements.

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

| (Dollars in thousands) | September 30, 2014 | December 31, 2013 |
|--|---------------------------|--------------------------|
| ASSETS | | |
| Restricted Cash | \$ 2,096 | \$ 6,271 |
| Total investments, at value (cost of \$87,405 and \$166,513, respectively) | 85,233 | 165,445 |
| Total assets | <u>\$ 87,329</u> | <u>\$ 171,716</u> |
| LIABILITIES | | |
| Asset-Backed Notes | \$ 27,951 | \$ 89,557 |
| Total liabilities | <u>\$ 27,951</u> | <u>\$ 89,557</u> |

See notes to consolidated financial statements.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

(in thousands, except per share data)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|----------------------------------|------------------|---------------------------------|------------------|
| | 2014 | 2013 | 2014 | 2013 |
| Investment income: | | | | |
| Interest income | | | | |
| Non-Control/Non-Affiliate investments | \$ 33,210 | \$ 35,623 | \$ 92,975 | \$ 93,722 |
| Affiliate investments | 130 | 561 | 1,747 | 1,684 |
| Total interest income | <u>33,340</u> | <u>36,184</u> | <u>94,722</u> | <u>95,406</u> |
| Fees | | | | |
| Non-Control/Non-Affiliate investments | 3,671 | 4,832 | 12,037 | 11,088 |
| Affiliate investments | 8 | 5 | 30 | 9 |
| Total fees | <u>3,679</u> | <u>4,837</u> | <u>12,067</u> | <u>11,097</u> |
| Total investment income | <u>37,019</u> | <u>41,021</u> | <u>106,789</u> | <u>106,503</u> |
| Operating expenses: | | | | |
| Interest | 6,495 | 7,587 | 20,177 | 22,788 |
| Loan fees | 1,364 | 1,072 | 4,531 | 3,341 |
| General and administrative | 2,397 | 2,176 | 6,984 | 6,831 |
| Employee Compensation: | | | | |
| Compensation and benefits | 3,922 | 7,030 | 11,375 | 14,992 |
| Stock-based compensation | 2,823 | 1,596 | 6,849 | 4,349 |
| Total employee compensation | <u>6,745</u> | <u>8,626</u> | <u>18,224</u> | <u>19,341</u> |
| Total operating expenses | <u>17,001</u> | <u>19,461</u> | <u>49,916</u> | <u>52,301</u> |
| Loss on debt extinguishment (Long-term Liabilities - Convertible Senior Notes) | (1,023) | — | (1,023) | — |
| Net investment income | <u>18,995</u> | <u>21,560</u> | <u>55,850</u> | <u>54,202</u> |
| Net realized gain on investments | | | | |
| Non-Control/Non-Affiliate investments | 5,664 | 7,125 | 13,007 | 11,309 |
| Total net realized gain on investments | <u>5,664</u> | <u>7,125</u> | <u>13,007</u> | <u>11,309</u> |
| Net increase in unrealized appreciation (depreciation) on investments | | | | |
| Non-Control/Non-Affiliate investments | (10,029) | 9,288 | (15,447) | 10,506 |
| Affiliate investments | 547 | (992) | (2,857) | (1,468) |
| Total net unrealized appreciation (depreciation) on investments | <u>(9,482)</u> | <u>8,296</u> | <u>(18,304)</u> | <u>9,038</u> |
| Total net realized and unrealized gain (loss) | <u>(3,818)</u> | <u>15,421</u> | <u>(5,297)</u> | <u>20,347</u> |
| Net increase in net assets resulting from operations | <u>\$ 15,177</u> | <u>\$ 36,981</u> | <u>\$ 50,553</u> | <u>\$ 74,549</u> |
| Net investment income before investment gains and losses per common share: | | | | |
| Basic | <u>\$ 0.30</u> | <u>\$ 0.35</u> | <u>\$ 0.89</u> | <u>\$ 0.91</u> |
| Change in net assets per common share: | | | | |
| Basic | <u>\$ 0.24</u> | <u>\$ 0.61</u> | <u>\$ 0.80</u> | <u>\$ 1.26</u> |
| Diluted | <u>\$ 0.23</u> | <u>\$ 0.59</u> | <u>\$ 0.78</u> | <u>\$ 1.23</u> |
| Weighted average shares outstanding | | | | |
| Basic | <u>62,356</u> | <u>60,522</u> | <u>61,444</u> | <u>58,206</u> |
| Diluted | <u>63,779</u> | <u>60,750</u> | <u>63,554</u> | <u>58,396</u> |
| Dividends declared per common share: | | | | |
| Basic | \$ 0.31 | \$ 0.31 | \$ 0.93 | \$ 0.86 |

See notes to consolidated financial statements.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
(unaudited)
(dollars and shares in thousands)

| | Common Stock | | Capital in excess of par value | Unrealized Appreciation (Depreciation) on Investments | Accumulated Realized Gains (Losses) on Investments | Undistributed net investment income/ (Distributions in excess of investment income) | Provision for Income Taxes on Investment Gains | Net Assets |
|---|---------------|--------------|--------------------------------|---|--|---|--|------------------|
| | Shares | Par Value | | | | | | |
| Balance at December 31, 2012 | <u>52,925</u> | <u>\$ 53</u> | <u>\$ 564,508</u> | <u>\$ (7,947)</u> | <u>\$ (36,916)</u> | <u>\$ (3,388)</u> | <u>\$ (342)</u> | <u>\$515,968</u> |
| Net increase in net assets resulting from operations | — | — | — | 9,038 | 11,309 | 54,202 | — | 74,549 |
| Issuance of common stock | 1,337 | 1 | 16,542 | — | — | — | — | 16,543 |
| Issuance of common stock under restricted stock plan | 472 | 1 | (1) | — | — | — | — | — |
| Issuance of common stock as stock dividend | 142 | — | 1,923 | — | — | — | — | 1,923 |
| Retired shares from net issuance | (1,170) | (1) | (18,259) | — | — | — | — | (18,260) |
| Public offering | 8,050 | 8 | 95,529 | — | — | — | — | 95,537 |
| Dividends declared | — | — | — | — | — | (47,292) | — | (47,292) |
| Stock-based compensation | — | — | 4,408 | — | — | — | — | 4,408 |
| Balance at September 30, 2013 | <u>61,756</u> | <u>\$ 62</u> | <u>\$ 664,650</u> | <u>\$ 1,091</u> | <u>\$ (25,607)</u> | <u>\$ 3,522</u> | <u>\$ (342)</u> | <u>\$643,376</u> |
| Balance at December 31, 2013 | <u>61,837</u> | <u>\$ 62</u> | <u>\$ 656,594</u> | <u>\$ 3,598</u> | <u>\$ (15,240)</u> | <u>\$ 5,335</u> | <u>\$ (342)</u> | <u>\$650,007</u> |
| Net increase (decrease) in net assets resulting from operations | — | — | — | (18,304) | 13,007 | 55,850 | — | 50,553 |
| Issuance of common stock | 256 | — | 2,873 | — | — | — | — | 2,873 |
| Issuance of common stock under restricted stock plan | 632 | 1 | (1) | — | — | — | — | — |
| Issuance of common stock as stock dividend | 76 | — | 1,152 | — | — | — | — | 1,152 |
| Retired shares from net issuance | (193) | — | (5,992) | — | — | — | — | (5,992) |
| Public offering | 1,574 | 2 | 9,180 | — | — | — | — | 9,182 |
| Dividends declared | — | — | — | — | — | (58,482) | — | (58,482) |
| Stock-based compensation | — | — | 6,905 | — | — | — | — | 6,905 |
| Balance at September 30, 2014 | <u>64,182</u> | <u>\$ 65</u> | <u>\$ 670,711</u> | <u>\$ (14,706)</u> | <u>\$ (2,233)</u> | <u>\$ 2,703</u> | <u>\$ (342)</u> | <u>\$656,198</u> |

See notes to consolidated financial statements.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(dollars in thousands)

| | <u>Nine Months Ended September 30,</u> | |
|---|--|-------------------|
| | <u>2014</u> | <u>2013</u> |
| Cash flows from operating activities: | | |
| Net increase in net assets resulting from operations | \$ 50,553 | \$ 74,549 |
| Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by (used in) operating activities: | | |
| Purchase of investments | (415,399) | (411,515) |
| Principal payments received on investments | 316,543 | 336,438 |
| Proceeds from the sale of investments | 17,977 | 29,459 |
| Net unrealized depreciation (appreciation) on investments | 18,304 | (9,038) |
| Net realized gain on investments | (13,007) | (11,309) |
| Accretion of paid-in-kind principal | (1,990) | (2,269) |
| Accretion of loan discounts | (7,690) | (4,556) |
| Accretion of loan discount on Convertible Senior Notes | 738 | 812 |
| Loss on conversion of Convertible Senior Notes | 1,023 | — |
| Accretion of loan exit fees | (754) | (10,031) |
| Change in deferred loan origination revenue | (616) | 2,540 |
| Unearned fees related to unfunded commitments | (7,789) | (364) |
| Amortization of debt fees and issuance costs | 4,131 | 2,918 |
| Depreciation | 161 | 162 |
| Stock-based compensation and amortization of restricted stock grants | 6,905 | 4,408 |
| Change in operating assets and liabilities: | | |
| Interest and fees receivable | (184) | (641) |
| Prepaid expenses and other assets | 59 | 570 |
| Accounts payable | 1,126 | (63) |
| Accrued liabilities | (4,203) | 2,588 |
| Net cash provided by (used in) operating activities | (34,112) | 4,658 |
| Cash flows from investing activities: | | |
| Purchases of capital equipment | (94) | (240) |
| Reduction of (investment in) restricted cash | 4,175 | (3,632) |
| Other long-term assets | — | (30) |
| Net cash provided by (used in) investing activities | 4,081 | (3,902) |
| Cash flows from financing activities: | | |
| Proceeds from issuance (repurchase of employee shares due to restricted stock vesting) of common stock, net | 6,734 | 93,443 |
| Dividends paid | (57,330) | (45,368) |
| Issuance of 2024 Notes, net | 99,655 | — |
| Repayments of Asset-Backed Notes | (61,606) | (26,832) |
| Repayments of Long-Term SBA Debentures | (34,800) | — |
| Cash paid for redemption of Convertible Senior Notes | (31,577) | — |
| Fees paid for credit facilities and debentures | (786) | — |
| Net cash provided by (used in) financing activities | (79,710) | 21,243 |
| Net decrease in cash and cash equivalents | (109,741) | 21,999 |
| Cash and cash equivalents at beginning of period | 268,368 | 182,994 |
| Cash and cash equivalents at end of period | <u>\$ 158,627</u> | <u>\$ 204,993</u> |
| Supplemental non-cash investing and financing activities: | | |
| Dividends Reinvested | \$ 1,152 | \$ 1,923 |
| Paid-in-Kind Principal | \$ 1,990 | \$ 2,269 |

See notes to consolidated financial statements.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS
September 30, 2014
(unaudited)
(dollars in thousands)

| <u>Portfolio Company</u> | <u>Sub-Industry</u> | <u>Type of Investment⁽¹⁾</u> | <u>Maturity Date</u> | <u>Interest Rate and Floor</u> | <u>Principal Amount</u> | <u>Cost⁽²⁾</u> | <u>Value⁽³⁾</u> | |
|--|------------------------------|---|----------------------|---|-------------------------|---------------------------|----------------------------|--------|
| Debt Investments | | | | | | | | |
| Biotechnology Tools | | | | | | | | |
| 1-5 Years Maturity | | | | | | | | |
| Labcyte, Inc. ⁽¹¹⁾⁽¹³⁾⁽¹⁴⁾ | Biotechnology Tools | Senior Secured | June 2016 | Interest rate PRIME + 6.70% or Floor rate of 9.95% | \$ 3,104 | \$ 3,252 | \$ 3,262 | |
| Subtotal: 1-5 Years Maturity | | | | | | <u>3,252</u> | <u>3,262</u> | |
| Subtotal: Biotechnology Tools (0.50%)* | | | | | | <u>3,252</u> | <u>3,262</u> | |
| Communications & Networking | | | | | | | | |
| 1-5 Years Maturity | | | | | | | | |
| OpenPeak, Inc. ⁽¹¹⁾⁽¹³⁾ | Communications & Networking | Senior Secured | April 2017 | Interest rate PRIME + 8.75% or Floor rate of 12.00% | \$ 9,296 | 9,454 | 9,331 | |
| SkyCross, Inc. ⁽¹³⁾⁽¹⁴⁾ | Communications & Networking | Senior Secured | January 2018 | Interest rate PRIME + 9.70% | \$ 7,500 | 7,278 | 7,440 | |
| | Communications & Networking | Senior Secured | January 2018 | Interest rate PRIME + 7.70% or Floor rate of 10.95% | \$ 14,500 | 14,050 | 14,362 | |
| Total SkyCross, Inc. | | | | | | \$ 22,000 | 21,328 | 21,802 |
| Spring Mobile Solutions, Inc. ⁽¹⁵⁾ | Communications & Networking | Senior Secured | November 2016 | Interest rate PRIME + 8.00% or Floor rate of 11.25% | \$ 18,840 | 18,886 | 19,075 | |
| Subtotal: 1-5 Years Maturity | | | | | | <u>49,668</u> | <u>50,208</u> | |
| Subtotal: Communications & Networking (7.65%)* | | | | | | <u>49,668</u> | <u>50,208</u> | |
| Consumer & Business Products | | | | | | | | |
| 1-5 Years Maturity | | | | | | | | |
| Fluc, Inc. ⁽⁹⁾ | Consumer & Business Products | Convertible Senior Note | March 2017 | Interest rate FIXED 4.00% | \$ 100 | 100 | 100 | |
| Pong Research Corporation ⁽¹³⁾⁽¹⁴⁾ | Consumer & Business Products | Senior Secured | December 2017 | Interest rate PRIME + 6.75% or Floor rate of 10.00% | \$ 5,000 | 4,872 | 4,872 | |
| The Neat Company ⁽¹²⁾⁽¹³⁾⁽¹⁴⁾ | Consumer & Business Products | Senior Secured | September 2017 | Interest rate PRIME + 7.75% or Floor rate of 11.00%, PIK Interest 1.00% | \$ 20,010 | 19,221 | 19,221 | |
| Subtotal: 1-5 Years Maturity | | | | | | <u>24,193</u> | <u>24,193</u> | |
| Subtotal: Consumer & Business Products (3.69%)* | | | | | | <u>24,193</u> | <u>24,193</u> | |
| Drug Delivery | | | | | | | | |
| 1-5 Years Maturity | | | | | | | | |
| AcelRx Pharmaceuticals, Inc. ⁽³⁾⁽¹⁰⁾⁽¹³⁾⁽¹⁴⁾ | Drug Delivery | Senior Secured | October 2017 | Interest rate PRIME + 3.85% or Floor rate of 9.10% | \$ 25,000 | 24,643 | 24,791 | |
| BIND Therapeutics, Inc. ⁽³⁾⁽¹³⁾⁽¹⁴⁾ | Drug Delivery | Senior Secured | September 2016 | Interest rate PRIME + 7.00% or Floor rate of 10.25% | \$ 3,694 | 3,736 | 3,638 | |
| Celator Pharmaceuticals, Inc. ⁽³⁾⁽¹³⁾ | Drug Delivery | Senior Secured | December 2017 | Interest rate PRIME + 6.50% or Floor rate of 9.75% | \$ 10,000 | 9,865 | 9,865 | |
| Celsion Corporation ⁽³⁾⁽¹³⁾ | Drug Delivery | Senior Secured | June 2017 | Interest rate PRIME + 8.00% or Floor rate of 11.25% | \$ 10,000 | 9,763 | 9,966 | |
| Dance Biopharm, Inc. ⁽¹³⁾⁽¹⁴⁾ | Drug Delivery | Senior Secured | November 2017 | Interest rate PRIME + 7.40% or Floor rate of 10.65% | \$ 4,000 | 3,935 | 3,965 | |
| Edge Therapeutics, Inc. ⁽¹³⁾ | Drug Delivery | Senior Secured | March 2018 | Interest rate PRIME + 5.95% or Floor rate of 10.45% | \$ 3,000 | 2,846 | 2,846 | |
| Neos Therapeutics, Inc. ⁽¹³⁾⁽¹⁴⁾ | Drug Delivery | Senior Secured | October 2017 | Interest rate PRIME + 7.25% or Floor rate of 10.50% | \$ 5,000 | 4,881 | 4,881 | |
| | Drug Delivery | Senior Secured | October 2017 | Interest rate PRIME + 5.75% or Floor rate of 9.00% | \$ 10,000 | 10,000 | 9,689 | |
| Total Neos Therapeutics, Inc. | | | | | | \$ 15,000 | 14,881 | 14,570 |
| Zosano Pharma, Inc. ⁽¹³⁾ | Drug Delivery | Senior Secured | June 2017 | Interest rate PRIME + 6.80% or Floor rate of 12.05% | \$ 4,000 | 3,857 | 3,857 | |
| Subtotal: 1-5 Years Maturity | | | | | | <u>73,526</u> | <u>73,498</u> | |
| Under 1 Year Maturity | | | | | | | | |
| Revanche Therapeutics, Inc. ⁽³⁾⁽¹³⁾ | Drug Delivery | Senior Secured | March 2015 | Interest rate PRIME + 6.60% or Floor rate of 9.85% | \$ 410 | 445 | 445 | |
| | Drug Delivery | Senior Secured | March 2015 | Interest rate PRIME + 6.60% or Floor rate of 9.85% | \$ 4,096 | 4,439 | 4,439 | |
| Total Revanche Therapeutics, Inc. | | | | | | \$ 4,506 | 4,884 | 4,884 |
| Subtotal: Under 1 Year Maturity | | | | | | <u>4,884</u> | <u>4,884</u> | |
| Subtotal: Drug Delivery (11.94%)* | | | | | | <u>78,410</u> | <u>78,382</u> | |

See notes to consolidated financial statements.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS
September 30, 2014
(unaudited)
(dollars in thousands)

| Portfolio Company | Sub-Industry | Type of Investment⁽¹⁾ | Maturity Date | Interest Rate and Floor | Principal Amount | Cost⁽²⁾ | Value⁽³⁾ |
|--|---------------------------------|---|----------------------|--|-------------------------|---------------------------|----------------------------|
| Drug Discovery & Development | | | | | | | |
| 1-5 Years Maturity | | | | | | | |
| ADMA Biologics, Inc. ⁽³⁾⁽¹²⁾⁽¹³⁾ | Drug Discovery & Development | Senior Secured | June 2017 | Interest rate PRIME + 3.00% or Floor rate of 8.75%, PIK Interest of 1.95% | \$ 10,103 | \$ 9,961 | \$ 10,026 |
| Anacor Pharmaceuticals, Inc. ⁽¹⁴⁾ | Drug Discovery & Development | Senior Secured | July 2017 | Interest rate PRIME + 6.40% or Floor rate of 11.65% | \$ 30,000 | 29,316 | 29,916 |
| Aveo Pharmaceuticals, Inc. ⁽³⁾ ⁽¹⁰⁾⁽¹¹⁾⁽¹³⁾⁽¹⁴⁾ | Drug Discovery & Development | Senior Secured | January 2018 | Interest rate PRIME + 11.90% or Floor rate of 11.90% | \$ 10,000 | 9,688 | 9,688 |
| Celladon Corporation ⁽³⁾⁽¹³⁾⁽¹⁴⁾ | Drug Discovery & Development | Senior Secured | February 2018 | Interest rate PRIME + 3.00% or Floor rate of 8.25% | \$ 10,000 | 9,939 | 9,939 |
| Cempra, Inc. ⁽³⁾⁽¹³⁾ | Drug Discovery & Development | Senior Secured | April 2018 | Interest rate PRIME + 6.30% or Floor rate of 9.55% | \$ 18,000 | 18,010 | 18,010 |
| Cerecor Inc. ⁽¹³⁾ | Drug Discovery & Development | Senior Secured | August 2017 | Interest rate PRIME + 4.70% or Floor rate of 7.95% | \$ 7,500 | 7,337 | 7,337 |
| Cleveland BioLabs, Inc. ⁽³⁾⁽¹³⁾ ⁽¹⁴⁾ | Drug Discovery & Development | Senior Secured | January 2017 | Interest rate PRIME + 6.20% or Floor rate of 10.45% | \$ 2,000 | 2,000 | 2,040 |
| Concert Pharmaceuticals, Inc. ⁽³⁾ ⁽⁴⁾ | Drug Discovery & Development | Senior Secured | October 2015 | Interest rate PRIME + 3.25% or Floor rate of 8.50% | \$ 9,218 | 9,162 | 9,254 |
| CTI BioPharma Corp. (pka Cell Therapeutics, Inc.) ⁽¹¹⁾⁽¹³⁾ | Drug Discovery & Development | Senior Secured | October 2016 | Interest rate PRIME + 9.00% or Floor rate 12.25% | \$ 15,000 | 14,962 | 15,332 |
| Insmed, Incorporated ⁽¹¹⁾⁽¹³⁾ | Drug Discovery & Development | Senior Secured | January 2016 | Interest rate PRIME + 4.75% or Floor rate of 9.25% | \$ 20,000 | 19,871 | 20,071 |
| Neothetics, Inc. (pka Lithera, Inc) ⁽¹³⁾⁽¹⁴⁾ | Drug Discovery & Development | Senior Secured | January 2018 | Interest rate PRIME + 5.75% or Floor rate of 9.00% | \$ 4,000 | 3,909 | 3,909 |
| Merrimack Pharmaceuticals, Inc. ⁽³⁾⁽¹³⁾ | Drug Discovery & Development | Senior Secured | November 2016 | Interest rate PRIME + 5.30% or Floor rate of 10.55% | \$ 40,000 | 40,516 | 40,599 |
| Neuralstem, Inc. ⁽⁹⁾⁽¹³⁾⁽¹⁴⁾ | Drug Discovery & Development | Senior Secured | June 2016 | Interest rate PRIME + 7.75% or Floor rate of 11.00% | \$ 5,834 | 5,904 | 6,138 |
| uniQure B.V. ⁽³⁾⁽⁵⁾⁽¹⁰⁾⁽¹³⁾ | Drug Discovery & Development | Senior Secured | June 2018 | Interest rate PRIME + 5.00% or Floor rate of 10.25% | \$ 20,000 | 19,826 | 19,826 |
| Subtotal: 1-5 Years Maturity | | | | | | <u>200,401</u> | <u>202,085</u> |
| Under 1 Year Maturity | | | | | | | |
| Aveo Pharmaceuticals, Inc. ⁽³⁾ ⁽¹⁰⁾⁽¹¹⁾⁽¹³⁾⁽¹⁴⁾ | Drug Discovery & Development | Senior Secured | September 2015 | Interest rate PRIME + 7.15% or Floor rate of 11.90% | \$ 11,611 | 11,611 | 11,611 |
| Subtotal: Under 1 Year Maturity | | | | | | <u>11,611</u> | <u>11,611</u> |
| Subtotal: Drug Discovery & Development (32.57%)* | | | | | | <u>212,012</u> | <u>213,696</u> |
| Electronics & Computer Hardware | | | | | | | |
| 1-5 Years Maturity | | | | | | | |
| Plures Technologies, Inc. ⁽⁸⁾⁽¹²⁾ | Electronics & Computer Hardware | Senior Secured | October 2016 | Interest rate LIBOR + 8.75% or Floor rate of 12.00%, PIK Interest of 4.00% | \$ 267 | 180 | — |
| Subtotal: 1-5 Years Maturity | | | | | | <u>180</u> | <u>—</u> |
| Subtotal: Electronics & Computer Hardware (0.00%)* | | | | | | <u>180</u> | <u>—</u> |

See notes to consolidated financial statements.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS
September 30, 2014
(unaudited)
(dollars in thousands)

| Portfolio Company | Sub-Industry | Type of Investment ⁽¹⁾ | Maturity Date | Interest Rate and Floor | Principal Amount | Cost ⁽²⁾ | Value ⁽³⁾ |
|--|----------------------------|-----------------------------------|---------------|---|------------------|---------------------|----------------------|
| Energy Technology | | | | | | | |
| 1-5 Years Maturity | | | | | | | |
| Agrivida, Inc. ⁽¹⁴⁾ | Energy Technology | Senior Secured | December 2016 | Interest rate PRIME + 6.75% or Floor rate of 10.00% | \$ 5,468 | \$ 5,518 | \$ 2,992 |
| American Superconductor Corporation ⁽³⁾⁽¹¹⁾⁽¹³⁾ | Energy Technology | Senior Secured | November 2016 | Interest rate PRIME + 7.25% or Floor rate of 11.00% | \$ 8,667 | 8,763 | 8,741 |
| Amyris, Inc. ⁽¹⁰⁾⁽¹³⁾ | Energy Technology | Senior Secured | February 2017 | Interest rate PRIME + 6.25% or Floor rate of 9.5% | \$ 25,000 | 25,000 | 25,000 |
| | Energy Technology | Senior Secured | February 2017 | Interest rate PRIME + 5.25% or Floor rate of 8.50% | \$ 5,000 | 5,000 | 5,000 |
| Total Amyris, Inc. | | | | | \$ 30,000 | 30,000 | 30,000 |
| BioAmber, Inc. ⁽⁵⁾⁽¹⁰⁾⁽¹³⁾ | Energy Technology | Senior Secured | June 2016 | Interest rate PRIME + 6.75% or Floor rate of 10.00% | \$ 22,153 | 23,573 | 23,290 |
| Enphase Energy, Inc. ⁽¹³⁾ | Energy Technology | Senior Secured | August 2016 | Interest rate PRIME + 8.25% or Floor rate of 11.50% | \$ 5,861 | 5,956 | 6,001 |
| Fluidic, Inc. ⁽¹³⁾ | Energy Technology | Senior Secured | March 2016 | Interest rate PRIME + 8.00% or Floor rate of 11.25% | \$ 4,347 | 4,386 | 4,370 |
| Polyera Corporation ⁽¹³⁾⁽¹⁴⁾ | Energy Technology | Senior Secured | June 2016 | Interest rate PRIME + 6.75% or Floor rate of 10.00% | \$ 4,214 | 4,346 | 4,369 |
| TAS Energy, Inc. ⁽¹³⁾ | Energy Technology | Senior Secured | December 2015 | Interest rate PRIME + 7.75% or Floor rate of 11.00% | \$ 8,506 | 8,674 | 8,608 |
| Subtotal: 1-5 Years Maturity | | | | | | <u>91,216</u> | <u>88,371</u> |
| Under 1 Year Maturity | | | | | | | |
| American Superconductor Corporation ⁽³⁾⁽¹¹⁾⁽¹³⁾ | Energy Technology | Senior Secured | December 2014 | Interest rate PRIME + 7.25% or Floor rate of 11.00% | \$ 1,154 | 1,648 | 1,648 |
| Glori Energy, Inc. ⁽³⁾⁽¹¹⁾⁽¹³⁾ | Energy Technology | Senior Secured | June 2015 | Interest rate PRIME + 6.75% or Floor rate of 10.00% | \$ 2,667 | 2,908 | 2,908 |
| Scifiniti (pka Integrated Photovoltaics, Inc.) ⁽¹⁴⁾ | Energy Technology | Senior Secured | February 2015 | Interest rate PRIME + 7.38% or Floor rate of 10.63% | \$ 549 | 546 | 546 |
| Stion Corporation ⁽⁴⁾⁽⁶⁾⁽¹³⁾ | Energy Technology | Senior Secured | February 2015 | Interest rate PRIME + 8.75% or Floor rate of 12.00% | \$ 3,379 | 3,415 | 2,501 |
| Subtotal: Under 1 Year Maturity | | | | | | <u>8,517</u> | <u>7,603</u> |
| Subtotal: Energy Technology (14.63%)* | | | | | | <u>99,733</u> | <u>95,974</u> |
| Healthcare Services, Other | | | | | | | |
| 1-5 Years Maturity | | | | | | | |
| Chromadex Corporation ⁽³⁾⁽¹³⁾⁽¹⁴⁾ | Healthcare Services, Other | Senior Secured | April 2018 | Interest rate PRIME + 6.10% or Floor rate of 9.35% | \$ 2,500 | 2,387 | 2,387 |
| InstaMed Communications, LLC ⁽¹³⁾⁽¹⁴⁾ | Healthcare Services, Other | Senior Secured | December 2016 | Interest rate PRIME + 7.25% or Floor rate of 10.50% | \$ 2,736 | 2,805 | 2,825 |
| MDEverywhere, Inc. ⁽¹³⁾ | Healthcare Services, Other | Senior Secured | June 2017 | Interest rate LIBOR + 9.50% or Floor rate of 10.75% | \$ 2,383 | 2,375 | 2,266 |
| Subtotal: 1-5 Years Maturity | | | | | | <u>7,567</u> | <u>7,478</u> |
| Subtotal: Healthcare Services, Other (1.14%)* | | | | | | <u>7,567</u> | <u>7,478</u> |
| Information Services | | | | | | | |
| 1-5 Years Maturity | | | | | | | |
| InXpo, Inc. ⁽¹³⁾⁽¹⁴⁾ | Information Services | Senior Secured | July 2016 | Interest rate PRIME + 7.50% or Floor rate of 10.75% | \$ 2,057 | 2,056 | 2,064 |
| Womensforum.com ⁽¹¹⁾⁽¹²⁾ | Information Services | Senior Secured | October 2016 | Interest rate LIBOR + 6.50% or Floor rate of 9.25% | \$ 6,200 | 6,128 | 5,739 |
| | Information Services | Senior Secured | October 2016 | Interest rate LIBOR + 7.50% or Floor rate of 10.25%, PIK Interest 2.00% | \$ 4,678 | 4,624 | 4,342 |
| Total Womensforum.com | | | | | \$ 10,878 | 10,752 | 10,081 |
| Subtotal: 1-5 Years Maturity | | | | | | <u>12,808</u> | <u>12,145</u> |
| Under 1 Year Maturity | | | | | | | |
| Eccentex Corporation ⁽¹¹⁾⁽¹³⁾ | Information Services | Senior Secured | May 2015 | Interest rate PRIME + 7.00% or Floor rate of 10.25% | \$ 322 | 334 | 161 |
| Womensforum.com ⁽¹¹⁾⁽¹²⁾ | Information Services | Senior Secured | April 2015 | Interest rate LIBOR + 6.50% or Floor rate of 9.00% | \$ 1,250 | 1,241 | 1,162 |
| Subtotal: Under 1 Year Maturity | | | | | | <u>1,575</u> | <u>1,323</u> |
| Subtotal: Information Services (2.05%)* | | | | | | <u>14,383</u> | <u>13,468</u> |

See notes to consolidated financial statements.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS
September 30, 2014
(unaudited)
(dollars in thousands)

| Portfolio Company | Sub-Industry | Type of Investment⁽¹⁾ | Maturity Date | Interest Rate and Floor | Principal Amount | Cost⁽²⁾ | Value⁽³⁾ |
|--|---------------------------------------|---|----------------------|---|-------------------------|---------------------------|----------------------------|
| Internet Consumer & Business Services | | | | | | | |
| 1-5 Years Maturity | | | | | | | |
| CashStar, Inc. ⁽¹²⁾⁽¹⁴⁾ | Internet Consumer & Business Services | Senior Secured | June 2016 | Interest rate PRIME + 6.25% or Floor rate 10.50%, PIK Interest 1.00% | \$ 7,120 | \$ 7,008 | \$ 7,074 |
| Education Dynamics, LLC ⁽¹²⁾⁽¹⁴⁾ | Internet Consumer & Business Services | Senior Secured | March 2016 | Interest rate LIBOR + 12.5% or Floor rate 12.50%, PIK Interest 1.50% | \$ 20,513 | 20,493 | 20,593 |
| Gazelle, Inc. ⁽¹²⁾⁽¹⁴⁾ | Internet Consumer & Business Services | Senior Secured | April 2016 | Interest rate PRIME + 7.00% or Floor rate of 10.25%, PIK Interest 2.50% | \$ 13,625 | 13,410 | 13,410 |
| Just Fabulous, Inc. ⁽⁴⁾⁽¹³⁾ | Internet Consumer & Business Services | Senior Secured | February 2017 | Interest rate PRIME + 8.25% or Floor rate of 11.50% | \$ 15,000 | 14,300 | 14,600 |
| LightSpeed Retail, Inc. ⁽⁵⁾⁽¹⁰⁾ | Internet Consumer & Business Services | Senior Secured | May 2018 | Interest rate PRIME + 3.25% or Floor rate of 6.50% | \$ 2,000 | 1,984 | 1,984 |
| Reply! Inc. ⁽¹¹⁾⁽¹²⁾⁽¹³⁾ | Internet Consumer & Business Services | Senior Secured | February 2016 | Interest rate PRIME + 7.25% or Floor rate of 10.50%, PIK Interest 2.00% | \$ 2,939 | 2,825 | 2,883 |
| Tapjoy, Inc. ⁽¹³⁾ | Internet Consumer & Business Services | Senior Secured | July 2018 | Interest rate PRIME + 6.50% or Floor rate of 9.75% | \$ 3,000 | 2,908 | 2,908 |
| Vaultlogix, LLC ⁽¹²⁾⁽¹³⁾⁽¹⁴⁾ | Internet Consumer & Business Services | Senior Secured | September 2016 | Interest rate LIBOR + 8.50% or Floor rate of 10.00%, PIK interest 2.50% | \$ 8,102 | 8,090 | 8,090 |
| WaveMarket, Inc. ⁽¹¹⁾⁽¹³⁾ | Internet Consumer & Business Services | Senior Secured | September 2016 | Interest rate PRIME + 5.75% or Floor rate of 9.50% | \$ 8,195 | 8,172 | 8,253 |
| | Internet Consumer & Business Services | Senior Secured | March 2017 | Interest rate PRIME + 6.50% or Floor rate of 9.75% | \$ 331 | 334 | 343 |
| Total WaveMarket, Inc | | | | | \$ 8,526 | 8,506 | 8,596 |
| Subtotal: 1-5 Years Maturity | | | | | | 79,524 | 80,138 |
| Under 1 Year Maturity | | | | | | | |
| NetPlenish ⁽⁸⁾⁽⁹⁾⁽¹⁴⁾ | Internet Consumer & Business Services | Convertible Senior Note | April 2015 | Interest rate FIXED 10.00% | \$ 92 | 92 | — |
| | Internet Consumer & Business Services | Senior Secured | September 2015 | Interest rate FIXED 10.00% | \$ 381 | 373 | — |
| Total NetPlenish | | | | | \$ 473 | 465 | — |
| Reply! Inc. ⁽¹¹⁾⁽¹²⁾⁽¹³⁾ | Internet Consumer & Business Services | Senior Secured | September 2015 | Interest rate PRIME + 6.88% or Floor rate of 10.13%, PIK Interest 2.00% | \$ 8,423 | 8,496 | 8,581 |
| | Internet Consumer & Business Services | Senior Secured | September 2015 | Interest rate PRIME + 7.25% or Floor rate of 11.00%, PIK Interest 2.00% | \$ 1,857 | 1,911 | 1,931 |
| Total Reply! Inc | | | | | \$ 10,280 | 10,407 | 10,512 |
| Tectura Corporation ⁽⁸⁾⁽¹²⁾ | Internet Consumer & Business Services | Senior Secured | N/A | Interest rate LIBOR + 10.00% or Floor rate of 13.00% | \$ 6,468 | 6,468 | 1,990 |
| | Internet Consumer & Business Services | Senior Secured | N/A | Interest rate LIBOR + 8.00% or Floor rate of 11.00%, PIK Interest 1.00% | \$ 9,070 | 9,070 | 2,791 |
| | Internet Consumer & Business Services | Senior Secured | N/A | Interest rate LIBOR + 10.00% or Floor rate of 13.00% | \$ 563 | 563 | 173 |
| | Internet Consumer & Business Services | Senior Secured | N/A | Interest rate LIBOR + 10.00% or Floor rate of 13.00% | \$ 5,000 | 5,000 | 1,539 |
| Total Tectura Corporation | | | | | \$ 21,101 | 21,101 | 6,493 |
| Vaultlogix, LLC ⁽¹²⁾⁽¹³⁾⁽¹⁴⁾ | Internet Consumer & Business Services | Senior Secured | September 2015 | Interest rate LIBOR + 7.00% or Floor rate of 8.50% | \$ 5,740 | 5,876 | 5,876 |
| Subtotal: Under 1 Year Maturity | | | | | | 37,849 | 22,881 |
| Subtotal: Internet Consumer & Business Services (15.70%)* | | | | | | 117,373 | 103,019 |

See notes to consolidated financial statements.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS
September 30, 2014
(unaudited)
(dollars in thousands)

| Portfolio Company | Sub-Industry | Type of Investment ⁽¹⁾ | Maturity Date | Interest Rate and Floor | Principal Amount | Cost ⁽²⁾ | Value ⁽³⁾ |
|---|-----------------------------|-----------------------------------|----------------|--|------------------|---------------------|----------------------|
| Media/Content/Info | | | | | | | |
| 1-5 Years Maturity | | | | | | | |
| Rhapsody International, Inc. ⁽¹²⁾ ⁽¹⁴⁾ | Media/Content/Info | Senior Secured | April 2018 | Interest rate PRIME + 5.25% or Floor rate of 9.00%, PIK interest of 1.50% | \$ 20,129 | \$ 19,618 | \$ 19,612 |
| Zoom Media Group, Inc. ⁽¹²⁾ | Media/Content/Info | Senior Secured | December 2015 | Interest rate PRIME + 7.25% or Floor rate of 10.50%, PIK Interest 3.75% | \$ 2,979 | 2,911 | 2,925 |
| Subtotal: 1-5 Years Maturity | | | | | | <u>22,529</u> | <u>22,537</u> |
| Under 1 Year Maturity | | | | | | | |
| Zoom Media Group, Inc. ⁽¹²⁾ | Media/Content/Info | Senior Secured | December 2014 | Interest rate PRIME + 5.25% or Floor rate of 8.50% | \$ 4,500 | 4,474 | 4,474 |
| Subtotal: Under 1 Year Maturity | | | | | | <u>4,474</u> | <u>4,474</u> |
| Subtotal: Media/Content/Info (4.12%)* | | | | | | <u>27,003</u> | <u>27,011</u> |
| Medical Devices & Equipment | | | | | | | |
| 1-5 Years Maturity | | | | | | | |
| Amedica Corporation ⁽³⁾⁽⁹⁾⁽¹³⁾⁽¹⁴⁾ | Medical Devices & Equipment | Senior Secured | January 2018 | Interest rate PRIME + 7.70% or Floor rate of 10.95% | \$ 20,000 | 19,501 | 19,783 |
| Avedro, Inc. ⁽¹³⁾⁽¹⁴⁾ | Medical Devices & Equipment | Senior Secured | December 2017 | Interest rate PRIME + 8.25% or Floor rate of 11.50% | \$ 7,500 | 7,183 | 7,183 |
| Baxano Surgical, Inc. ⁽³⁾⁽¹³⁾ | Medical Devices & Equipment | Senior Secured | March 2017 | Interest rate PRIME + 7.75% or Floor rate of 12.50% | \$ 7,500 | 7,405 | 4,925 |
| Gamma Medica, Inc. ⁽¹³⁾ | Medical Devices & Equipment | Senior Secured | January 2018 | Interest rate PRIME + 6.50% or Floor rate of 9.75% | \$ 4,000 | 3,840 | 3,840 |
| Home Dialysis Plus, Inc. ⁽⁴⁾⁽¹³⁾ | Medical Devices & Equipment | Senior Secured | October 2017 | Interest rate PRIME + 4.35% or Floor rate of 9.60% | \$ 15,000 | 14,732 | 14,732 |
| InspireMD, Inc. ⁽³⁾⁽⁵⁾⁽¹⁰⁾⁽¹³⁾ | Medical Devices & Equipment | Senior Secured | February 2017 | Interest rate PRIME + 5.00% or Floor rate of 10.50% | \$ 9,710 | 9,694 | 9,653 |
| Medrobotics Corporation ⁽¹³⁾⁽¹⁴⁾ | Medical Devices & Equipment | Senior Secured | March 2016 | Interest rate PRIME + 7.85% or Floor rate of 11.10% | \$ 3,170 | 3,223 | 3,217 |
| NetBio, Inc. | Medical Devices & Equipment | Senior Secured | August 2017 | Interest rate PRIME + 5.00% or Floor rate of 11.00% | \$ 5,000 | 4,796 | 4,878 |
| NinePoint Medical, Inc. ⁽¹³⁾⁽¹⁴⁾ | Medical Devices & Equipment | Senior Secured | January 2016 | Interest rate PRIME + 5.85% or Floor rate of 9.10% | \$ 3,941 | 4,026 | 4,013 |
| Quanterix Corporation ⁽¹³⁾ | Medical Devices & Equipment | Senior Secured | November 2017 | Interest rate PRIME + 2.75% or Floor rate of 8.00% | \$ 5,000 | 4,895 | 4,895 |
| SonaCare Medical, LLC (pka US HIFU, LLC) ⁽¹¹⁾⁽¹³⁾ | Medical Devices & Equipment | Senior Secured | April 2016 | Interest rate PRIME + 7.75% or Floor rate of 11.00% | \$ 4,167 | 4,402 | 4,315 |
| SynergEyes, Inc. ⁽¹³⁾⁽¹⁴⁾ | Medical Devices & Equipment | Senior Secured | January 2018 | Interest rate PRIME + 7.75% or Floor rate of 11.00% | \$ 5,000 | 4,982 | 4,982 |
| United Orthopedic Group, Inc. ⁽¹³⁾ | Medical Devices & Equipment | Senior Secured | July 2016 | Interest rate PRIME + 8.60% or Floor rate of 11.85% | \$ 24,288 | 24,334 | 24,577 |
| ViewRay, Inc. ⁽¹²⁾⁽¹⁴⁾ | Medical Devices & Equipment | Senior Secured | June 2017 | Interest rate PRIME + 7.00% or Floor rate of 10.25%, PIK Interest 1.50% | \$ 15,163 | 14,807 | 14,603 |
| Subtotal: 1-5 Years Maturity | | | | | | <u>127,820</u> | <u>125,596</u> |
| Under 1 Year Maturity | | | | | | | |
| Home Dialysis Plus, Inc. ⁽⁴⁾⁽¹³⁾ | Medical Devices & Equipment | Senior Secured | September 2015 | Interest rate FIXED 8.00% | \$ 500 | 500 | 500 |
| Oraya Therapeutics, Inc. ⁽¹¹⁾⁽¹²⁾ ⁽¹³⁾ | Medical Devices & Equipment | Senior Secured | September 2015 | Interest rate PRIME + 5.50% or Floor rate of 10.25%, PIK Interest of 1.00% | \$ 6,159 | 6,120 | 4,443 |
| Subtotal: Under 1 Year Maturity | | | | | | <u>6,620</u> | <u>4,943</u> |
| Subtotal: Medical Devices & Equipment (19.89%)* | | | | | | <u>134,440</u> | <u>130,539</u> |
| Semiconductors | | | | | | | |
| 1-5 Years Maturity | | | | | | | |
| Avnera Corporation ⁽¹³⁾ | Semiconductors | Senior Secured | April 2017 | Interest rate PRIME + 5.75% or Floor rate of 9.00% | \$ 5,000 | 4,963 | 4,991 |
| Subtotal: 1-5 Years Maturity | | | | | | <u>4,963</u> | <u>4,991</u> |
| Under 1 Year Maturity | | | | | | | |
| Achronix Semiconductor Corporation | Semiconductors | Senior Secured | January 2015 | Interest rate PRIME + 10.60% or Floor rate of 13.85% | \$ 341 | 341 | 341 |
| Subtotal: Under 1 Year Maturity | | | | | | <u>341</u> | <u>341</u> |
| Subtotal: Semiconductors (0.81%)* | | | | | | <u>5,304</u> | <u>5,332</u> |

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS
September 30, 2014
(unaudited)
(dollars in thousands)

| Portfolio Company | Sub-Industry | Type of Investment ⁽¹⁾ | Maturity Date | Interest Rate and Floor | Principal Amount | Cost ⁽²⁾ | Value ⁽³⁾ |
|---|---------------------------|-----------------------------------|----------------|--|------------------|---------------------|----------------------|
| Software | | | | | | | |
| 1-5 Years Maturity | | | | | | | |
| CareCloud Corporation ⁽¹³⁾⁽¹⁴⁾ | Software | Senior Secured | July 2017 | Interest rate PRIME + 5.50% or Floor rate of 8.75% | \$ 10,000 | \$ 9,792 | \$ 9,792 |
| Clickfox, Inc. ⁽¹³⁾⁽¹⁴⁾ | Software | Senior Secured | September 2017 | Interest rate PRIME + 8.25% or Floor rate of 11.50% | \$ 6,000 | 5,981 | 5,981 |
| Knowledge Adventure, Inc. ⁽¹³⁾⁽¹⁴⁾ | Software | Senior Secured | March 2018 | Interest rate PRIME + 8.25% or Floor rate of 11.50% | \$ 11,750 | 11,712 | 11,770 |
| Mobile Posse, Inc. ⁽¹³⁾⁽¹⁴⁾ | Software | Senior Secured | December 2016 | Interest rate PRIME + 7.50% or Floor rate of 10.75% | \$ 3,274 | 3,241 | 3,274 |
| Neos Geosolutions, Inc. ⁽¹³⁾⁽¹⁴⁾ | Software | Senior Secured | May 2016 | Interest rate PRIME + 5.75% or Floor rate of 10.50% | \$ 2,707 | 2,811 | 2,829 |
| Poplicus, Inc. ⁽¹³⁾⁽¹⁴⁾ | Software | Senior Secured | June 2017 | Interest rate PRIME + 5.25% or Floor rate of 8.50% | \$ 1,500 | 1,493 | 1,493 |
| Soasta, Inc. ⁽¹³⁾⁽¹⁴⁾ | Software | Senior Secured | February 2018 | Interest rate PRIME + 4.75% or Floor rate of 8.00% | \$ 15,000 | 14,289 | 14,289 |
| | Software | Senior Secured | February 2018 | Interest rate PRIME + 2.25% or Floor rate of 5.50% | \$ 3,500 | 3,334 | 3,334 |
| Total Soasta, Inc. | | | | | \$ 18,500 | 17,623 | 17,623 |
| Sonian, Inc. ⁽¹³⁾⁽¹⁴⁾ | Software | Senior Secured | July 2017 | Interest rate PRIME + 7.00% or Floor rate of 10.25% | \$ 5,500 | 5,421 | 5,427 |
| StartApp, Inc. ⁽¹³⁾ | Software | Senior Secured | March 2017 | Interest rate PRIME + 7.75% or Floor rate of 11.00% | \$ 2,981 | 3,046 | 3,038 |
| Touchcommerce, Inc. ⁽¹⁴⁾ | Software | Senior Secured | June 2017 | Interest rate PRIME + 6.00% or Floor rate of 10.25% | \$ 5,000 | 4,692 | 4,742 |
| Subtotal: 1-5 Years Maturity | | | | | | <u>65,812</u> | <u>65,969</u> |
| Under 1 Year Maturity | | | | | | | |
| Clickfox, Inc. ⁽¹³⁾⁽¹⁴⁾ | Software | Senior Secured | July 2015 | Interest rate PRIME + 6.75% or Floor rate of 10.00% | \$ 2,000 | 2,000 | 2,000 |
| | Software | Senior Secured | January 2015 | Interest rate PRIME + 9.25% or Floor rate of 12.50% | \$ 2,500 | 2,494 | 2,494 |
| Total Clickfox, Inc. | | | | | \$ 4,500 | 4,494 | 4,494 |
| Hillcrest Laboratories, Inc. ⁽¹⁴⁾ | Software | Senior Secured | July 2015 | Interest rate PRIME + 7.50% or Floor rate of 10.75% | \$ 1,460 | 1,452 | 1,467 |
| Mobile Posse, Inc. ⁽¹⁴⁾ | Software | Senior Secured | June 2015 | Interest rate PRIME + 2.00% or Floor rate of 5.25% | \$ 500 | 489 | 489 |
| StartApp, Inc. ⁽¹³⁾ | Software | Senior Secured | December 2014 | Interest rate PRIME + 2.75% or Floor rate of 6.00% | \$ 200 | 200 | 200 |
| Touchcommerce, Inc. ⁽¹⁴⁾ | Software | Senior Secured | December 2014 | Interest rate PRIME + 2.25% or Floor rate of 6.50% | \$ 3,811 | 3,804 | 3,802 |
| Subtotal: Under 1 Year Maturity | | | | | | <u>10,439</u> | <u>10,452</u> |
| Subtotal: Software (11.65%)* | | | | | | <u>76,251</u> | <u>76,421</u> |
| Specialty Pharmaceuticals | | | | | | | |
| 1-5 Years Maturity | | | | | | | |
| Alimera Sciences, Inc. ⁽³⁾ | Specialty Pharmaceuticals | Senior Secured | May 2018 | Interest rate PRIME + 7.65% or Floor rate of 10.90% | \$ 35,000 | 34,050 | 33,225 |
| Cranford Pharmaceuticals, LLC ⁽¹²⁾⁽¹³⁾⁽¹⁴⁾ | Specialty Pharmaceuticals | Senior Secured | February 2017 | Interest rate LIBOR + 9.55% or Floor rate of 10.80%, PIK Interest of 1.35% | \$ 17,137 | 17,007 | 16,922 |
| Rockwell Medical, Inc. ⁽¹³⁾⁽¹⁴⁾ | Specialty Pharmaceuticals | Senior Secured | March 2017 | Interest rate PRIME + 9.25% or Floor rate of 12.50% | \$ 19,436 | 19,840 | 19,840 |
| Subtotal: 1-5 Years Maturity | | | | | | <u>70,897</u> | <u>69,987</u> |
| Under 1 Year Maturity | | | | | | | |
| Cranford Pharmaceuticals, LLC ⁽¹²⁾⁽¹³⁾⁽¹⁴⁾ | Specialty Pharmaceuticals | Senior Secured | August 2015 | Interest rate LIBOR + 8.25% or Floor rate of 9.50% | \$ 2,500 | 2,467 | 2,470 |
| Subtotal: Under 1 Year Maturity | | | | | | <u>2,467</u> | <u>2,470</u> |
| Subtotal: Specialty Pharmaceuticals (11.04%)* | | | | | | <u>73,364</u> | <u>72,457</u> |
| Surgical Devices | | | | | | | |
| 1-5 Years Maturity | | | | | | | |
| Transmedics, Inc. ⁽¹¹⁾⁽¹³⁾ | Surgical Devices | Senior Secured | November 2015 | Interest rate FIXED 12.95% | \$ 6,583 | 6,483 | 6,483 |
| Subtotal: 1-5 Years Maturity | | | | | | <u>6,483</u> | <u>6,483</u> |
| Subtotal: Surgical Devices (0.99%)* | | | | | | <u>6,483</u> | <u>6,483</u> |
| Total Debt Investments (138.36%)* | | | | | | <u>929,616</u> | <u>907,923</u> |

See notes to consolidated financial statements.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 2014

(unaudited)

(dollars in thousands)

| Portfolio Company | Sub-Industry | Type of Investment⁽¹⁾ | Series | Shares | Cost⁽²⁾ | Value⁽³⁾ |
|---|---------------------------------------|---|--------------------|---------------|---------------------------|----------------------------|
| Equity Investments | | | | | | |
| Biotechnology Tools | | | | | | |
| NuGEN Technologies, Inc. ⁽¹⁴⁾ | Biotechnology Tools | Equity | Preferred Series C | 189,394 | \$ 500 | \$ 578 |
| Subtotal: Biotechnology Tools (0.09%)* | | | | | <u>500</u> | <u>578</u> |
| Communications & Networking | | | | | | |
| GlowPoint, Inc. ⁽³⁾ | Communications & Networking | Equity | Common Stock | 114,192 | 102 | 148 |
| Peerless Network, Inc. | Communications & Networking | Equity | Preferred Series A | 1,000,000 | 1,000 | 4,398 |
| Stoke, Inc. | Communications & Networking | Equity | Preferred Series E | 152,905 | 500 | — |
| Subtotal: Communications & Networking (0.69%)* | | | | | <u>1,602</u> | <u>4,546</u> |
| Consumer & Business Products | | | | | | |
| Caivis Acquisition Corporation ⁽¹⁴⁾ | Consumer & Business Products | Equity | Common Stock | 295,861 | 819 | — |
| Market Force Information, Inc. | Consumer & Business Products | Equity | Preferred Series B | 187,970 | 500 | 224 |
| Subtotal: Consumer & Business Products (0.03%)* | | | | | <u>1,319</u> | <u>224</u> |
| Diagnostic | | | | | | |
| Singulex, Inc. | Diagnostic | Equity | Common Stock | 937,998 | 750 | 750 |
| Subtotal: Diagnostic (0.11%)* | | | | | <u>750</u> | <u>750</u> |
| Drug Delivery | | | | | | |
| AcelRx Pharmaceuticals, Inc. ⁽³⁾⁽¹⁰⁾⁽¹⁴⁾ | Drug Delivery | Equity | Common Stock | 54,240 | 108 | 298 |
| Merrion Pharmaceuticals, Plc ⁽³⁾⁽⁵⁾⁽¹⁰⁾ | Drug Delivery | Equity | Common Stock | 20,000 | 9 | — |
| Neos Therapeutics, Inc. ⁽¹⁴⁾ | Drug Delivery | Equity | Preferred Series C | 300,000 | 1,500 | 1,523 |
| Transcept Pharmaceuticals, Inc. ⁽³⁾⁽¹⁵⁾ | Drug Delivery | Equity | Common Stock | 41,570 | 500 | 84 |
| Subtotal: Drug Delivery (0.29%)* | | | | | <u>2,117</u> | <u>1,905</u> |
| Drug Discovery & Development | | | | | | |
| Acceleron Pharma, Inc. ⁽³⁾⁽¹⁴⁾ | Drug Discovery & Development | Equity | Common Stock | 147,001 | 1,025 | 4,401 |
| Aveo Pharmaceuticals, Inc. ⁽³⁾⁽¹⁰⁾⁽¹⁴⁾ | Drug Discovery & Development | Equity | Common Stock | 167,864 | 842 | 186 |
| Celladon Corporation ⁽³⁾⁽¹⁴⁾ | Drug Discovery & Development | Equity | Common Stock | 105,263 | 1,000 | 892 |
| Cerecor Inc. | Drug Discovery & Development | Equity | Preferred Series B | 3,334,445 | 1,000 | 1,008 |
| Dicerna Pharmaceuticals, Inc. ⁽³⁾⁽¹⁴⁾ | Drug Discovery & Development | Equity | Common Stock | 142,858 | 1,000 | 1,818 |
| Inotek Pharmaceuticals Corporation | Drug Discovery & Development | Equity | Common Stock | 15,334 | 1,500 | — |
| Merrimack Pharmaceuticals, Inc. ⁽³⁾ | Drug Discovery & Development | Equity | Common Stock | 848,591 | 3,213 | 7,523 |
| Paratek Pharmaceuticals, Inc. ⁽¹⁵⁾ | Drug Discovery & Development | Equity | Common Stock | 2,881 | 5 | 2 |
| Total Paratek Pharmaceuticals, Inc. | Drug Discovery & Development | Equity | Preferred Series A | 167,468 | 1,126 | 156 |
| | | | | 170,349 | 1,131 | 158 |
| Subtotal: Drug Discovery & Development (2.44%)* | | | | | <u>10,711</u> | <u>15,986</u> |
| Energy Technology | | | | | | |
| Glori Energy, Inc. ⁽³⁾ | Energy Technology | Equity | Common Stock | 18,208 | 165 | 142 |
| SCIEnergy, Inc. | Energy Technology | Equity | Preferred Series 1 | 385,000 | 761 | 25 |
| Subtotal: Energy Technology (0.03%)* | | | | | <u>926</u> | <u>167</u> |
| Information Services | | | | | | |
| Good Technologies, Inc. (pka Visto Corporation) ⁽¹⁴⁾ | Information Services | Equity | Common Stock | 500,000 | 603 | 473 |
| Subtotal: Information Services (0.07%)* | | | | | <u>603</u> | <u>473</u> |
| Internet Consumer & Business Services | | | | | | |
| Blurb, Inc. ⁽¹⁴⁾ | Internet Consumer & Business Services | Equity | Preferred Series B | 220,653 | 175 | 377 |
| Philotic, Inc. | Internet Consumer & Business Services | Equity | Common Stock | 8,121 | 93 | — |
| Progress Financial | Internet Consumer & Business Services | Equity | Preferred Series G | 218,351 | 250 | 246 |
| Taptera, Inc. | Internet Consumer & Business Services | Equity | Preferred Series B | 454,545 | 150 | 152 |
| Subtotal: Internet Consumer & Business Services (0.12%)* | | | | | <u>668</u> | <u>775</u> |
| Media/Content/Info | | | | | | |
| Everyday Health, Inc. (pka Waterfront Media, Inc.) ⁽³⁾ | Media/Content/Info | Equity | Common Stock | 97,060 | 1,000 | 1,356 |
| Subtotal: Media/Content/Info (0.21%)* | | | | | <u>1,000</u> | <u>1,356</u> |

See notes to consolidated financial statements.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 2014

(unaudited)

(dollars in thousands)

| Portfolio Company | Sub-Industry | Type of Investment⁽¹⁾ | Series | Shares | Cost⁽²⁾ | Value⁽³⁾ |
|---|-----------------------------|---|----------------------|---------------|---------------------------|----------------------------|
| Medical Devices & Equipment | | | | | | |
| Gelesis, Inc. ⁽⁶⁾⁽¹⁴⁾ | Medical Devices & Equipment | Equity | LLC Interest | 2,024,092 | \$ 925 | \$ 314 |
| Medrobotics Corporation ⁽¹⁴⁾ | Medical Devices & Equipment | Equity | Preferred Series E | 136,798 | 250 | 271 |
| Novasys Medical, Inc. | Medical Devices & Equipment | Equity | Preferred Series D-1 | 4,118,444 | 1,000 | — |
| Optiscan Biomedical, Corp. ⁽⁶⁾⁽¹⁴⁾ | Medical Devices & Equipment | Equity | Preferred Series B | 6,185,567 | 3,000 | 421 |
| | Medical Devices & Equipment | Equity | Preferred Series C | 1,927,309 | 655 | 130 |
| | Medical Devices & Equipment | Equity | Preferred Series D | 55,103,923 | 5,257 | 5,257 |
| Total Optiscan Biomedical, Corp. | | | | 63,216,799 | 8,912 | 5,808 |
| Oraya Therapeutics, Inc. | Medical Devices & Equipment | Equity | Preferred Series 1 | 1,086,969 | 500 | — |
| Subtotal: Medical Devices & Equipment (0.97%)* | | | | | 11,587 | 6,393 |
| Software | | | | | | |
| Atrenta, Inc. | Software | Equity | Preferred Series C | 1,196,845 | 986 | 1,391 |
| Atrenta, Inc. | Software | Equity | Preferred Series D | 635,513 | 508 | 1,098 |
| Total Atrenta, Inc. | | | | 1,832,358 | 1,494 | 2,489 |
| Box, Inc. ⁽¹⁴⁾ | Software | Equity | Preferred Series B | 271,070 | 251 | 5,439 |
| | Software | Equity | Preferred Series C | 589,844 | 872 | 11,834 |
| | Software | Equity | Preferred Series D | 158,133 | 500 | 3,173 |
| | Software | Equity | Preferred Series D-1 | 186,766 | 1,694 | 3,747 |
| | Software | Equity | Preferred Series D-2 | 220,751 | 2,001 | 4,429 |
| | Software | Equity | Preferred Series E | 38,183 | 500 | 766 |
| Total Box, Inc. | | | | 1,464,747 | 5,818 | 29,388 |
| CapLinked, Inc. | Software | Equity | Preferred Series A-3 | 53,614 | 51 | 90 |
| ForeScout Technologies, Inc. | Software | Equity | Preferred Series D | 319,099 | 398 | 724 |
| HighRoads, Inc. | Software | Equity | Preferred Series B | 190,170 | 307 | 146 |
| Subtotal: Software (5.00%)* | | | | | 8,068 | 32,837 |
| Specialty Pharmaceuticals | | | | | | |
| QuatRx Pharmaceuticals Company | Specialty Pharmaceuticals | Equity | Preferred Series E | 241,829 | 750 | — |
| | Specialty Pharmaceuticals | Equity | Preferred Series E-1 | 26,955 | — | — |
| | Specialty Pharmaceuticals | Equity | Preferred Series G | 4,667,636 | — | — |
| Total QuatRx Pharmaceuticals Company | | | | 4,936,420 | 750 | — |
| Subtotal: Specialty Pharmaceuticals (0.00%)* | | | | | 750 | — |
| Surgical Devices | | | | | | |
| Gynesonics, Inc. ⁽¹⁴⁾ | Surgical Devices | Equity | Preferred Series B | 219,298 | 250 | 83 |
| | Surgical Devices | Equity | Preferred Series C | 656,538 | 282 | 138 |
| | Surgical Devices | Equity | Preferred Series D | 1,991,157 | 712 | 1,000 |
| Total Gynesonics, Inc. | | | | 2,866,993 | 1,244 | 1,221 |
| Transmedics, Inc. | Surgical Devices | Equity | Preferred Series B | 88,961 | 1,100 | 292 |
| | Surgical Devices | Equity | Preferred Series C | 119,999 | 300 | 158 |
| | Surgical Devices | Equity | Preferred Series D | 260,000 | 650 | 928 |
| Total Transmedics, Inc. | | | | 468,960 | 2,050 | 1,378 |
| Subtotal: Surgical Devices (0.40%)* | | | | | 3,294 | 2,599 |
| Total Equity Investments (10.45%)* | | | | | 43,895 | 68,589 |

See notes to consolidated financial statements.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 2014

(unaudited)

(dollars in thousands)

| Portfolio Company | Sub-Industry | Type of Investment⁽¹⁾ | Series | Shares | Cost⁽²⁾ | Value⁽³⁾ |
|--|------------------------------|---|----------------------|---------------|---------------------------|----------------------------|
| Warrant Investments | | | | | | |
| Biotechnology Tools | | | | | | |
| Labcyte, Inc. ⁽¹⁴⁾ | Biotechnology Tools | Warrant | Preferred Series C | 1,127,624 | \$ 323 | \$ 54 |
| Subtotal: Biotechnology Tools (0.01%)* | | | | | <u>323</u> | <u>54</u> |
| Communications & Networking | | | | | | |
| Intelepeer, Inc. ⁽¹⁴⁾ | Communications & Networking | Warrant | Preferred Series C | 117,958 | 102 | 31 |
| OpenPeak, Inc. | Communications & Networking | Warrant | Common Stock | 108,982 | 149 | 121 |
| PeerApp, Inc. | Communications & Networking | Warrant | Preferred Series B | 298,779 | 61 | 42 |
| Peerless Network, Inc. | Communications & Networking | Warrant | Preferred Series A | 135,000 | 95 | 467 |
| Ping Identity Corporation | Communications & Networking | Warrant | Preferred Series B | 1,136,277 | 52 | 102 |
| SkyCross, Inc. ⁽¹⁴⁾ | Communications & Networking | Warrant | Preferred Series F | 9,762,777 | 393 | 417 |
| Spring Mobile Solutions, Inc. | Communications & Networking | Warrant | Preferred Series D | 2,834,375 | 418 | 358 |
| Stoke, Inc. | Communications & Networking | Warrant | Preferred Series D | 118,181 | 65 | — |
| Subtotal: Communications & Networking (0.23%)* | | | | | <u>1,335</u> | <u>1,538</u> |
| Consumer & Business Products | | | | | | |
| Intelligent Beauty, Inc. ⁽¹⁴⁾ | Consumer & Business Products | Warrant | Preferred Series B | 190,234 | 230 | 365 |
| Market Force Information, Inc. | Consumer & Business Products | Warrant | Preferred Series A | 99,286 | 24 | 2 |
| Pong Research Corporation ⁽¹⁴⁾ | Consumer & Business Products | Warrant | Preferred Series A | 1,662,441 | 228 | 197 |
| The Neat Company ⁽¹⁴⁾ | Consumer & Business Products | Warrant | Preferred Series C-1 | 540,540 | 365 | 328 |
| Subtotal: Consumer & Business Products (0.14%)* | | | | | <u>847</u> | <u>892</u> |
| Diagnostic | | | | | | |
| Navidea Biopharmaceuticals, Inc. (pka Neoprobe) ⁽³⁾⁽¹⁴⁾ | Diagnostic | Warrant | Common Stock | 333,333 | 244 | 25 |
| Subtotal: Diagnostic (0.00%)* | | | | | <u>244</u> | <u>25</u> |
| Drug Delivery | | | | | | |
| AcelRx Pharmaceuticals, Inc. ⁽³⁾⁽¹⁰⁾⁽¹⁴⁾ | Drug Delivery | Warrant | Common Stock | 176,730 | 786 | 330 |
| Alexza Pharmaceuticals, Inc. ⁽³⁾ | Drug Delivery | Warrant | Common Stock | 37,639 | 645 | — |
| BIND Therapeutics, Inc. ⁽³⁾⁽¹⁴⁾ | Drug Delivery | Warrant | Common Stock | 71,359 | 367 | 43 |
| Celator Pharmaceuticals, Inc. ⁽³⁾ | Drug Delivery | Warrant | Common Stock | 158,006 | 107 | 92 |
| Celsion Corporation ⁽³⁾ | Drug Delivery | Warrant | Common Stock | 194,986 | 428 | 341 |
| Dance Biopharm, Inc. ⁽¹⁴⁾ | Drug Delivery | Warrant | Preferred Series A | 97,701 | 74 | 164 |
| Edge Therapeutics, Inc. | Drug Delivery | Warrant | Preferred Series C | 129,870 | 390 | 392 |
| Intelliject, Inc. | Drug Delivery | Warrant | Preferred Series B | 82,500 | 593 | 1,119 |
| Neos Therapeutics, Inc. ⁽¹⁴⁾ | Drug Delivery | Warrant | Preferred Series C | 170,000 | 285 | 275 |
| Revance Therapeutics, Inc. ⁽³⁾ | Drug Delivery | Warrant | Common Stock | 53,511 | 558 | 95 |
| Transcept Pharmaceuticals, Inc. ⁽³⁾⁽¹⁵⁾ | Drug Delivery | Warrant | Common Stock | 61,452 | 87 | — |
| Zosano Pharma, Inc. | Drug Delivery | Warrant | Common Stock | 31,674 | 164 | 109 |
| Subtotal: Drug Delivery (0.45%)* | | | | | <u>4,484</u> | <u>2,960</u> |
| Drug Discovery & Development | | | | | | |
| ADMA Biologics, Inc. ⁽³⁾ | Drug Discovery & Development | Warrant | Common Stock | 66,550 | 218 | 230 |
| Anthera Pharmaceuticals, Inc. ⁽³⁾⁽¹⁴⁾ | Drug Discovery & Development | Warrant | Common Stock | 40,178 | 984 | — |
| Aveo Pharmaceuticals, Inc. ⁽³⁾⁽¹⁰⁾⁽¹⁴⁾ | Drug Discovery & Development | Warrant | Common Stock | 608,696 | 194 | 184 |
| Cempra, Inc. ⁽³⁾ | Drug Discovery & Development | Warrant | Common Stock | 138,797 | 458 | 538 |
| Cerecor Inc. | Drug Discovery & Development | Warrant | Preferred Series B | 625,208 | 70 | 68 |
| Chroma Therapeutics, Ltd. ⁽⁵⁾⁽¹⁰⁾ | Drug Discovery & Development | Warrant | Preferred Series D | 325,261 | 490 | — |
| Cleveland BioLabs, Inc. ⁽³⁾⁽¹⁴⁾ | Drug Discovery & Development | Warrant | Common Stock | 156,250 | 105 | 24 |
| Concert Pharmaceuticals, Inc. ⁽³⁾ | Drug Discovery & Development | Warrant | Common Stock | 70,796 | 368 | 144 |
| Coronado Biosciences, Inc. ⁽³⁾ | Drug Discovery & Development | Warrant | Common Stock | 73,009 | 142 | 38 |
| Dicerna Pharmaceuticals, Inc. ⁽³⁾⁽¹⁴⁾ | Drug Discovery & Development | Warrant | Common Stock | 200 | 28 | — |
| Epirus Biopharmaceuticals, Inc. ⁽³⁾ | Drug Discovery & Development | Warrant | Common Stock | 64,194 | 276 | 276 |
| Horizon Pharma, Inc. ⁽³⁾ | Drug Discovery & Development | Warrant | Common Stock | 22,408 | 231 | 23 |
| Neothetics, Inc. (pka Lithera, Inc) ⁽¹⁴⁾ | Drug Discovery & Development | Warrant | Preferred Series C | 114,285 | 89 | 89 |
| Nanotherapeutics, Inc. ⁽¹⁴⁾ | Drug Discovery & Development | Warrant | Common Stock | 50,296 | 838 | 839 |
| uniQure B.V. ⁽³⁾⁽⁵⁾⁽¹⁰⁾ | Drug Discovery & Development | Warrant | Common Stock | 37,174 | 218 | 79 |
| Subtotal: Drug Discovery & Development (0.39%)* | | | | | <u>4,709</u> | <u>2,532</u> |

See notes to consolidated financial statements.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 2014

(unaudited)

(dollars in thousands)

| Portfolio Company | Sub-Industry | Type of Investment⁽¹⁾ | Series | Shares | Cost⁽²⁾ | Value⁽³⁾ |
|---|---------------------------------------|---|-----------------------|---------------|---------------------------|----------------------------|
| Electronics & Computer Hardware | | | | | | |
| Clustrix, Inc. | Electronics & Computer Hardware | Warrant | Common Stock | 50,000 | \$ 12 | \$ 11 |
| Identiv, Inc. ⁽³⁾ | Electronics & Computer Hardware | Warrant | Common Stock | 99,208 | 247 | 584 |
| Subtotal: Electronics & Computer Hardware (0.09%)* | | | | | <u>259</u> | <u>595</u> |
| Energy Technology | | | | | | |
| Agrivida, Inc. ⁽¹⁴⁾ | Energy Technology | Warrant | Preferred Series C | 77,447 | 120 | — |
| Alphabet Energy, Inc. ⁽¹⁴⁾ | Energy Technology | Warrant | Preferred Series A | 86,329 | 81 | 145 |
| American Superconductor Corporation ⁽³⁾ | Energy Technology | Warrant | Common Stock | 512,820 | 391 | 86 |
| Brightsource Energy, Inc. ⁽¹⁴⁾ | Energy Technology | Warrant | Preferred Series 1 | 175,000 | 780 | 220 |
| Calera, Inc. ⁽¹⁴⁾ | Energy Technology | Warrant | Preferred Series C | 44,529 | 513 | — |
| EcoMotors, Inc. ⁽¹⁴⁾ | Energy Technology | Warrant | Preferred Series B | 437,500 | 308 | 368 |
| Fluidic, Inc. | Energy Technology | Warrant | Preferred Series C | 59,665 | 102 | 70 |
| Fulcrum Bioenergy, Inc. | Energy Technology | Warrant | Preferred Series C-1 | 280,897 | 275 | 204 |
| GreatPoint Energy, Inc. ⁽¹⁴⁾ | Energy Technology | Warrant | Preferred Series D-1 | 393,212 | 548 | — |
| Polyera Corporation ⁽¹⁴⁾ | Energy Technology | Warrant | Preferred Series C | 161,575 | 69 | 161 |
| Propel Fuels ⁽¹⁴⁾ | Energy Technology | Warrant | Preferred Series C | 3,200,000 | 211 | — |
| SCIEnergy, Inc. | Energy Technology | Warrant | Common Stock | 530,811 | 181 | — |
| | Energy Technology | Warrant | Preferred Series 1 | 145,811 | 50 | — |
| Total SCIEnergy, Inc. | | | | 676,622 | 231 | — |
| Scifiniti (pka Integrated Photovoltaics, Inc.) ⁽¹⁴⁾ | Energy Technology | Warrant | Preferred Series A-1 | 390,000 | 82 | 67 |
| Solexel, Inc. ⁽¹⁴⁾ | Energy Technology | Warrant | Preferred Series C | 1,171,625 | 1,162 | 614 |
| Stion Corporation ⁽⁶⁾ | Energy Technology | Warrant | Preferred Series Seed | 2,154 | 1,378 | — |
| TAS Energy, Inc. | Energy Technology | Warrant | Preferred Series F | 428,571 | 299 | 302 |
| TPI Composites, Inc. | Energy Technology | Warrant | Preferred Series B | 160 | 273 | 136 |
| Trilliant, Inc. ⁽¹⁴⁾ | Energy Technology | Warrant | Preferred Series A | 320,000 | 161 | 41 |
| Subtotal: Energy Technology (0.37%)* | | | | | <u>6,984</u> | <u>2,414</u> |
| Healthcare Services, Other | | | | | | |
| Chromadex Corporation ⁽³⁾⁽¹⁴⁾ | Drug Discovery & Development | Warrant | Common Stock | 419,020 | 157 | 159 |
| MDEverywhere, Inc. | Healthcare Services, Other | Warrant | Common Stock | 129 | 93 | 29 |
| Subtotal: Healthcare Services, Other (0.03%)* | | | | | <u>250</u> | <u>188</u> |
| Information Services | | | | | | |
| Cha Cha Search, Inc. ⁽¹⁴⁾ | Information Services | Warrant | Preferred Series G | 48,232 | 58 | 14 |
| InXpo, Inc. ⁽¹⁴⁾ | Information Services | Warrant | Preferred Series C | 648,400 | 98 | 13 |
| | Information Services | Warrant | Preferred Series C-1 | 740,832 | 58 | 15 |
| Total InXpo, Inc. | | | | 1,389,232 | 156 | 28 |
| Jab Wireless, Inc. ⁽¹⁴⁾ | Information Services | Warrant | Preferred Series A | 266,567 | 265 | 934 |
| RichRelevance, Inc. ⁽¹⁴⁾ | Information Services | Warrant | Preferred Series E | 112,612 | 98 | — |
| Subtotal: Information Services (0.15%)* | | | | | <u>577</u> | <u>976</u> |
| Internet Consumer & Business Services | | | | | | |
| Blurb, Inc. ⁽¹⁴⁾ | Internet Consumer & Business Services | Warrant | Preferred Series B | 218,684 | 299 | 88 |
| | Internet Consumer & Business Services | Warrant | Preferred Series C | 234,280 | 636 | 180 |
| Total Blurb, Inc. | | | | 452,964 | 935 | 268 |
| CashStar, Inc. ⁽¹⁴⁾ | Internet Consumer & Business Services | Warrant | Preferred Series C-2 | 727,272 | 130 | 57 |
| Gazelle, Inc. ⁽¹⁴⁾ | Internet Consumer & Business Services | Warrant | Preferred Series A-1 | 991,288 | 158 | 158 |
| Just Fabulous, Inc. | Internet Consumer & Business Services | Warrant | Preferred Series B | 206,184 | 1,102 | 1,521 |
| LightSpeed Retail, Inc. ⁽⁵⁾⁽¹⁰⁾ | Internet Consumer & Business Services | Warrant | Preferred Series C | 24,561 | 20 | 63 |
| Prism Education Group, Inc. ⁽¹⁴⁾ | Internet Consumer & Business Services | Warrant | Preferred Series B | 200,000 | 43 | — |
| Progress Financial | Internet Consumer & Business Services | Warrant | Preferred Series G | 174,562 | 78 | 32 |
| Reply! Inc. | Internet Consumer & Business Services | Warrant | Preferred Series B | 137,225 | 320 | 9 |
| ShareThis, Inc. ⁽¹⁴⁾ | Internet Consumer & Business Services | Warrant | Preferred Series C | 493,502 | 547 | 133 |
| Tapjoy, Inc. | Internet Consumer & Business Services | Warrant | Preferred Series D | 430,485 | 263 | 93 |
| Tectura Corporation | Internet Consumer & Business Services | Warrant | Preferred Series B-1 | 253,378 | 51 | — |
| WaveMarket, Inc. | Internet Consumer & Business Services | Warrant | Preferred Series B-1 | 1,083,779 | 105 | — |
| Subtotal: Internet Consumer & Business Services (0.36%)* | | | | | <u>3,752</u> | <u>2,334</u> |

See notes to consolidated financial statements.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.
CONSOLIDATED SCHEDULE OF INVESTMENTS
September 30, 2014
(unaudited)
(dollars in thousands)

| Portfolio Company | Sub-Industry | Type of Investment⁽¹⁾ | Series | Shares | Cost⁽²⁾ | Value⁽³⁾ |
|---|-----------------------------|---|----------------------|---------------|---------------------------|----------------------------|
| Media/Content/Info | | | | | | |
| Everyday Health, Inc. (pka Waterfront Media, Inc.) ⁽³⁾ | Media/Content/Info | Warrant | Common Stock | 73,345 | \$ 60 | \$ 499 |
| Mode Media Corporation ⁽¹⁴⁾ | Media/Content/Info | Warrant | Preferred Series D | 407,457 | 482 | — |
| Rhapsody International, Inc. ⁽¹⁴⁾ | Media/Content/Info | Warrant | Common Stock | 715,755 | 384 | 165 |
| Zoom Media Group, Inc. | Media/Content/Info | Warrant | Preferred Series A | 1,204 | 348 | 330 |
| Subtotal: Media/Content/Info (0.15%)* | | | | | 1,274 | 994 |
| Medical Devices & Equipment | | | | | | |
| Amedica Corporation ⁽³⁾⁽¹⁴⁾ | Medical Devices & Equipment | Warrant | Common Stock | 516,129 | 459 | 13 |
| Avedro, Inc. ⁽¹⁴⁾ | Medical Devices & Equipment | Warrant | Preferred Series D | 1,308,451 | 400 | 358 |
| Baxano Surgical, Inc. ⁽³⁾ | Medical Devices & Equipment | Warrant | Common Stock | 882,353 | 439 | 53 |
| Gamma Media, Inc. | Medical Devices & Equipment | Warrant | Preferred Series A | 357,500 | 170 | 171 |
| Gelesis, Inc. ⁽⁶⁾⁽¹⁴⁾ | Medical Devices & Equipment | Warrant | LLC Interest | 263,688 | 78 | 2 |
| Home Dialysis Plus, Inc. | Medical Devices & Equipment | Warrant | Preferred Series A | 500,000 | 403 | 438 |
| InspireMD, Inc. ⁽³⁾⁽⁵⁾⁽¹⁰⁾ | Medical Devices & Equipment | Warrant | Common Stock | 168,351 | 242 | 102 |
| Medrobotics Corporation ⁽¹⁴⁾ | Medical Devices & Equipment | Warrant | Preferred Series E | 455,539 | 370 | 259 |
| MELA Sciences, Inc. ⁽³⁾ | Medical Devices & Equipment | Warrant | Common Stock | 69,320 | 400 | 3 |
| NetBio, Inc. | Medical Devices & Equipment | Warrant | Common Stock | 2,568 | 408 | 62 |
| NinePoint Medical, Inc. ⁽¹⁴⁾ | Medical Devices & Equipment | Warrant | Preferred Series A-1 | 587,840 | 170 | 169 |
| Novasys Medical, Inc. | Medical Devices & Equipment | Warrant | Common Stock | 109,449 | 2 | — |
| | Medical Devices & Equipment | Warrant | Preferred Series D | 526,840 | 125 | — |
| | Medical Devices & Equipment | Warrant | Preferred Series D-1 | 53,607 | 6 | — |
| Total Novasys Medical, Inc. | | | | 689,896 | 133 | — |
| Optiscan Biomedical, Corp. ⁽⁶⁾⁽¹⁴⁾ | Medical Devices & Equipment | Warrant | Preferred Series D | 10,535,275 | 1,252 | 221 |
| Oraya Therapeutics, Inc. | Medical Devices & Equipment | Warrant | Common Stock | 954 | 66 | — |
| | Medical Devices & Equipment | Warrant | Preferred Series 1 | 1,632,084 | 678 | — |
| Total Oraya Therapeutics, Inc. | | | | 1,633,038 | 744 | — |
| Quanterix Corporation | Medical Devices & Equipment | Warrant | Preferred Series C | 69,371 | 103 | 91 |
| SonaCare Medical, LLC (pka US HIFU, LLC) | Medical Devices & Equipment | Warrant | Preferred Series A | 409,704 | 188 | — |
| United Orthopedic Group, Inc. | Medical Devices & Equipment | Warrant | Preferred Series A | 423,076 | 608 | — |
| ViewRay, Inc. ⁽¹⁴⁾ | Medical Devices & Equipment | Warrant | Preferred Series C | 312,500 | 333 | 280 |
| Subtotal: Medical Devices & Equipment (0.34%)* | | | | | 6,900 | 2,222 |
| Semiconductors | | | | | | |
| Achronix Semiconductor Corporation | Semiconductors | Warrant | Preferred Series C | 360,000 | 159 | 1 |
| Avnera Corporation | Semiconductors | Warrant | Preferred Series E | 102,958 | 14 | 21 |
| SiTime Corporation ⁽¹⁴⁾ | Semiconductors | Warrant | Preferred Series G | 195,683 | 24 | — |
| Subtotal: Semiconductors (0.00%)* | | | | | 197 | 22 |
| Software | | | | | | |
| Atrenta, Inc. | Software | Warrant | Preferred Series D | 392,670 | 120 | 350 |
| Braxton Technologies, LLC | Software | Warrant | Preferred Series A | 168,750 | 188 | — |
| CareCloud Corporation ⁽¹⁴⁾ | Software | Warrant | Preferred Series B | 413,433 | 258 | 423 |
| Central Desktop, Inc. ⁽¹⁴⁾ | Software | Warrant | Preferred Series B | 522,769 | 108 | 296 |
| Clickfox, Inc. ⁽¹⁴⁾ | Software | Warrant | Preferred Series B | 1,038,563 | 330 | 456 |
| | Software | Warrant | Preferred Series C | 592,019 | 730 | 354 |
| | Software | Warrant | Preferred Series C-A | 46,109 | 14 | 20 |
| Total Clickfox, Inc. | | | | 1,676,691 | 1,074 | 830 |
| Daegis Inc. (pka Unify Corporation) ⁽³⁾⁽¹⁴⁾ | Software | Warrant | Common Stock | 718,860 | 1,434 | 4 |
| ForeScout Technologies, Inc. | Software | Warrant | Preferred Series E | 80,587 | 41 | 57 |
| Hillcrest Laboratories, Inc. ⁽¹⁴⁾ | Software | Warrant | Preferred Series E | 1,865,650 | 54 | 79 |
| Knowledge Holdings, Inc. ⁽¹⁴⁾ | Software | Warrant | Preferred Series E | 550,781 | 15 | 7 |
| Mobile Posse, Inc. ⁽¹⁴⁾ | Software | Warrant | Preferred Series C | 396,430 | 130 | 79 |
| Neos Geosolutions, Inc. ⁽¹⁴⁾ | Software | Warrant | Preferred Series 3 | 221,150 | 22 | — |
| Soasta, Inc. ⁽¹⁴⁾ | Software | Warrant | Preferred Series E | 410,800 | 691 | 772 |
| Sonian, Inc. ⁽¹⁴⁾ | Software | Warrant | Preferred Series C | 185,949 | 106 | 58 |
| SugarSync, Inc. ⁽¹⁴⁾ | Software | Warrant | Preferred Series CC | 332,726 | 78 | 87 |
| | Software | Warrant | Preferred Series DD | 107,526 | 33 | 31 |
| Total SugarSync, Inc. | | | | 440,252 | 111 | 118 |
| Touchcommerce, Inc. ⁽¹⁴⁾ | Software | Warrant | Preferred Series E | 992,595 | 252 | 123 |
| White Sky, Inc. ⁽¹⁴⁾ | Software | Warrant | Preferred Series B-2 | 124,295 | 54 | 3 |
| WildTangent, Inc. ⁽¹⁴⁾ | Software | Warrant | Preferred Series 3 | 100,000 | 238 | 46 |
| Subtotal: Software (0.49%)* | | | | | 4,896 | 3,245 |

See notes to consolidated financial statements.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 2014

(unaudited)

(dollars in thousands)

| Portfolio Company | Sub-Industry | Type of Investment (1) | Series | Shares | Cost⁽²⁾ | Value⁽³⁾ |
|---|---------------------------|-----------------------------------|--------------------|---------------|---------------------------|----------------------------|
| Specialty Pharmaceuticals | | | | | | |
| Alimera Sciences, Inc. ⁽³⁾ | Specialty Pharmaceuticals | Warrant | Common Stock | 285,016 | \$ 728 | \$ 670 |
| QuatRx Pharmaceuticals Company | Specialty Pharmaceuticals | Warrant | Preferred Series E | 155,324 | 308 | — |
| Subtotal: Specialty Pharmaceuticals (0.10%)* | | | | | <u>1,036</u> | <u>670</u> |
| Surgical Devices | | | | | | |
| Gynesonics, Inc. ⁽¹⁴⁾ | Surgical Devices | Warrant | Preferred Series C | 180,480 | 74 | 30 |
| | Surgical Devices | Warrant | Preferred Series D | 1,575,965 | 320 | 408 |
| Total Gynesonics, Inc. | | | | 1,756,445 | 394 | 438 |
| Transmedics, Inc. | Surgical Devices | Warrant | Preferred Series B | 40,436 | 225 | 2 |
| | Surgical Devices | Warrant | Preferred Series D | 175,000 | 100 | 300 |
| Total Transmedics, Inc. | | | | 215,436 | 325 | 302 |
| Subtotal: Surgical Devices (0.11%)* | | | | | <u>719</u> | <u>740</u> |
| Total Warrant Investments (3.41%)* | | | | | <u>38,786</u> | <u>22,401</u> |
| Total Investments (152.23%)* | | | | | <u>\$ 1,012,297</u> | <u>\$ 998,913</u> |

* Value as a percent of net assets

- (1) Preferred and common stock, warrants, and equity interests are generally non-income producing.
- (2) Gross unrealized appreciation, gross unrealized depreciation, and net depreciation for federal income tax purposes totaled \$42.7 million, \$59.7 million and \$17.0 million respectively. The tax cost of investments is \$1.0 billion.
- (3) Except for warrants in twenty-nine publicly traded companies and common stock in eleven publicly traded companies, all investments are restricted at September 30, 2014 and were valued at fair value as determined in good faith by the Audit Committee of the Board of Directors. No unrestricted securities of the same issuer are outstanding. The Company uses the Standard Industrial Code for classifying the industry grouping of its portfolio companies.
- (4) Debt investments of this portfolio company have been pledged as collateral under the Wells Facility.
- (5) Non-U.S. company or the company's principal place of business is outside the United States.
- (6) Affiliate investment that is defined under the Investment Company Act of 1940 as companies in which HTGC owns at least 5% but not more than 25% of the voting securities of the company.
- (7) Control investment that is defined under the Investment Company Act of 1940 as companies in which HTGC owns at least 25% of the voting securities of the company or has greater than 50% representation on its board. There were no control investments at September 30, 2014.
- (8) Debt is on non-accrual status at September 30, 2014, and is therefore considered non-income producing.
- (9) Denotes that all or a portion of the debt investment is convertible senior debt.
- (10) Indicates assets that the Company deems not "qualifying assets" under section 55(a) of the Investment Company Act of 1940, as amended. Qualifying assets must represent at least 70% of the Company's total assets at the time of acquisition of any additional non-qualifying assets.
- (11) Denotes that all or a portion of the debt investment secures the notes offered in the Debt Securitization (as defined in Note 4).
- (12) Denotes that all or a portion of the debt investment principal includes accumulated PIK, or paid-in-kind, interest and is net of repayments.
- (13) Denotes that all or a portion of the debt investment includes an exit fee receivable.
- (14) Denotes that all or a portion of the investment in this portfolio company is held by HT II or HT III, the Company's wholly-owned SBIC subsidiaries.
- (15) Subsequent to September 30, 2014, this company completed a public merger. Note that the September 30, 2014 fair value does not reflect any potential impact of the conversion of our shares to the new entity.

See notes to consolidated financial statements.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2013
(dollars in thousands)

| Portfolio Company | Sub-Industry | Type of Investment⁽¹⁾ | Maturity Date | Interest Rate and Floor | Principal Amount | Cost⁽²⁾ | Value⁽³⁾ |
|---|-----------------------------|---|----------------------|---|-------------------------|---------------------------|----------------------------|
| Debt | | | | | | | |
| Biotechnology Tools | | | | | | | |
| 1-5 Years Maturity | | | | | | | |
| Labcyte, Inc. ⁽¹¹⁾ | Biotechnology Tools | Senior Secured | June 2016 | Interest rate PRIME + 6.70% or Floor rate of 9.95% | \$ 4,270 | \$ 4,323 | \$ 4,289 |
| Subtotal: 1-5 Years Maturity | | | | | | <u>4,323</u> | <u>4,289</u> |
| Subtotal: Biotechnology Tools (0.66%)* | | | | | | <u>4,323</u> | <u>4,289</u> |
| Energy Technology | | | | | | | |
| Under 1 Year Maturity | | | | | | | |
| American Superconductor Corporation ^{(5),(11)} | Energy Technology | Senior Secured | December 2014 | Interest rate PRIME + 7.25% or Floor rate of 11.00% | \$ 4,615 | 4,991 | 4,991 |
| Brightsource Energy, Inc. | Energy Technology | Senior Secured | January 2014 | Interest rate Prime + 8.25% or Floor rate of 11.50% | \$ 15,000 | 15,886 | 15,886 |
| Enphase Energy, Inc. ⁽¹¹⁾ | Energy Technology | Senior Secured | June 2014 | Interest rate PRIME + 5.75% or Floor rate of 9.00% | \$ 1,315 | 1,358 | 1,358 |
| Subtotal: Under 1 Year Maturity | | | | | | <u>22,236</u> | <u>22,236</u> |
| 1-5 Years Maturity | | | | | | | |
| Agrivida, Inc. | Energy Technology | Senior Secured | December 2016 | Interest rate PRIME + 6.75% or Floor rate of 10.00% | \$ 6,000 | 5,887 | 5,770 |
| American Superconductor Corporation ^{(3),(11)} | Energy Technology | Senior Secured | November 2016 | Interest rate PRIME + 7.25% or Floor rate of 11.00% | \$ 10,000 | 9,801 | 9,801 |
| APTwater, Inc | Energy Technology | Senior Secured | April 2017 | Interest rate PRIME + 6.75% or Floor rate of 10.00%, PIK Interest 2.75% | \$ 18,085 | 17,874 | 17,874 |
| BioAmber, Inc. ^{(5),(10)} | Energy Technology | Senior Secured | June 2016 | Interest rate PRIME + 6.75% or Floor rate of 10.00% | \$ 25,000 | 25,298 | 25,798 |
| Enphase Energy, Inc. ⁽¹¹⁾ | Energy Technology | Senior Secured | August 2016 | Interest rate PRIME + 8.25% or Floor rate of 11.50% | \$ 7,400 | 7,422 | 7,314 |
| Fluidic, Inc. | Energy Technology | Senior Secured | March 2016 | Interest rate PRIME + 8.00% or Floor rate of 11.25% | \$ 5,000 | 4,922 | 4,922 |
| Fulcrum Bioenergy, Inc. ⁽¹¹⁾ | Energy Technology | Senior Secured | November 2016 | Interest rate PRIME + 7.75% or Floor rate of 11.00% | \$ 10,000 | 9,944 | 9,694 |
| Glori Energy, Inc. ⁽¹¹⁾ | Energy Technology | Senior Secured | June 2015 | Interest rate PRIME + 6.75% or Floor rate of 10.00% | \$ 5,333 | 5,457 | 5,414 |
| Polyera Corporation | Energy Technology | Senior Secured | June 2016 | Interest rate PRIME + 6.75% or Floor rate of 10.00% | \$ 5,809 | 5,797 | 5,686 |
| SCIEnergy, Inc. ⁽⁴⁾ | Energy Technology | Senior Secured | September 2015 | Interest rate PRIME + 8.75% or Floor rate of 12.00% | \$ 4,448 | 4,596 | 4,685 |
| Scifiniti (pka Integrated Photovoltaics, Inc.) | Energy Technology | Senior Secured | February 2015 | Interest rate PRIME + 7.38% or Floor rate of 10.63% | \$ 1,463 | 1,443 | 1,429 |
| Stion Corporation. ^{(4),(6)} | Energy Technology | Senior Secured | February 2015 | Interest rate PRIME + 6.75% or Floor rate of 10.00% | \$ 4,571 | 4,005 | 4,096 |
| TAS Energy, Inc. | Energy Technology | Senior Secured | February 2015 | Interest rate PRIME + 7.75% or Floor rate of 11.00% | \$ 15,000 | 15,277 | 15,421 |
| | Energy Technology | Senior Secured | February 2015 | Interest rate PRIME + 6.25% or Floor rate of 9.50% | \$ 4,503 | 4,374 | 4,338 |
| Total TAS Energy, Inc. | | | | | | 19,651 | 19,760 |
| TPI Composites, Inc. | Energy Technology | Senior Secured | June 2016 | Interest rate PRIME + 8.00% or Floor rate of 11.25% | \$ 15,000 | 14,888 | 14,889 |
| Subtotal: 1-5 Years Maturity | | | | | | <u>136,985</u> | <u>137,131</u> |
| Subtotal: Energy Technology (24.52%)*⁽¹³⁾ | | | | | | <u>159,221</u> | <u>159,367</u> |
| Communications & Networking | | | | | | | |
| 1-5 Years Maturity | | | | | | | |
| OpenPeak, Inc. ⁽¹¹⁾ | Communications & Networking | Senior Secured | July 2015 | Interest rate PRIME + 8.75% or Floor rate of 12.00% | \$ 10,029 | 10,714 | 10,814 |
| Spring Mobile Solutions, Inc. | Communications & Networking | Senior Secured | November 2016 | Interest rate PRIME + 8.00% or Floor rate of 11.25% | \$ 20,000 | 19,682 | 19,875 |
| Subtotal: 1-5 Years Maturity | | | | | | <u>30,396</u> | <u>30,690</u> |
| Subtotal: Communications & Networking (4.72%)* | | | | | | <u>30,396</u> | <u>30,690</u> |

See notes to consolidated financial statements.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2013
(dollars in thousands)

| Portfolio Company | Sub-Industry | Type of Investment ⁽¹⁾ | Maturity Date | Interest Rate and Floor | Principal Amount | Cost ⁽²⁾ | Value ⁽³⁾ |
|--|------------------------------|-----------------------------------|----------------|---|------------------|---------------------|----------------------|
| Drug Delivery | | | | | | | |
| 1-5 Years Maturity | | | | | | | |
| AcelRx Pharmaceuticals, Inc. ⁽³⁾ ₍₁₀₎ | Drug Delivery | Senior Secured | October 2017 | Interest rate PRIME + 3.85% or Floor rate of 9.10% | \$ 15,000 | \$ 14,556 | \$ 15,006 |
| BIND Therapeutics, Inc. ⁽³⁾ | Drug Delivery | Senior Secured | September 2016 | Interest rate Prime + 7.00% or Floor rate of 10.25% | \$ 4,500 | 4,407 | 4,458 |
| Celsion Corporation ⁽³⁾ | Drug Delivery | Senior Secured | June 2017 | Interest rate Prime + 8.00% or Floor rate of 11.25% | \$ 5,000 | 4,897 | 4,897 |
| Dance Biopharm, Inc. | Drug Delivery | Senior Secured | August 2017 | Interest rate PRIME + 7.4% or Floor rate of 10.65% | \$ 1,000 | 974 | 974 |
| Intelliject, Inc. ⁽¹¹⁾ | Drug Delivery | Senior Secured | June 2016 | Interest rate PRIME + 5.75% or Floor rate of 11.00% | \$ 15,000 | 15,150 | 15,450 |
| NuPathe, Inc. ⁽³⁾ | Drug Delivery | Senior Secured | May 2016 | Interest rate Prime - 3.25% or Floor rate of 9.85% | \$ 5,749 | 5,629 | 5,744 |
| Revence Therapeutics, Inc. | Drug Delivery | Senior Secured | March 2015 | Interest rate PRIME + 6.60% or Floor rate of 9.85% | \$ 9,798 | 10,032 | 9,943 |
| | Drug Delivery | Senior Secured | March 2015 | Interest rate PRIME + 6.60% or Floor rate of 9.85% | \$ 980 | 1,011 | 994 |
| Total Revence Therapeutics, Inc. | | | | | | 11,043 | 10,937 |
| Subtotal: 1-5 Years Maturity | | | | | | 56,655 | 57,466 |
| Subtotal: Drug Delivery (8.84%)* | | | | | | 56,655 | 57,466 |
| Drug Discovery & Development | | | | | | | |
| 1-5 Years Maturity | | | | | | | |
| ADMA Biologics, Inc. ⁽³⁾ | Drug Discovery & Development | Senior Secured | April 2016 | Interest rate Prime + 2.75% or Floor rate of 8.50% | \$ 5,000 | 4,956 | 4,892 |
| Anacor Pharmaceuticals, Inc. | Drug Discovery & Development | Senior Secured | July 2017 | Interest rate PRIME + 6.40% or Floor rate of 11.65% | \$ 30,000 | 29,083 | 29,810 |
| Aveo Pharmaceuticals, Inc. ⁽³⁾⁽¹⁰⁾ ₍₁₁₎ | Drug Discovery & Development | Senior Secured | September 2015 | Interest rate PRIME + 7.15% or Floor rate of 11.90% | \$ 19,396 | 19,396 | 19,590 |
| Cell Therapeutics, Inc. ⁽³⁾⁽¹¹⁾ | Drug Discovery & Development | Senior Secured | October 2016 | Interest rate Prime + 9.00% or Floor rate of 12.25% | \$ 15,000 | 14,750 | 15,200 |
| Cempra, Inc. ⁽³⁾⁽¹¹⁾ | Drug Discovery & Development | Senior Secured | June 2017 | Interest rate PRIME + 6.30% or Floor rate of 9.55% | \$ 15,000 | 14,795 | 14,550 |
| Cleveland BioLabs, Inc. ⁽³⁾ | Drug Discovery & Development | Senior Secured | January 2017 | Interest rate PRIME + 6.20% or Floor rate of 10.45% | \$ 6,000 | 5,909 | 5,909 |
| Concert Pharmaceuticals, Inc. ⁽⁴⁾ | Drug Discovery & Development | Senior Secured | October 2015 | Interest rate PRIME + 3.25% or Floor rate of 8.50% | \$ 15,091 | 14,933 | 14,649 |
| Coronado Biosciences, Inc. ⁽³⁾⁽¹¹⁾ | Drug Discovery & Development | Senior Secured | March 2016 | Interest rate PRIME + 6.00% or Floor rate of 9.25% | \$ 13,654 | 13,720 | 13,449 |
| Dicerna Pharmaceuticals, Inc. | Drug Discovery & Development | Senior Secured | January 2015 | Interest rate PRIME + 4.40% or Floor rate of 10.15% | \$ 5,026 | 4,991 | 4,981 |
| Insmed, Incorporated ⁽¹¹⁾ | Drug Discovery & Development | Senior Secured | January 2016 | Interest rate PRIME + 4.75% or Floor rate of 9.25% | \$ 20,000 | 19,708 | 19,535 |
| Merrimack Pharmaceuticals, Inc. ₍₃₎ | Drug Discovery & Development | Senior Secured | November 2016 | Interest rate PRIME + 5.30% or Floor rate of 10.55% | \$ 40,000 | 40,314 | 39,455 |
| Neuralstem, Inc. ⁽³⁾ | Drug Discovery & Development | Senior Secured | June 2016 | Interest rate PRIME + 7.75% or Floor rate of 11.00% | \$ 8,000 | 7,874 | 8,035 |
| Paratek Pharmaceuticals, Inc. | Drug Discovery & Development | Senior Secured | N/A | Interest rate Fixed 10.00% | \$ 36 | 36 | — |
| | Drug Discovery & Development | Senior Secured | N/A | Interest rate Fixed 10.00% | \$ 45 | 45 | — |
| | Drug Discovery & Development | Senior Secured | N/A | N/A | \$ 28 | 28 | — |
| Total Paratek Pharmaceuticals, Inc. | | | | | | 109 | — |
| uniQure B.V. ⁽⁵⁾⁽¹⁰⁾⁽¹¹⁾ | Drug Discovery & Development | Senior Secured | October 2016 | Interest rate PRIME + 8.60% or Floor rate of 11.85% | \$ 10,000 | 9,695 | 9,818 |
| Subtotal: 1-5 Years Maturity | | | | | | 200,232 | 199,872 |
| Subtotal: Drug Discovery & Development (30.75%)* | | | | | | 200,232 | 199,872 |

See notes to consolidated financial statements.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2013
(dollars in thousands)

| Portfolio Company | Sub-Industry | Type of Investment⁽¹⁾ | Maturity Date | Interest Rate and Floor | Principal Amount | Cost⁽²⁾ | Value⁽³⁾ |
|---|---------------------------------|---|----------------------|--|-------------------------|---------------------------|----------------------------|
| Electronics & Computer Hardware | | | | | | | |
| 1-5 Years Maturity | | | | | | | |
| Clustrix, Inc. | Electronics & Computer Hardware | Senior Secured | December 2015 | Interest rate PRIME + 6.50% or Floor rate of 9.75% | \$ 524 | \$ 526 | \$ 526 |
| Identive Group, Inc. ⁽³⁾⁽¹¹⁾ | Electronics & Computer Hardware | Senior Secured | November 2015 | Interest rate PRIME + 7.75% or Floor rate of 11.00% | \$ 5,938 | 5,696 | 5,755 |
| OCZ Technology Group, Inc. | Electronics & Computer Hardware | Senior Secured | April 2016 | Interest rate Prime + 8.75% or Floor rate of 12.50%, PIK Interest 3.00% | \$ 1,221 | 1,221 | 1,221 |
| Plures Technologies, Inc. ⁽³⁾ | Electronics & Computer Hardware | Senior Secured | October 2016 | Interest rate Prime + 12.75% or Floor rate of 16.00%, PIK Interest 4.00% | \$ 2,046 | 1,958 | 1,458 |
| Subtotal: 1-5 Years Maturity | | | | | | <u>9,400</u> | <u>8,959</u> |
| Subtotal: Electronics & Computer Hardware (1.38%)* | | | | | | <u>9,400</u> | <u>8,959</u> |
| Healthcare Services, Other | | | | | | | |
| 1-5 Years Maturity | | | | | | | |
| InstaMed Communications, LLC | Healthcare Services, Other | Senior Secured | December 2016 | Interest rate PRIME + 7.25% or Floor rate of 10.50% | \$ 3,000 | 2,979 | 2,979 |
| MDEverywhere, Inc. | Healthcare Services, Other | Senior Secured | June 2016 | Interest rate LIBOR + 9.50% or Floor rate of 10.75% | \$ 2,000 | 1,875 | 1,907 |
| Orion Healthcorp, Inc. | Healthcare Services, Other | Senior Secured | June 2017 | Interest rate LIBOR + 10.50% or Floor rate of 12.00%, PIK Interest 3.00% | \$ 6,591 | 6,467 | 6,413 |
| | Healthcare Services, Other | Senior Secured | June 2017 | Interest rate LIBOR + 9.50% or Floor rate of 11.00% | \$ 9,000 | 8,838 | 8,445 |
| | Healthcare Services, Other | Senior Secured | June 2016 | Interest rate LIBOR + 8.25% or Floor rate of 9.50% | \$ 500 | 465 | 461 |
| Total Orion Healthcorp, Inc. | | | | | \$ 16,091 | 15,769 | 15,318 |
| Pacific Child & Family Associates, LLC | Healthcare Services, Other | Senior Secured | January 2015 | Interest rate LIBOR + 9.00% or Floor rate of 11.50% | \$ 1,946 | 2,017 | 1,988 |
| | Healthcare Services, Other | Senior Secured | January 2015 | Interest rate LIBOR + 11.00% or Floor rate of 14.00%, PIK interest 3.75% | \$ 6,836 | 6,867 | 6,833 |
| Total Pacific Child & Family Associates, LLC | | | | | \$ 8,782 | 8,884 | 8,822 |
| Subtotal: 1-5 Years Maturity | | | | | | <u>29,508</u> | <u>29,025</u> |
| Subtotal: Healthcare Services, Other (4.47%)* | | | | | | <u>29,508</u> | <u>29,025</u> |
| Information Services | | | | | | | |
| 1-5 Years Maturity | | | | | | | |
| Eccentex Corporation ⁽¹¹⁾ | Information Services | Senior Secured | May 2015 | Interest rate PRIME + 7.00% or Floor rate of 10.25% | \$ 657 | 658 | 185 |
| InXpo, Inc. | Information Services | Senior Secured | April 2016 | Interest rate PRIME + 7.50% or Floor rate of 10.75% | \$ 2,550 | 2,489 | 2,384 |
| Jab Wireless, Inc. | Information Services | Senior Secured | November 2017 | Interest rate Libor + 6.75% or Floor rate of 8.00% | \$ 30,000 | 29,822 | 29,822 |
| | Information Services | Senior Secured | November 2017 | Interest rate Prime + 6.75% or Floor rate of 8.00% | \$ 2,000 | 1,996 | 1,996 |
| Total Jab Wireless, Inc. | | | | | \$ 32,000 | 31,818 | 31,818 |
| Womensforum.com ⁽¹¹⁾ | Information Services | Senior Secured | October 2016 | Interest rate LIBOR + 7.50% or Floor rate of 10.25%, PIK Interest 2.00% | \$ 4,607 | 4,536 | 4,127 |
| | Information Services | Senior Secured | October 2016 | Interest rate LIBOR + 6.50% or Floor rate of 9.25% | \$ 6,900 | 6,793 | 6,470 |
| | Information Services | Senior Secured | April 2015 | Interest rate LIBOR + 6.50% or Floor rate of 9.00% | \$ 1,250 | 1,227 | 1,156 |
| Total Womensforum.com | | | | | \$ 12,757 | 12,556 | 11,754 |
| Subtotal: 1-5 Years Maturity | | | | | | <u>47,521</u> | <u>46,140</u> |
| Subtotal: Information Services (7.10%)* | | | | | | <u>47,521</u> | <u>46,140</u> |

See notes to consolidated financial statements.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2013
(dollars in thousands)

| Portfolio Company | Sub-Industry | Type of Investment⁽¹⁾ | Maturity Date | Interest Rate and Floor | Principal Amount | Cost⁽²⁾ | Value⁽³⁾ |
|--|---------------------------------------|---|----------------------|---|-------------------------|---------------------------|----------------------------|
| Internet Consumer & Business Services | | | | | | | |
| Under 1 Year Maturity | | | | | | | |
| Gazelle, Inc. | Internet Consumer & Business Services | Senior Secured | October 2014 | Interest rate PRIME + 6.50% or Floor rate of 9.75% | \$ 2,137 | \$ 2,115 | \$ 2,115 |
| Tectura Corporation ⁽⁸⁾ | Internet Consumer & Business Services | Senior Secured | May 2014 | Interest rate LIBOR + 10.00% or Floor rate of 13.00% | \$ 6,468 | 6,467 | 3,566 |
| | Internet Consumer & Business Services | Senior Secured | May 2014 | Interest rate LIBOR + 8.00% or Floor rate of 11.00%, PIK Interest 1.00% | \$ 10,777 | 10,777 | 5,943 |
| | Internet Consumer & Business Services | Senior Secured | May 2014 | Interest rate LIBOR + 10.00% or Floor rate of 13.00% | \$ 563 | 563 | 310 |
| | Internet Consumer & Business Services | Senior Secured | May 2014 | Interest rate LIBOR + 10.00% or Floor rate of 13.00% | \$ 5,000 | 5,000 | 2,757 |
| Total Tectura Corporation | | | | | \$ 22,807 | 22,806 | 12,576 |
| Subtotal: Under 1 Year Maturity | | | | | | <u>24,921</u> | <u>14,691</u> |
| 1-5 Years Maturity | | | | | | | |
| Blurb, Inc. | Internet Consumer & Business Services | Senior Secured | December 2015 | Interest rate PRIME + 5.25% or Floor rate of 8.50% | \$ 6,351 | 6,216 | 6,054 |
| CashStar, Inc. | Internet Consumer & Business Services | Senior Secured | June 2016 | Interest rate Prime + 6.25% or Floor rate 10.50%, PIK Interest 1.00% | \$ 4,018 | 3,944 | 3,916 |
| Education Dynamics, LLC | Internet Consumer & Business Services | Senior Secured | March 2016 | Interest rate Libor + 12.5% or Floor rate 12.50%, PIK Interest 1.5% | \$ 24,685 | 24,284 | 23,582 |
| Gazelle, Inc. | Internet Consumer & Business Services | Senior Secured | April 2016 | Interest rate Prime + 7.00% or Floor rate of 10.25%, PIK Interest 2.50% | \$ 12,365 | 12,283 | 12,128 |
| Just Fabulous, Inc. | Internet Consumer & Business Services | Senior Secured | February 2017 | Interest rate PRIME + 8.25% or Floor rate of 11.50% | \$ 5,000 | 4,842 | 4,842 |
| NetPlenish ⁽⁸⁾ | Internet Consumer & Business Services | Senior Secured | September 2015 | Interest rate FIXED 10.00% | \$ 383 | 375 | — |
| | Internet Consumer & Business Services | Senior Secured | April 2015 | Interest rate FIXED 10.00% | \$ 97 | 97 | — |
| Total NetPlenish | | | | | \$ 480 | 472 | — |
| Reply! Inc. ⁽¹¹⁾ | Internet Consumer & Business Services | Senior Secured | February 2016 | Interest rate PRIME + 7.25% or Floor rate of 10.50%, PIK Interest 2.00% | \$ 3,031 | 3,051 | 3,034 |
| | Internet Consumer & Business Services | Senior Secured | September 2015 | Interest rate Prime + 6.88% or Floor rate of 10.13%, PIK Interest 2.00% | \$ 9,169 | 9,086 | 9,169 |
| | Internet Consumer & Business Services | Senior Secured | September 2015 | Interest rate Prime + 7.25% or Floor rate of 11.00%, PIK Interest 2.00% | \$ 2,020 | 2,044 | 2,070 |
| Total Reply! Inc. | | | | | \$ 14,220 | 14,181 | 14,273 |
| ShareThis, Inc. | Internet Consumer & Business Services | Senior Secured | June 2016 | Interest rate PRIME + 7.50% or Floor rate of 10.75% | \$ 14,578 | 14,160 | 14,160 |
| VaultLogix, LLC | Internet Consumer & Business Services | Senior Secured | September 2015 | Interest rate LIBOR + 7.00% or Floor rate of 8.50% | \$ 7,897 | 7,927 | 7,525 |
| | Internet Consumer & Business Services | Senior Secured | September 2016 | Interest rate LIBOR + 8.50% or Floor rate of 10.00%, PIK interest 2.50% | \$ 7,949 | 7,898 | 7,397 |
| Total VaultLogix, LLC | | | | | \$ 15,847 | 15,826 | 14,923 |
| WaveMarket, Inc. ⁽¹¹⁾ | Internet Consumer & Business Services | Senior Secured | September 2015 | Interest rate Prime + 5.75% or Floor rate of 9.50% | \$ 10,000 | 9,940 | 9,665 |
| Subtotal: 1-5 Years Maturity | | | | | | <u>106,148</u> | <u>103,545</u> |
| Subtotal: Internet Consumer & Business Services (18.19%)* | | | | | | <u>131,069</u> | <u>118,236</u> |

See notes to consolidated financial statements.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2013
(dollars in thousands)

| Portfolio Company | Sub-Industry | Type of Investment⁽¹⁾ | Maturity Date | Interest Rate and Floor | Principal Amount | Cost⁽²⁾ | Value⁽³⁾ |
|--|-----------------------------|---|----------------------|---|-------------------------|---------------------------|----------------------------|
| Media/Content/Info | | | | | | | |
| Under 1 Year Maturity | | | | | | | |
| Zoom Media Group, Inc. | Media/Content/Info | Senior Secured | December 2014 | Interest rate PRIME + 5.25% or Floor rate of 8.50% | \$ 4,000 | \$ 3,858 | \$ 3,858 |
| Subtotal: Under 1 Year Maturity | | | | | | <u>3,858</u> | <u>3,858</u> |
| 1-5 Years Maturity | | | | | | | |
| Zoom Media Group, Inc. | Media/Content/Info | Senior Secured | December 2015 | Interest rate PRIME + 7.25% and PIK + 3.75% or Floor rate of 10.50% | \$ 4,288 | 4,122 | 4,071 |
| Subtotal: 1-5 Years Maturity | | | | | | <u>4,122</u> | <u>4,071</u> |
| Subtotal: Media/Content/Info (1.22%)* | | | | | | <u>7,981</u> | <u>7,929</u> |
| Medical Devices & Equipment | | | | | | | |
| Under 1 Year Maturity | | | | | | | |
| Oraya Therapeutics, Inc. ⁽⁹⁾⁽¹¹⁾ | Medical Devices & Equipment | Senior Secured | December 2014 | Interest rate Fixed 7.00% | \$ 500 | 500 | 500 |
| Subtotal: Under 1 Year Maturity | | | | | | <u>500</u> | <u>500</u> |
| 1-5 Years Maturity | | | | | | | |
| Baxano Surgical, Inc. ⁽³⁾ | Medical Devices & Equipment | Senior Secured | March 2017 | Interest rate PRIME + 7.75% or Floor rate of 12.5% | \$ 7,500 | 7,222 | 7,222 |
| Home Dialysis Plus, Inc. | Medical Devices & Equipment | Senior Secured | April 2017 | Interest rate PRIME + 6.35% or Floor rate of 9.60% | \$ 10,000 | 9,732 | 9,732 |
| InspireMD, Inc. ⁽³⁾⁽⁵⁾⁽¹⁰⁾ | Medical Devices & Equipment | Senior Secured | February 2017 | Interest rate PRIME + 5.00% or Floor rate of 10.50% | \$ 10,000 | 9,696 | 9,696 |
| Medrobotics Corporation | Medical Devices & Equipment | Senior Secured | March 2016 | Interest rate PRIME + 7.85% or Floor rate of 11.10% | \$ 4,561 | 4,489 | 4,454 |
| NetBio, Inc. | Medical Devices & Equipment | Senior Secured | August 2017 | Interest rate PRIME + 5.00% or Floor rate of 11.00% | \$ 5,000 | 4,788 | 4,788 |
| NinePoint Medical, Inc. | Medical Devices & Equipment | Senior Secured | January 2016 | Interest rate PRIME + 5.85% or Floor rate of 9.10% | \$ 5,946 | 5,911 | 5,794 |
| Oraya Therapeutics, Inc. ⁽⁹⁾⁽¹¹⁾ | Medical Devices & Equipment | Senior Secured | September 2015 | Interest rate PRIME + 5.50% or Floor rate of 10.25% | \$ 7,064 | 6,980 | 7,162 |
| SonaCare Medical, LLC (pka US HIFU, LLC) ⁽¹¹⁾ | Medical Devices & Equipment | Senior Secured | April 2016 | Interest rate PRIME + 7.75% or Floor rate of 11.00% | \$ 5,667 | 5,754 | 5,818 |
| United Orthopedic Group, Inc. | Medical Devices & Equipment | Senior Secured | July 2016 | Interest rate PRIME + 8.60% or Floor rate of 11.85% | \$ 25,000 | 24,647 | 25,166 |
| ViewRay, Inc. | Medical Devices & Equipment | Senior Secured | June 2017 | Interest rate PRIME + 7.00% or Floor rate of 10.25%, PIK Interest 1.50% | \$ 15,000 | 14,489 | 14,489 |
| Subtotal: 1-5 Years Maturity | | | | | | <u>93,707</u> | <u>94,320</u> |
| Subtotal: Medical Devices & Equipment (14.59%)* | | | | | | <u>94,206</u> | <u>94,819</u> |
| Semiconductors | | | | | | | |
| 1-5 Years Maturity | | | | | | | |
| Achronix Semiconductor Corporation | Semiconductors | Senior Secured | January 2015 | Interest rate PRIME + 10.60% or Floor rate of 13.85% | \$ 1,032 | 1,023 | 1,006 |
| SiTime Corporation | Semiconductors | Senior Secured | September 2016 | Interest rate PRIME + 6.50% or Floor rate of 9.75% | \$ 3,500 | 3,473 | 3,473 |
| Subtotal: 1-5 Years Maturity | | | | | | <u>4,495</u> | <u>4,479</u> |
| Subtotal: Semiconductors (0.69%)* | | | | | | <u>4,495</u> | <u>4,479</u> |

See notes to consolidated financial statements.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2013
(dollars in thousands)

| Portfolio Company | Sub-Industry | Type of Investment ⁽¹⁾ | Maturity Date | Interest Rate and Floor | Principal Amount | Cost ⁽²⁾ | Value ⁽³⁾ |
|---|---------------------------|-----------------------------------|----------------|---|------------------|---------------------|----------------------|
| Software | | | | | | | |
| Under 1 Year Maturity | | | | | | | |
| Clickfox, Inc. | Software | Senior Secured | September 2014 | Interest rate PRIME + 6.75% or Floor rate of 10.00% | \$ 2,000 | \$ 1,979 | \$ 1,979 |
| StartApp, Inc. | Software | Senior Secured | December 2014 | Interest rate PRIME + 2.75% or Floor rate of 6.00% | \$ 200 | 191 | 191 |
| Touchcommerce, Inc. | Software | Senior Secured | December 2014 | Interest rate Prime + 2.25% or Floor rate of 6.50% | \$ 3,111 | <u>3,071</u> | <u>2,970</u> |
| Subtotal: Under 1 Year Maturity | | | | | | <u>5,241</u> | <u>5,140</u> |
| 1-5 Years Maturity | | | | | | | |
| Clickfox, Inc. | Software | Senior Secured | November 2015 | Interest rate PRIME + 8.25% or Floor rate of 11.50% | \$ 5,842 | 5,530 | 5,530 |
| Hillcrest Laboratories, Inc. | Software | Senior Secured | July 2015 | Interest rate PRIME + 7.50% or Floor rate of 10.75% | \$ 2,660 | 2,630 | 2,604 |
| Mobile Posse, Inc. | Software | Senior Secured | December 2016 | Interest rate PRIME + 7.50% or Floor rate of 10.75% | \$ 4,000 | 3,876 | 3,879 |
| Neos Geosolutions, Inc. | Software | Senior Secured | May 2016 | Interest rate Prime + 5.75% or Floor rate of 10.50% | \$ 3,771 | 3,808 | 3,705 |
| Sonian, Inc. | Software | Senior Secured | July 2017 | Interest rate PRIME + 7.00% or Floor rate of 10.25% | \$ 5,500 | 5,332 | 5,332 |
| StartApp, Inc. | Software | Senior Secured | March 2017 | Interest rate PRIME + 7.75% or Floor rate of 11.00% | \$ 2,500 | 2,507 | 2,498 |
| Touchcommerce, Inc. | Software | Senior Secured | June 2017 | Interest rate Prime + 6.00% or Floor rate of 10.25% | \$ 5,000 | 4,688 | 4,767 |
| Subtotal: 1-5 Years Maturity | | | | | | <u>28,372</u> | <u>28,315</u> |
| Subtotal: Software (5.15%)* | | | | | | <u>33,613</u> | <u>33,455</u> |
| Specialty Pharmaceuticals | | | | | | | |
| 1-5 Years Maturity | | | | | | | |
| Rockwell Medical, Inc. | Specialty Pharmaceuticals | Senior Secured | March 2017 | Interest rate PRIME + 9.25% or Floor rate of 12.50% | \$ 20,000 | 20,055 | 20,055 |
| Subtotal: 1-5 Years Maturity | | | | | | <u>20,055</u> | <u>20,055</u> |
| Subtotal: Specialty Pharmaceuticals (3.09%)* | | | | | | <u>20,055</u> | <u>20,055</u> |
| Surgical Devices | | | | | | | |
| 1-5 Years Maturity | | | | | | | |
| Transmedics, Inc. ⁽¹¹⁾ | Surgical Devices | Senior Secured | November 2015 | Interest rate FIXED 12.95% | \$ 7,250 | 7,207 | 7,207 |
| Subtotal: 1-5 Years Maturity | | | | | | <u>7,207</u> | <u>7,207</u> |
| Subtotal: Surgical Devices (1.11%)* | | | | | | <u>7,207</u> | <u>7,207</u> |
| Total Debt (126.46%)* | | | | | | <u>835,882</u> | <u>821,988</u> |

See notes to consolidated financial statements.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2013
(dollars in thousands)

| Portfolio Company | Sub-Industry | Type of Investment ⁽¹⁾ | Series | Shares | Cost ⁽²⁾ | Value ⁽³⁾ |
|--|------------------------------|-----------------------------------|--------------------|-----------|---------------------|----------------------|
| Equity | | | | | | |
| Biotechnology Tools | | | | | | |
| NuGEN Technologies, Inc. | Biotechnology Tools | Equity | Preferred Series C | 189,394 | \$ 500 | \$ 687 |
| Subtotal: Biotechnology Tools (0.11%)* | | | | | <u>500</u> | <u>687</u> |
| Communications & Networking | | | | | | |
| GlowPoint, Inc. ⁽³⁾ | Communications & Networking | Equity | Common Stock | 114,192 | 102 | 157 |
| Peerless Network, Inc. | Communications & Networking | Equity | Preferred Series A | 1,000,000 | 1,000 | 3,621 |
| Stoke, Inc. | Communications & Networking | Equity | Preferred Series E | 152,905 | 500 | 224 |
| Subtotal: Communications & Networking (0.62%)* | | | | | <u>1,602</u> | <u>4,002</u> |
| Consumer & Business Products | | | | | | |
| Caivis Acquisition Corporation | Consumer & Business Products | Equity | Common Stock | 295,861 | 819 | 598 |
| IPA Holdings, LLC | Consumer & Business Products | Equity | LLC Interest | 500,000 | 500 | 676 |
| Market Force Information, Inc. | Consumer & Business Products | Equity | Preferred Series B | 187,970 | 500 | 285 |
| Subtotal: Consumer & Business Products (0.24%)* | | | | | <u>1,819</u> | <u>1,559</u> |
| Diagnostic | | | | | | |
| Singulex, Inc. | Diagnostic | Equity | Common Stock | 937,998 | 750 | 750 |
| Subtotal: Diagnostic (0.12%)* | | | | | <u>750</u> | <u>750</u> |
| Drug Delivery | | | | | | |
| AcelRx Pharmaceuticals, Inc. ⁽³⁾⁽¹⁰⁾ | Drug Delivery | Equity | Common Stock | 89,243 | 178 | 1,009 |
| Merrion Pharmaceuticals, Inc. ⁽³⁾⁽⁵⁾⁽¹⁰⁾ | Drug Delivery | Equity | Common Stock | 20,000 | 9 | — |
| NuPathe, Inc. ⁽³⁾ | Drug Delivery | Equity | Common Stock | 50,000 | 146 | 164 |
| Transcept Pharmaceuticals, Inc. ⁽³⁾ | Drug Delivery | Equity | Common Stock | 41,570 | 500 | 140 |
| Subtotal: Drug Delivery (0.20%)* | | | | | <u>833</u> | <u>1,313</u> |
| Drug Discovery & Development | | | | | | |
| Acceleron Pharma, Inc. ⁽³⁾ | Drug Discovery & Development | Equity | Common Stock | 256,410 | 1,505 | 9,286 |
| Aveo Pharmaceuticals, Inc. ⁽³⁾⁽¹⁰⁾ | Drug Discovery & Development | Equity | Common Stock | 167,864 | 842 | 307 |
| Dicerna Pharmaceuticals, Inc. ⁽¹²⁾ | Drug Discovery & Development | Equity | Preferred Series B | 20,107 | 503 | 228 |
| | Drug Discovery & Development | Equity | Preferred Series C | 142,858 | 1,000 | 1,055 |
| Total Dicerna Pharmaceuticals, Inc. | | | | 162,965 | 1,503 | 1,283 |
| Inotek Pharmaceuticals Corporation | Drug Discovery & Development | Equity | Common Stock | 15,334 | 1,500 | — |
| Merrimack Pharmaceuticals, Inc. ⁽³⁾ | Drug Discovery & Development | Equity | Common Stock | 546,448 | 2,000 | 2,912 |
| Paratek Pharmaceuticals, Inc. | Drug Discovery & Development | Equity | Common Stock | 85,450 | 5 | — |
| | Drug Discovery & Development | Equity | Preferred Series H | 244,158 | 1,000 | — |
| Total Paratek Pharmaceuticals, Inc. | | | | 329,608 | 1,005 | — |
| Subtotal: Drug Discovery & Development (2.12%)* | | | | | <u>8,355</u> | <u>13,788</u> |

See notes to consolidated financial statements.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2013
(dollars in thousands)

| Portfolio Company | Sub-Industry | Type of Investment ⁽¹⁾ | Series | Shares | Cost ⁽²⁾ | Value ⁽³⁾ |
|---|---------------------------------------|-----------------------------------|----------------------|------------|---------------------|----------------------|
| Information Services | | | | | | |
| Buzznet, Inc. | Information Services | Equity | Preferred Series C | 263,158 | \$ 250 | \$ — |
| Good Technologies, Inc. (pka Visto Corporation) | Information Services | Equity | Common Stock | 500,000 | 603 | — |
| Subtotal: Information Services (0.00%)* | | | | | 853 | — |
| Internet Consumer & Business Services | | | | | | |
| Blurb, Inc. | Internet Consumer & Business Services | Equity | Preferred Series B | 220,653 | 175 | 444 |
| Philotic, Inc. | Internet Consumer & Business Services | Equity | Common Stock | 8,121 | 92 | — |
| Progress Financial | Internet Consumer & Business Services | Equity | Preferred Series G | 218,351 | 250 | 280 |
| Trulia, Inc. ⁽³⁾ | Internet Consumer & Business Services | Equity | Common Stock | 29,340 | 141 | 1,035 |
| Subtotal: Internet Consumer & Business Services (0.27%)* | | | | | 658 | 1,759 |
| Media/Content/Info | | | | | | |
| Everyday Health, Inc. (pka Waterfront Media, Inc.) | Media/Content/Info | Equity | Preferred Series D | 145,590 | 1,000 | 425 |
| Subtotal: Media/Content/Info (0.07%)* | | | | | 1,000 | 425 |
| Medical Devices & Equipment | | | | | | |
| Gelesis, Inc. ⁽⁶⁾ | Medical Devices & Equipment | Equity | LLC Interest | 2,024,092 | 925 | 466 |
| Medrobotics Corporation | Medical Devices & Equipment | Equity | Preferred Series E | 136,798 | 250 | 269 |
| Novasys Medical, Inc. | Medical Devices & Equipment | Equity | Preferred Series D-1 | 4,118,444 | 1,000 | — |
| Optiscan Biomedical, Corp. ⁽⁶⁾ | Medical Devices & Equipment | Equity | Preferred Series B | 6,185,567 | 3,000 | 411 |
| | Medical Devices & Equipment | Equity | Preferred Series C | 1,927,309 | 655 | 135 |
| | Medical Devices & Equipment | Equity | Preferred Series D | 41,352,489 | 3,945 | 4,006 |
| Total Optiscan Biomedical, Corp. | | | | 49,465,365 | 7,600 | 4,552 |
| Subtotal: Medical Devices & Equipment (0.81%)* | | | | | 9,775 | 5,287 |
| Software | | | | | | |
| Atrenta, Inc. | Software | Equity | Preferred Series C | 1,196,845 | 986 | 1,607 |
| | Software | Equity | Preferred Series D | 635,513 | 508 | 1,088 |
| Total Atrenta, Inc. | | | | 1,832,358 | 1,494 | 2,695 |
| Box, Inc. | Software | Equity | Preferred Series C | 390,625 | 500 | 7,031 |
| | Software | Equity | Preferred Series D | 158,133 | 500 | 2,846 |
| | Software | Equity | Preferred Series D-1 | 124,511 | 1,000 | 2,241 |
| | Software | Equity | Preferred Series D-2 | 220,751 | 2,001 | 3,974 |
| | Software | Equity | Preferred Series E | 38,183 | 500 | 687 |
| Total Box, Inc. | | | | 932,203 | 4,501 | 16,779 |
| CapLinked, Inc. | Software | Equity | Preferred Series A-3 | 53,614 | 51 | 92 |
| ForeScout Technologies, Inc. | Software | Equity | Preferred Series D | 319,099 | 398 | 849 |
| HighRoads, Inc. | Software | Equity | Preferred Series B | 190,170 | 307 | 337 |
| Subtotal: Software (3.19%)* | | | | | 6,751 | 20,754 |
| Specialty Pharmaceuticals | | | | | | |
| QuatRx Pharmaceuticals Company | Specialty Pharmaceuticals | Equity | Preferred Series E | 241,829 | 750 | — |
| | Specialty Pharmaceuticals | Equity | Preferred Series E-1 | 26,955 | — | — |
| | Specialty Pharmaceuticals | Equity | Preferred Series G | 4,667,636 | — | — |
| Total QuatRx Pharmaceuticals Company | | | | 4,936,420 | 750 | — |
| Subtotal: Specialty Pharmaceuticals (0.00%)* | | | | | 750 | — |
| Surgical Devices | | | | | | |
| Gynesonics, Inc. | Surgical Devices | Equity | Preferred Series B | 219,298 | 250 | 73 |
| | Surgical Devices | Equity | Preferred Series C | 656,538 | 282 | 123 |
| | Surgical Devices | Equity | Preferred Series D | 1,621,553 | 580 | 749 |
| Total Gynesonics, Inc. | | | | 2,497,389 | 1,112 | 945 |
| Transmedics, Inc. | Surgical Devices | Equity | Preferred Series B | 88,961 | 1,100 | 303 |
| | Surgical Devices | Equity | Preferred Series C | 119,999 | 300 | 212 |

| | Surgical Devices | Equity | Preferred Series D | | | 886 |
|--|------------------|--------|-----------------------|---------------|--|---------------|
| Total Transmedics, Inc. | | | <u>260,000</u> | <u>650</u> | | <u>1,401</u> |
| Subtotal: Surgical Devices (0.36%)* | | | <u>468,960</u> | <u>2,050</u> | | <u>2,346</u> |
| Total Equity (8.10%)* | | | | <u>36,808</u> | | <u>52,670</u> |

See notes to consolidated financial statements.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2013
(dollars in thousands)

| Portfolio Company | Sub-Industry | Type of Investment⁽¹⁾ | Series | Shares | Cost⁽²⁾ | Value⁽³⁾ |
|--|------------------------------|---|-----------------------|---------------|---------------------------|----------------------------|
| Warrant | | | | | | |
| Biotechnology Tools | | | | | | |
| Labcyte, Inc. | Biotechnology Tools | Warrant | Preferred Series C | 1,127,624 | \$ 323 | \$ 65 |
| NuGEN Technologies, Inc. | Biotechnology Tools | Warrant | Preferred Series B | 234,659 | 78 | 234 |
| Subtotal: Biotechnology Tools (0.05%)* | | | | | <u>401</u> | <u>299</u> |
| Energy Technology | | | | | | |
| Agrivida, Inc. | Energy Technology | Warrant | Preferred Series C | 77,447 | 120 | 243 |
| Alphabet Energy, Inc. | Energy Technology | Warrant | Preferred Series A | 86,329 | 82 | 176 |
| American Superconductor Corporation ⁽³⁾ | Energy Technology | Warrant | Common Stock | 512,820 | 391 | 175 |
| Brightsource Energy, Inc. | Energy Technology | Warrant | Preferred Series 1 | 175,000 | 780 | 214 |
| Calera, Inc. | Energy Technology | Warrant | Preferred Series C | 44,529 | 513 | — |
| EcoMotors, Inc. | Energy Technology | Warrant | Preferred Series B | 437,500 | 308 | 475 |
| Fluidic, Inc. | Energy Technology | Warrant | Preferred Series C | 59,665 | 102 | 138 |
| Fulcrum Bioenergy, Inc. | Energy Technology | Warrant | Preferred Series C-1 | 280,897 | 275 | 210 |
| Glori Energy, Inc. | Energy Technology | Warrant | Preferred Series C | 145,932 | 165 | 50 |
| GreatPoint Energy, Inc. | Energy Technology | Warrant | Preferred Series D-1 | 393,212 | 548 | — |
| Polyera Corporation | Energy Technology | Warrant | Preferred Series C | 161,575 | 69 | 44 |
| Propel Fuels | Energy Technology | Warrant | Preferred Series C | 3,200,000 | 211 | 233 |
| SCIEnergy, Inc. | Energy Technology | Warrant | Preferred Series D | 1,061,623 | 360 | 2 |
| Scifiniti (pka Integrated Photovoltaics, Inc.) | Energy Technology | Warrant | Preferred Series B | 390,000 | 82 | 68 |
| Solexel, Inc. | Energy Technology | Warrant | Preferred Series C | 1,171,625 | 1,162 | 278 |
| Stion Corporation ⁽⁶⁾ | Energy Technology | Warrant | Preferred Series Seed | 2,154 | 1,378 | 1,627 |
| TAS Energy, Inc. | Energy Technology | Warrant | Preferred Series F | 428,571 | 299 | 756 |
| TPI Composites, Inc. | Energy Technology | Warrant | Preferred Series B | 120 | 172 | 376 |
| Trilliant, Inc. | Energy Technology | Warrant | Preferred Series A | 320,000 | 162 | 34 |
| Subtotal: Energy Technology (0.78%)*(13) | | | | | <u>7,179</u> | <u>5,099</u> |
| Communications & Networking | | | | | | |
| Intelepeer, Inc. | Communications & Networking | Warrant | Preferred Series C | 117,958 | 102 | 112 |
| OpenPeak, Inc. | Communications & Networking | Warrant | Preferred Series 2 | 108,982 | 149 | — |
| PeerApp, Inc. | Communications & Networking | Warrant | Preferred Series B | 298,779 | 61 | 41 |
| Peerless Network, Inc. | Communications & Networking | Warrant | Preferred Series A | 135,000 | 95 | 368 |
| Ping Identity Corporation | Communications & Networking | Warrant | Preferred Series B | 1,136,277 | 52 | 98 |
| Spring Mobile Solutions, Inc. | Communications & Networking | Warrant | Preferred Series D | 2,834,375 | 417 | 661 |
| Stoke, Inc. | Communications & Networking | Warrant | Preferred Series C | 158,536 | 53 | 5 |
| | Communications & Networking | Warrant | Preferred Series D | 72,727 | 65 | 2 |
| Total Stoke, Inc. | | | | 231,263 | 118 | 7 |
| Subtotal: Communications & Networking (0.20%)* | | | | | <u>994</u> | <u>1,287</u> |
| Consumer & Business Products | | | | | | |
| Intelligent Beauty, Inc. | Consumer & Business Products | Warrant | Preferred Series B | 190,234 | 230 | 1,027 |
| IPA Holdings, LLC | Consumer & Business Products | Warrant | Common Stock | 650,000 | 275 | 408 |
| Market Force Information, Inc. | Consumer & Business Products | Warrant | Preferred Series A | 99,286 | 24 | 1 |
| Subtotal: Consumer & Business Products (0.22%)* | | | | | <u>529</u> | <u>1,436</u> |
| Diagnostic | | | | | | |
| Navidea Biopharmaceuticals, Inc. (pka Neoprobe) ⁽³⁾ | Diagnostic | Warrant | Common Stock | 333,333 | 244 | 152 |
| Subtotal: Diagnostic (0.02%)* | | | | | <u>244</u> | <u>152</u> |

See notes to consolidated financial statements.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2013
(dollars in thousands)

| Portfolio Company | Sub-Industry | Type of Investment ⁽¹⁾ | Series | Shares | Cost ⁽²⁾ | Value ⁽³⁾ | |
|---|---------------------------------|-----------------------------------|----------------------|---------|---------------------|----------------------|----|
| Drug Delivery | | | | | | | |
| AcelRx Pharmaceuticals, Inc. ⁽³⁾⁽¹⁰⁾ | Drug Delivery | Warrant | Common Stock | 176,730 | \$ 786 | \$ 961 | |
| Alexza Pharmaceuticals, Inc. ⁽³⁾ | Drug Delivery | Warrant | Common Stock | 37,639 | 645 | 1 | |
| BIND Therapeutics, Inc. ⁽³⁾ | Drug Delivery | Warrant | Common Stock | 71,359 | 367 | 294 | |
| Celsion Corporation ⁽³⁾ | Drug Delivery | Warrant | Common Stock | 97,493 | 227 | 249 | |
| Dance Biopharm, Inc. | Drug Delivery | Warrant | Preferred Series A | 97,701 | 74 | 154 | |
| Intelliject, Inc. | Drug Delivery | Warrant | Preferred Series B | 82,500 | 594 | 1,115 | |
| NuPathe, Inc. ⁽³⁾ | Drug Delivery | Warrant | Common Stock | 106,631 | 139 | 136 | |
| Revance Therapeutics, Inc. ⁽¹²⁾ | Drug Delivery | Warrant | Preferred Series E-5 | 802,675 | 557 | 330 | |
| Transcept Pharmaceuticals, Inc. ⁽³⁾ | Drug Delivery | Warrant | Common Stock | 61,452 | 87 | 3 | |
| Subtotal: Drug Delivery (0.50%)* | | | | | 3,476 | 3,243 | |
| Drug Discovery & Development | | | | | | | |
| Acceleron Pharma, Inc. ⁽³⁾ | Drug Discovery & Development | Warrant | Common Stock | 11,611 | 39 | 294 | |
| ADMA Biologics, Inc. ⁽³⁾ | Drug Discovery & Development | Warrant | Common Stock | 31,750 | 129 | 73 | |
| Anthera Pharmaceuticals, Inc. ⁽³⁾ | Drug Discovery & Development | Warrant | Common Stock | 40,178 | 984 | 9 | |
| Cell Therapeutics, Inc. ⁽³⁾ | Drug Discovery & Development | Warrant | Common Stock | 679,040 | 405 | 601 | |
| Cempra, Inc. ⁽³⁾ | Drug Discovery & Development | Warrant | Common Stock | 138,797 | 458 | 728 | |
| Chroma Therapeutics, Ltd. ⁽⁵⁾⁽¹⁰⁾ | Drug Discovery & Development | Warrant | Preferred Series D | 325,261 | 490 | 500 | |
| Cleveland BioLabs, Inc. ⁽³⁾ | Drug Discovery & Development | Warrant | Common Stock | 156,250 | 105 | 66 | |
| Concert Pharmaceuticals, Inc. ⁽¹²⁾ | Drug Discovery & Development | Warrant | Preferred Series C | 400,000 | 367 | 577 | |
| Coronado Biosciences, Inc. ⁽³⁾ | Drug Discovery & Development | Warrant | Common Stock | 73,009 | 142 | 41 | |
| Dicerna Pharmaceuticals, Inc. ⁽¹²⁾ | Drug Discovery & Development | Warrant | Common Stock | 200 | 28 | — | |
| | Drug Discovery & Development | Warrant | Preferred Series A | 21,000 | 237 | 38 | |
| | Drug Discovery & Development | Warrant | Preferred Series B | 26,400 | 310 | 48 | |
| Total Dicerna Pharmaceuticals, Inc. | | | | | 47,600 | 575 | 86 |
| Horizon Pharma, Inc. ⁽³⁾ | Drug Discovery & Development | Warrant | Common Stock | 22,408 | 231 | 5 | |
| Merrimack Pharmaceuticals, Inc. ⁽³⁾ | Drug Discovery & Development | Warrant | Common Stock | 302,143 | 155 | 488 | |
| Neuralstem, Inc. ⁽³⁾ | Drug Discovery & Development | Warrant | Common Stock | 648,798 | 295 | 1,045 | |
| Portola Pharmaceuticals, Inc. ⁽³⁾ | Drug Discovery & Development | Warrant | Common Stock | 68,702 | 153 | 683 | |
| uniQure B.V. ⁽⁵⁾⁽¹⁰⁾⁽¹²⁾ | Drug Discovery & Development | Warrant | Preferred Series A | 185,873 | 218 | 313 | |
| Subtotal: Drug Discovery & Development (0.85%)* | | | | | 4,746 | 5,509 | |
| Electronics & Computer Hardware | | | | | | | |
| Clustrix, Inc. | Electronics & Computer Hardware | Warrant | Common Stock | 50,000 | 12 | 16 | |
| Identive Group, Inc. ⁽³⁾ | Electronics & Computer Hardware | Warrant | Common Stock | 992,084 | 247 | 136 | |
| Plures Technologies, Inc. ⁽³⁾ | Electronics & Computer Hardware | Warrant | Preferred Series A | 552,467 | 124 | 100 | |
| Subtotal: Electronics & Computer Hardware (0.04%)* | | | | | 383 | 252 | |
| Healthcare Services, Other | | | | | | | |
| MDEverywhere, Inc. | Healthcare Services, Other | Warrant | Common Stock | 129 | 94 | 55 | |
| Subtotal: Healthcare Services, Other (0.01%)* | | | | | 94 | 55 | |
| Information Services | | | | | | | |
| Buzznet, Inc. | Information Services | Warrant | Preferred Series B | 19,962 | 9 | — | |
| Cha Cha Search, Inc. | Information Services | Warrant | Preferred Series G | 48,232 | 57 | 10 | |
| InXpo, Inc. | Information Services | Warrant | Preferred Series C | 648,400 | 98 | 45 | |
| | Information Services | Warrant | Preferred Series C-1 | 582,015 | 49 | 40 | |
| Total InXpo, Inc. | | | | | 1,230,415 | 147 | 85 |
| Jab Wireless, Inc. | Information Services | Warrant | Preferred Series A | 266,567 | 265 | 330 | |
| RichRelevance, Inc. | Information Services | Warrant | Preferred Series E | 112,612 | 98 | — | |
| Subtotal: Information Services (0.07%)* | | | | | 576 | 425 | |

See notes to consolidated financial statements.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2013
(dollars in thousands)

| Portfolio Company | Sub-Industry | Type of Investment⁽¹⁾ | Series | Shares | Cost⁽²⁾ | Value⁽³⁾ |
|---|---------------------------------------|---|----------------------|---------------|---------------------------|----------------------------|
| Internet Consumer & Business Services | | | | | | |
| Blurb, Inc. | Internet Consumer & Business Services | Warrant | Preferred Series B | 218,684 | \$ 299 | \$ 169 |
| | Internet Consumer & Business Services | Warrant | Preferred Series C | 234,280 | 636 | 248 |
| Total Blurb, Inc. | | | | 452,964 | 935 | 417 |
| CashStar, Inc. | Internet Consumer & Business Services | Warrant | Preferred Series C-2 | 454,545 | 102 | 47 |
| Gazelle, Inc. | Internet Consumer & Business Services | Warrant | Preferred Series D | 151,827 | 165 | 62 |
| Invoke Solutions, Inc. | Internet Consumer & Business Services | Warrant | Common Stock | 53,084 | 39 | — |
| Just Fabulous, Inc. | Internet Consumer & Business Services | Warrant | Preferred Series B | 137,456 | 589 | 1,057 |
| Prism Education Group, Inc. | Internet Consumer & Business Services | Warrant | Preferred Series B | 200,000 | 43 | — |
| Progress Financial | Internet Consumer & Business Services | Warrant | Preferred Series G | 174,562 | 78 | 76 |
| Reply! Inc. | Internet Consumer & Business Services | Warrant | Preferred Series B | 137,225 | 320 | 93 |
| ShareThis, Inc. | Internet Consumer & Business Services | Warrant | Preferred Series C | 493,502 | 546 | 241 |
| Tectura Corporation | Internet Consumer & Business Services | Warrant | Preferred Series B-1 | 253,378 | 51 | — |
| WaveMarket, Inc. | Internet Consumer & Business Services | Warrant | Preferred Series B-1 | 1,083,779 | 105 | 85 |
| Subtotal: Internet Consumer & Business Services (0.32%)* | | | | | 2,973 | 2,078 |
| Media/Content/Info | | | | | | |
| Everyday Health, Inc. (pka Waterfront Media, Inc.) | Media/Content/Info | Warrant | Preferred Series C | 110,018 | 60 | 50 |
| Glam Media, Inc. | Media/Content/Info | Warrant | Preferred Series D | 407,457 | 482 | — |
| Zoom Media Group, Inc. | Media/Content/Info | Warrant | Preferred Series A | 1,204 | 348 | 275 |
| Subtotal: Media/Content/Info (0.05%)* | | | | | 890 | 325 |
| Medical Devices & Equipment | | | | | | |
| Baxano Surgical, Inc. ⁽³⁾ | Medical Devices & Equipment | Warrant | Common Stock | 882,353 | 439 | 344 |
| Gelesis, Inc. ⁽⁶⁾ | Medical Devices & Equipment | Warrant | LLC Interest | 263,688 | 78 | 7 |
| Home Dialysis Plus, Inc. | Medical Devices & Equipment | Warrant | Preferred Series A | 300,000 | 245 | 297 |
| InspireMD, Inc. ⁽³⁾⁽⁵⁾⁽¹⁰⁾ | Medical Devices & Equipment | Warrant | Common Stock | 168,351 | 242 | 167 |
| Medrobotics Corporation | Medical Devices & Equipment | Warrant | Preferred Series D | 424,008 | 343 | 184 |
| | Medical Devices & Equipment | Warrant | Preferred Series E | 34,199 | 27 | 23 |
| Total Medrobotics Corporation | | | | 458,207 | 370 | 207 |
| MELA Sciences, Inc. ⁽³⁾ | Medical Devices & Equipment | Warrant | Common Stock | 693,202 | 401 | 94 |
| NetBio, Inc. | Medical Devices & Equipment | Warrant | Common Stock | 2,568 | 408 | 398 |
| NinePoint Medical, Inc. | Medical Devices & Equipment | Warrant | Preferred Series A-1 | 587,840 | 170 | 288 |
| Novasys Medical, Inc. | Medical Devices & Equipment | Warrant | Common Stock | 109,449 | 2 | — |
| | Medical Devices & Equipment | Warrant | Preferred Series D | 526,840 | 125 | — |
| | Medical Devices & Equipment | Warrant | Preferred Series D-1 | 53,607 | 6 | — |
| Total Novasys Medical, Inc. | | | | 689,896 | 133 | — |
| Optiscan Biomedical, Corp. ⁽⁶⁾ | Medical Devices & Equipment | Warrant | Preferred Series D | 10,535,275 | 1,252 | 232 |
| Oraya Therapeutics, Inc. | Medical Devices & Equipment | Warrant | Common Stock | 95,498 | 66 | 23 |
| | Medical Devices & Equipment | Warrant | Preferred Series C | 716,948 | 677 | 134 |
| Total Oraya Therapeutics, Inc. | | | | 812,446 | 743 | 157 |
| SonaCare Medical, LLC (pka US HIFU, LLC) | Medical Devices & Equipment | Warrant | Preferred Series A | 409,704 | 188 | 201 |
| United Orthopedic Group, Inc. | Medical Devices & Equipment | Warrant | Preferred Series A | 423,076 | 608 | 785 |
| ViewRay, Inc. | Medical Devices & Equipment | Warrant | Preferred Series C | 312,500 | 333 | 331 |
| Subtotal: Medical Devices & Equipment (0.54%)* | | | | | 5,610 | 3,508 |
| Semiconductors | | | | | | |
| Achronix Semiconductor Corporation | Semiconductors | Warrant | Preferred Series C | 360,000 | 160 | 194 |
| SiTime Corporation | Semiconductors | Warrant | Preferred Series G | 195,683 | 24 | 12 |
| Subtotal: Semiconductors (0.03%)* | | | | | 184 | 206 |

See notes to consolidated financial statements.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2013
(dollars in thousands)

| Portfolio Company | Sub-Industry | Type of Investment⁽¹⁾ | Series | Shares | Cost⁽²⁾ | Value⁽³⁾ |
|---|---------------------------|---|----------------------|---------------|---------------------------|----------------------------|
| Software | | | | | | |
| Atrenta, Inc. | Software | Warrant | Preferred Series D | 392,670 | \$ 121 | \$ 330 |
| Box, Inc. | Software | Warrant | Preferred Series B | 271,070 | 72 | 4,701 |
| | Software | Warrant | Preferred Series C | 199,219 | 117 | 3,331 |
| | Software | Warrant | Preferred Series D-1 | 62,255 | 194 | 625 |
| Total Box, Inc. | | | | 532,544 | 383 | 8,657 |
| Braxton Technologies, LLC | Software | Warrant | Preferred Series A | 168,750 | 187 | — |
| Central Desktop, Inc. | Software | Warrant | Preferred Series B | 522,769 | 108 | 187 |
| Clickfox, Inc. | Software | Warrant | Preferred Series B | 1,038,563 | 330 | 495 |
| | Software | Warrant | Preferred Series C | 592,019 | 730 | 363 |
| Total Clickfox, Inc. | | | | 1,630,582 | 1,060 | 858 |
| Daegis Inc. (pka Unify Corporation) ⁽³⁾ | Software | Warrant | Common Stock | 718,860 | 1,433 | 83 |
| ForeScout Technologies, Inc. | Software | Warrant | Preferred Series E | 80,587 | 41 | 82 |
| Hillcrest Laboratories, Inc. | Software | Warrant | Preferred Series E | 1,865,650 | 55 | 139 |
| Mobile Posse, Inc. | Software | Warrant | Preferred Series C | 396,430 | 130 | 129 |
| Neos Geosolutions, Inc. | Software | Warrant | Preferred Series 3 | 221,150 | 22 | — |
| Sonian, Inc. | Software | Warrant | Preferred Series C | 185,949 | 106 | 105 |
| SugarSync, Inc. | Software | Warrant | Preferred Series CC | 332,726 | 78 | 48 |
| | Software | Warrant | Preferred Series DD | 107,526 | 34 | 16 |
| Total Sugarsync, Inc. | | | | 440,252 | 112 | 64 |
| Touchcommerce, Inc. | Software | Warrant | Preferred Series E | 992,595 | 251 | 248 |
| White Sky, Inc. | Software | Warrant | Preferred Series B-2 | 124,295 | 54 | 4 |
| WildTangent, Inc. | Software | Warrant | Preferred Series 3 | 100,000 | 238 | 123 |
| Subtotal: Software (1.69%)* | | | | | 4,301 | 11,009 |
| Specialty Pharmaceuticals | | | | | | |
| QuatRx Pharmaceuticals Company | Specialty Pharmaceuticals | Warrant | Preferred Series E | 155,324 | 307 | — |
| Subtotal: Specialty Pharmaceuticals (0.00%)* | | | | | 307 | — |
| Surgical Devices | | | | | | |
| Gynesonics, Inc. | Surgical Devices | Warrant | Preferred Series C | 180,480 | 74 | 27 |
| | Surgical Devices | Warrant | Preferred Series D | 1,575,965 | 320 | 383 |
| Total Gynesonics, Inc. | | | | 1,756,445 | 394 | 410 |
| Transmedics, Inc. | Surgical Devices | Warrant | Preferred Series B | 40,436 | 225 | 9 |
| | Surgical Devices | Warrant | Preferred Series D | 175,000 | 100 | 335 |
| Total Transmedics, Inc. | | | | 215,436 | 325 | 344 |
| Subtotal: Surgical Devices (0.12%)* | | | | | 719 | 754 |
| Total Warrants (5.48%)* | | | | | 33,606 | 35,637 |
| Total Investments (140.04%)* | | | | | \$ 906,297 | \$ 910,295 |

* Value as a percent of net assets

- (1) Preferred and common stock, warrants, and equity interests are generally non-income producing.
- (2) Gross unrealized appreciation, gross unrealized depreciation, and net depreciation for federal income tax purposes totaled \$48.8 million, \$44.5 million and \$4.3 million respectively. The tax cost of investments is \$906.2 million
- (3) Except for warrants in twenty-five publicly traded companies and common stock in nine publicly traded companies, all investments are restricted at December 31, 2013 and were valued at fair value as determined in good faith by the Valuation Committee of the Board of Directors. No unrestricted securities of the same issuer are outstanding. The Company uses the Standard Industrial Code for classifying the industry grouping of its portfolio companies.
- (4) Debt investments of this portfolio company have been pledged as collateral under the Wells Facility.
- (5) Non-U.S. company or the company's principal place of business is outside the United States.
- (6) Affiliate investment that is defined under the Investment Company Act of 1940 as companies in which HTGC owns at least 5% but not more than 25% of the voting securities of the company.
- (7) Control investment that is defined under the Investment Company Act of 1940 as companies in which HTGC owns at least 25% of the voting securities of the company or has greater than 50% representation on its board.
- (8) Debt is on non-accrual status at December 31, 2013, and is therefore considered non-income producing.
- (9) Convertible Senior Debt
- (10) Indicates assets that the Company deems not "qualifying assets" under section 55(a) of the Investment Company Act of 1940, as amended. Qualifying assets must represent at least 70% of the Company's total assets at the time of acquisition of any additional non-qualifying assets.
- (11) Denotes that all or a portion of the debt investment secures the notes offered in the Debt Securitization (as defined in Note 4).
- (12) Subsequent to December 31, 2013, this company completed an initial public offering. Note that the December 31, 2013 fair value does not reflect any potential impact of the conversion of our preferred shares to common shares which may include reverse split associated with the offering.
- (13) In our quarterly and annual reports filed with the Commission prior to the Annual Report on Form 10-K for the year ended December 31, 2013, we referred to this industry sector as "Clean Tech."

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Description of Business and Basis of Presentation

Hercules Technology Growth Capital, Inc. (the “Company”) is a specialty finance company focused on providing senior secured loans to venture capital-backed companies in technology-related markets, including technology, biotechnology, life science, and energy and renewables technology industries at all stages of development. The Company sources its investments through its principal office located in Palo Alto, CA, as well as through its additional offices in Boston, MA, New York, NY and McLean, VA. The Company was incorporated under the General Corporation Law of the State of Maryland in December 2003.

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

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

HT II and HT III hold approximately \$142.8 million and \$305.0 million in assets, respectively, and they accounted for approximately 9.2% and 19.7% of our total assets, respectively, prior to consolidation at September 30, 2014.

The Company also established wholly owned subsidiaries, all of which are structured as Delaware corporations and limited liability companies, to hold portfolio companies organized as limited liability companies, or LLCs (or other forms of pass-through entities). By investing through these wholly owned subsidiaries, the Company is able to benefit from the tax treatment of these entities and create a tax structure that is more advantageous with respect to the Company’s RIC status.

The consolidated financial statements include the accounts of the Company, its subsidiaries and its consolidated securitization VIE. All inter-company accounts and transactions have been eliminated in consolidation. In accordance with Article 6 of Regulation S-X under the Securities Act of 1933 and the Securities and Exchange Act of 1934, the Company does not consolidate portfolio company investments. The accompanying consolidated interim financial statements are presented in conformity with U.S. generally accepted accounting principles (“U.S. GAAP”) for interim financial information, and pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X under the Securities Act of 1933 and the Securities Exchange Act of 1934. Accordingly, certain disclosures accompanying annual consolidated financial statements prepared in accordance with U.S. GAAP are omitted. In the opinion of management, all adjustments consisting solely of normal recurring accruals considered necessary for the fair statement of consolidated financial statements for the interim periods have been included. The current period’s results of operations are not necessarily indicative of results that ultimately may be achieved for the year. Therefore, the interim unaudited consolidated financial statements and notes should be read in conjunction with the audited consolidated financial statements and notes thereto for the period ended December 31, 2013. The year-end consolidated statement of assets and liabilities data was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. Financial statements prepared on a U.S. GAAP basis require management to make estimates and assumptions that affect the amounts and disclosures reported in the consolidated financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

2. Summary of Significant Accounting Policies

Principles of Consolidation

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

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

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

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

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

Valuation of Investments

At September 30, 2014, 83.3% of the Company's total assets represented investments in portfolio companies that are valued at fair value by the Board of Directors. Value, as defined in Section 2(a)(41) of the 1940 Act, is (i) the market price for those securities for which a market quotation is readily available and (ii) for all other securities and assets, fair value is as determined in good faith by the Board of Directors. The Company's investments are carried at fair value in accordance with the 1940 Act and Accounting Standards Codification topic 820 Fair Value Measurements and Disclosures ("ASC 820"). The Company's debt securities are primarily invested in venture capital-backed companies in technology-related markets, including technology, biotechnology, life science and energy and renewables technology industries. Given the nature of lending to these types of businesses, substantially all of the Company's investments in these portfolio companies are considered Level 3 assets under ASC 820 because there is no known or accessible market or market indexes for these investment securities to be traded or exchanged. As such, the Company values substantially all of its investments at fair value as determined in good faith pursuant to a consistent valuation policy and the Company's Board of Directors in accordance with the provisions of ASC 820 and the 1940 Act. Due to the inherent uncertainty in determining the fair value of investments that do not have a readily available market value, the fair value of the Company's investments determined in good faith by its Board of Directors may differ significantly from the value that would have been used had a readily available market existed for such investments, and the differences could be material.

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

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

- (1) the Company's quarterly valuation process begins with each portfolio company being initially valued by the investment professionals responsible for the portfolio investment;
- (2) preliminary valuation conclusions are then documented and business based assumptions are discussed with the Company's investment committee;

(3) the Audit Committee of the Board of Directors reviews the preliminary valuation of the investments in the portfolio as provided by the investment committee, which incorporates the results of the independent valuation firm as appropriate;

(4) the Board of Directors, upon the recommendation of the Audit Committee, discusses valuations and determines the fair value of each investment in our portfolio in good faith based on the input of, where applicable, the respective independent valuation firm and the investment committee.

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

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

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

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

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

In accordance with ASU 2011-04, the following tables provide quantitative information about the Company's Level 3 fair value measurements of the Company's investments as of September 30, 2014 (unaudited) and December 31, 2013. In addition to the techniques and inputs noted in the tables below, according to the Company's valuation policy, the Company may also use other valuation techniques and methodologies when determining the Company's fair value measurements. The table below is not intended to be all-inclusive, but rather provides information on the significant Level 3 inputs as they relate to the Company's fair value measurements.

| Investment Type - Level Three Debt Investments | Fair Value at September 30, 2014 (in thousands) | Valuation | | Range | Weighted Average ^(b) |
|---|--|---|---|------------------------------------|------------------------------------|
| | | Techniques/Methodologies | Unobservable Input ^(a) | | |
| Pharmaceuticals | \$ 82,606 | Originated Within 6 Months | Origination Yield | 9.79% - 17.50% | 12.58% |
| | 224,002 | Market Comparable Companies | Hypothetical Market Yield Premium/(Discount) | 7.45% - 16.07% (1.00%) - 0.50% | 13.07% |
| Medical Devices | 46,070 | Originated Within 6 Months | Origination Yield | 8.20% - 16.56% | 13.90% |
| | 74,172 | Market Comparable Companies | Hypothetical Market Yield Premium/(Discount) | 11.72% - 23.60% (1.00%) - 1.50% | 14.88% |
| | 9,367 | Liquidation ^(c) | Probability weighting of alternative outcomes | 25.00% - 75.00% | |
| Technology | 79,778 | Originated Within 6 Months | Origination Yield | 6.86% - 43.33% | 14.39% |
| | 104,927 | Market Comparable Companies | Hypothetical Market Yield Premium/(Discount) | 3.48% - 19.44% (0.50%) - 0.50% | 14.09% |
| | 161 | Liquidation ^(c) | Probability weighting of alternative outcomes | 50.00% | |
| Energy Technology | 30,000 | Originated Within 6 Months | Origination Yield | 14.16% | 14.16% |
| | 58,209 | Market Comparable Companies | Hypothetical Market Yield Premium/(Discount) | 12.25% - 17.53% (0.50%) - 1.00% | 15.39% |
| | 5,492 | Liquidation ^(c) | Probability weighting of alternative outcomes | 20.00% - 80.00% | |
| Lower Middle Market | 61,546 | Market Comparable Companies | Hypothetical Market Yield Premium/(Discount) | 11.59% - 15.90% 0.00% - 0.50% | 13.80% |
| | 17,737 | Liquidation ^(c) | Probability weighting of alternative outcomes | 10.00% - 75.00% | |
| | Debt Investments Where Fair Value Approximates Cost | | | | |
| | 91,917 | Imminent Payoffs | | | |
| | 21,939 | Debt Investments Maturing in Less than One Year | | | |
| | <u>\$ 907,923</u> | Total Level Three Debt Investments | | | |

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

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

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

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

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

Energy Technology, above, aligns with the Energy Technology Industry in the Schedule of Investments.

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

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

| Investment Type – Level Three Debt Investments | Fair Value at December 31, 2013 (in thousands) | Valuation Techniques/Methodologies | Unobservable Input ^(a) | | Weighted Average ^(c) |
|--|--|---|---|-------------------------|---------------------------------------|
| | | | | Range | |
| Pharmaceuticals | \$ 25,811 | Originated Within 6 Months | Origination Yield | 12.56% - 14.53% | 13.36% |
| | 250,607 | Market Comparable Companies | Hypothetical Market Yield | 13.83% - 15.47% | 14.13% |
| | | | Premium/(Discount) | (1.00%) - 0.00% | |
| Medical Devices | 46,900 | Originated Within 6 Months | Origination Yield | 13.54% - 17.37% | 14.87% |
| | 34,723 | Market Comparable Companies | Hypothetical Market Yield | 14.32% - 17.37% | 15.23% |
| | | | Premium/(Discount) | (1.00%) - 1.00% | |
| Technology | 18,796 | Originated Within 6 Months | Origination Yield | 10.62% - 15.97% | 14.26% |
| | 98,290 | Market Comparable Companies | Hypothetical Market Yield | 14.72% - 21.08% | 15.48% |
| | | | Premium/(Discount) | 0.00% - 1.00% | |
| | 1,643 | Liquidation | Probability weighting of alternative outcomes | 30.00% - 70.00% | |
| Energy Technology | 32,597 | Originated Within 6 Months | Origination Yield | 14.68% - 15.87% | 15.17% |
| | 108,238 | Market Comparable Companies | Hypothetical Market Yield | 15.37% | 15.37% |
| | | | Premium/(Discount) | (0.50%) - 1.50% | |
| Lower Middle Market | 121,347 | Market Comparable Companies | Hypothetical Market Yield | 14.83% - 19.73% | 16.12% |
| | 31,818 | Broker Quote ^(b) | Premium/(Discount) | 0.00% - 1.00% | |
| | | | Price Quotes | 99.50% - 100.25% of par | |
| | 12,576 | Liquidation | Par Value | \$2.0 - \$22.5 million | |
| | | | Probability weighting of alternative outcomes | 20.00% - 80.00% | |
| Debt Investments Where Fair Value Approximates Amortized Cost | | | | | |
| | 15,906 | Imminent Payoffs | | | |
| | 22,236 | Debt Investments Maturing in Less than One Year | | | |
| | 500 | Convertible Debt at Par | | | |
| | <u>\$ 821,988</u> | Total Level Three Debt Investments | | | |

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

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

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

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

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

Energy Technology, above, aligns with the Energy Technology Industry in the Schedule of Investments. In our quarterly and annual reports filed with the Commission prior to the 2013 Annual Report on Form 10-K, we referred to the Energy Technology Industry as "Clean Tech" and we referred to these investments as "Clean Tech" in the Schedule of Investments included in such reports.

(b) A broker quote valuation technique was used to derive the fair value of debt investments which are part of a syndicated facility.

(c) Weighted averages are calculated based on the fair market value of each investment.

| Investment Type - Level Three Equity and Warrant Investments | Fair Value at September 30, 2014 (in thousands) | Valuation Techniques/ Methodologies | Unobservable Input ^(a) | Range | Weighted Average ^(e) |
|---|---|--|---|-----------------|------------------------------------|
| Equity Investments | \$ 9,434 | Market Comparable Companies | EBITDA Multiple ^(b) | 4.6x - 22.8x | 8.9x |
| | | | Revenue Multiple ^(b) | 0.8x - 3.7x | 2.2x |
| | | | Discount for Lack of Marketability ^(c) | 9.24% - 35.82% | 16.55% |
| | | | Average Industry Volatility ^(d) | 54.11% - 97.91% | 61.99% |
| | | | Risk-Free Interest Rate | 0.10% - 0.89% | 0.15% |
| | 42,307 | Market Adjusted OPM Backsolve | Estimated Time to Exit (in months) | 10 - 32 | 11 |
| | | | Average Industry Volatility ^(d) | 34.93% - 84.30% | 55.96% |
| | | | Risk-Free Interest Rate | 0.10% - 1.38% | 0.21% |
| | | | Estimated Time to Exit (in months) | 17 - 47 | 11 |
| | | | | | |
| Warrant Investments | 7,980 | Market Comparable Companies | EBITDA Multiple ^(b) | 0.0x - 96.6x | 17.1x |
| | | | Revenue Multiple ^(b) | 0.3x - 13.9x | 3.7x |
| | | | Discount for Lack of Marketability ^(c) | 11.76% - 35.82% | 21.98% |
| | | | Average Industry Volatility ^(d) | 38.61% - 90.38% | 62.85% |
| | | | Risk-Free Interest Rate | 0.05% - 1.38% | 0.71% |
| | 9,783 | Market Adjusted OPM Backsolve | Estimated Time to Exit (in months) | 7 - 47 | 27 |
| | | | Average Industry Volatility ^(d) | 29.91% - 97.91% | 67.12% |
| | | | Risk-Free Interest Rate | 0.05% - 2.66% | 0.82% |
| | | | Estimated Time to Exit (in months) | 7 - 48 | 28 |
| | | | | | |
| Total Level Three Warrant and Equity Investments | \$ 69,504 | | | | |

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

| Investment Type - Level Three Equity and Warrant Investments | Fair Value at December 31, 2013 (in thousands) | Valuation Techniques/ Methodologies | Unobservable Input ^(a) | Range |
|---|--|--|---|----------------|
| Equity Investments | \$ 10,244 | Market Comparable Companies | EBITDA Multiple ^(b) | 8.6x - 17.7x |
| | | | Revenue Multiple ^(b) | 0.7x - 13.8x |
| | | | Discount for Lack of Marketability ^(c) | 9.1% - 23.6% |
| | | | Average Industry Volatility ^(d) | 43.4% - 110.7% |
| | | | Risk-Free Interest Rate | 0.1% - 0.4% |
| | 9,289 | Market Adjusted OPM Backsolve | Estimated Time to Exit (in months) | 6 - 30 |
| | | | Average Industry Volatility ^(d) | 45.6% - 109.7% |
| | | | Risk-Free Interest Rate | 0.1% - 0.9% |
| | | | Estimated Time to Exit (in months) | 6 - 42 |
| | | | | |
| 18,127 | Other | Average Industry Volatility ^(d) | 44.0% | |
| | | Risk-Free Interest Rate | 0.1% | |
| | | Estimated Time to Exit (in months) | 12 | |
| | | | | |
| | | | | |
| Warrant Investments | 10,200 | Market Comparable Companies | EBITDA Multiple ^(b) | 5.0x - 51.4x |
| | | | Revenue Multiple ^(b) | 0.5x - 13.8x |
| | | | Discount for Lack of Marketability ^(c) | 6.4% - 36.0% |
| | | | Average Industry Volatility ^(d) | 21.3% - 110.7% |
| | | | Risk-Free Interest Rate | 0.1% - 1.0% |
| | 8,913 | Market Adjusted OPM Backsolve | Estimated Time to Exit (in months) | 6 - 48 |
| | | | Average Industry Volatility ^(d) | 35.7% - 109.9% |
| | | | Risk-Free Interest Rate | 0.1% - 2.7% |
| | | | Estimated Time to Exit (in months) | 3 - 48 |
| | | | | |
| 9,595 | Other | Average Industry Volatility ^(d) | 44.0% - 56.9% | |
| | | Risk-Free Interest Rate | 0.1% - 1.0% | |
| | | Estimated Time to Exit (in months) | 12 - 48 | |
| | | | | |
| | | | | |
| Total Level Three Warrant and Equity Investments | \$ 66,368 | | | |

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

Debt Investments

The Company follows the guidance set forth in ASC 820 which establishes a framework for measuring the fair value of assets and liabilities and outlines a fair value hierarchy which prioritizes the inputs used to measure fair value and the effect of fair value measures on earnings. The Company's debt securities are primarily invested in venture capital-backed companies in technology- related markets, including technology, biotechnology, life science and energy and renewables technology industries. Given the nature of lending to these types of businesses, the Company's investments in these portfolio companies are considered Level 3 assets under ASC 820 because there is no known or accessible market or market indexes for debt instruments for these investment securities to be traded or exchanged.

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

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

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

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

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

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

Equity-Related Securities and Warrants

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

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

Investments measured at fair value on a recurring basis are categorized in the tables below based upon the lowest level of significant input to the valuations as of September 30, 2014 (unaudited) and as of December 31, 2013. The Company transfers investments in and out of Level 1, 2 and 3 securities as of the beginning balance sheet date, based on changes in the use of observable and unobservable inputs utilized to perform the valuation for the period. During the nine months ended September 30, 2014, there were no transfers between Levels 1 or 2.

| (in thousands) Description | Balance September 30, 2014 | Quoted Prices In Active Markets For Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|-------------------------------|----------------------------------|---|--|--|
| Senior secured debt | \$ 907,923 | \$ — | \$ — | \$ 907,923 |
| Preferred stock | 50,476 | — | — | 50,476 |
| Common stock | 18,113 | 16,848 | — | 1,265 |
| Warrants | 22,401 | — | 4,638 | 17,763 |
| | <u>\$ 998,913</u> | <u>\$ 16,848</u> | <u>\$ 4,638</u> | <u>\$ 977,427</u> |

| (in thousands) Description | Balance December 31, 2013 | Quoted Prices In Active Markets For Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|-------------------------------|---------------------------------|---|--|--|
| Senior secured debt | \$ 821,988 | \$ — | \$ — | \$ 821,988 |
| Preferred stock | 35,554 | — | — | 35,554 |
| Common stock | 17,116 | 15,009 | — | 2,107 |
| Warrants | 35,637 | — | 6,930 | 28,707 |
| | <u>\$ 910,295</u> | <u>\$ 15,009</u> | <u>\$ 6,930</u> | <u>\$ 888,356</u> |

The table below presents reconciliation for all financial assets and liabilities measured at fair value on a recurring basis, excluding accrued interest components, using significant unobservable inputs (Level 3) for the nine months ended September 30, 2014 (unaudited) and year ended December 31, 2013.

| (in thousands) | Balance, January 1, 2014 | Net Realized (Losses) ⁽¹⁾ | Net Change in Unrealized Appreciation (Depreciation) ⁽²⁾ | Purchases | Sales | Repayments | Gross Transfers into Level 3 ⁽³⁾ | Gross Transfers out of Level 3 ⁽³⁾ | Balance, September 30, 2014 |
|-----------------|-----------------------------|--|--|-------------------|-------------------|---------------------|--|--|--------------------------------|
| Senior Debt | \$ 821,988 | \$ — | \$ (7,799) | \$ 412,757 | \$ — | \$ (317,536) | \$ — | \$ (1,487) | \$ 907,923 |
| Preferred Stock | 35,554 | (250) | 10,358 | 5,028 | (503) | — | 1,769 | (1,480) | 50,476 |
| Common Stock | 2,107 | 689 | (342) | — | (1,189) | — | — | — | 1,265 |
| Warrants | 28,707 | 517 | (13,998) | 6,168 | (1,682) | — | — | (1,949) | 17,763 |
| | <u>\$ 888,356</u> | <u>\$ 956</u> | <u>\$ (11,781)</u> | <u>\$ 423,953</u> | <u>\$ (3,374)</u> | <u>\$ (317,536)</u> | <u>\$ 1,769</u> | <u>\$ (4,916)</u> | <u>\$ 977,427</u> |

| (in thousands) | Balance, January 1, 2013 | Net Realized Gains (Losses) ⁽¹⁾ | Net Change in Unrealized Appreciation (Depreciation) ⁽²⁾ | Purchases | Sales | Repayments | Gross Transfers into Level 3 ⁽⁴⁾ | Gross Transfers out of Level 3 ⁽⁴⁾ | Balance, December 31, 2013 |
|-----------------|-----------------------------|---|--|-------------------|--------------------|---------------------|--|--|-------------------------------|
| Senior Debt | \$ 827,540 | \$ (9,536) | \$ (8,208) | \$ 484,367 | \$ (8) | \$ (469,780) | \$ 769 | \$ (3,156) | \$ 821,988 |
| Preferred Stock | 33,178 | 7,968 | 7,682 | 6,198 | (18,572) | — | 776 | (1,676) | 35,554 |
| Common Stock | 2,367 | — | (1,103) | 750 | — | — | 93 | — | 2,107 |
| Warrants | 22,140 | 5,257 | 6,173 | 6,524 | (10,350) | — | — | (1,037) | 28,707 |
| | <u>\$ 885,225</u> | <u>\$ 3,689</u> | <u>\$ 4,544</u> | <u>\$ 497,839</u> | <u>\$ (28,930)</u> | <u>\$ (469,780)</u> | <u>\$ 1,638</u> | <u>\$ (5,869)</u> | <u>\$ 888,356</u> |

(1) Includes net realized gains (losses) recorded as realized gains or losses in the accompanying consolidated statements of operations.

(2) Included in change in net unrealized appreciation (depreciation) in the accompanying consolidated statements of operations.

(3) Transfers in/out of Level 3 during the nine months ended September 30, 2014 relate to the conversion of Paratek Pharmaceuticals, Inc., SCI Energy, Inc., Oraya Therapeutics, Inc., and Neuralstem, Inc. debt to equity, the exercise of warrants in Box, Inc. to equity, the conversion of warrants in Glori Energy, Inc. to equity in the company's reverse public merger and the initial public offerings of Concert Pharmaceuticals, Inc., Dicerna Pharmaceuticals, Inc., Everyday Health, Inc., Revance Therapeutics, Inc., and UniQure BV.

(4) Transfers in/out of Level 3 during the year ended December 31, 2013 relate to the conversion of Optiscan BioMedical, Inc., Gynesonics, Inc., Philotic, Inc., and Tethys BioScience, Inc. debt to equity, the conversion of OCZ Technology warrants to principal and the initial public offerings of Portola Pharmaceuticals, Inc., Acceleron Pharma, Inc., Bind, Inc., and ADMA Biologics, Inc.

For the nine months ended September 30, 2014, approximately \$9.8 million in net unrealized appreciation and approximately \$166,000 in net unrealized depreciation was recorded for preferred stock and common stock Level 3 investments, respectively, relating to assets still held at the reporting date. For the same period, approximately \$6.3 million and \$7.8 million in net unrealized depreciation was recorded for warrant and debt Level 3 investments, respectively, relating to assets still held at the reporting date.

For the year ended December 31, 2013, approximately \$4.4 million and \$4.1 million in net unrealized appreciation was recorded for preferred stock and warrant Level 3 investments, respectively, relating to assets still held at the reporting date. For the same period, approximately \$8.2 million and \$1.1 million in net unrealized depreciation was recorded for debt and common stock Level 3 investments, respectively, relating to assets still held at the reporting date.

As required by the 1940 Act, the Company classifies its investments by level of control. "Control investments" are defined in the 1940 Act as investments in those companies that the Company is deemed to "control". Generally, under the 1940 Act, the Company is deemed to "control" a company in which it has invested if it owns 25% or more of the voting securities of such company or has greater than 50% representation on its board. "Affiliate investments" are investments in those companies that are "affiliated companies" of the Company, as defined in the 1940 Act, which are not control investments. The Company is deemed to be an "affiliate" of a company in which it has invested if it owns 5% or more but 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 three and nine months ended September 30, 2014 and 2013 (unaudited). The Company did not hold any Control investments at either September 30, 2014 or 2013.

| (in thousands) | | Three Months Ended September 30, 2014 | | | | | Nine Months Ended September 30, 2014 | | | | |
|----------------------------|-----------|---------------------------------------|-------------------|--|--|----------------------|--------------------------------------|--|--|----------------------|--|
| Portfolio Company | Type | Fair Value at September 30, 2014 | Investment Income | Net Change in Unrealized (Depreciation)/Appreciation | Reversal of Unrealized (Depreciation)/Appreciation | Realized Gain/(Loss) | Investment Income | Net Change in Unrealized (Depreciation)/Appreciation | Reversal of Unrealized (Depreciation)/Appreciation | Realized Gain/(Loss) | |
| Gelesis, Inc. | Affiliate | \$ 316 | \$ — | \$ (36) | \$ — | \$ — | \$ — | \$ (156) | \$ — | \$ — | |
| Optiscan BioMedical, Corp. | Affiliate | 6,029 | — | (23) | — | — | — | (67) | — | — | |
| Stion Corporation | Affiliate | 2,500 | 138 | 606 | — | — | 1,777 | (2,634) | — | — | |
| | | <u>\$ 8,845</u> | <u>\$ 138</u> | <u>\$ 547</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 1,777</u> | <u>\$ (2,857)</u> | <u>\$ —</u> | <u>\$ —</u> | |

| (in thousands) | | Three Months Ended September 30, 2013 | | | | | Nine Months Ended September 30, 2013 | | | | |
|----------------------------|-----------|---------------------------------------|-------------------|--|--|----------------------|--------------------------------------|--|--|----------------------|--|
| Portfolio Company | Type | Fair Value at September 30, 2013 | Investment Income | Net Change in Unrealized (Depreciation)/Appreciation | Reversal of Unrealized (Depreciation)/Appreciation | Realized Gain/(Loss) | Investment Income | Net Change in Unrealized (Depreciation)/Appreciation | Reversal of Unrealized (Depreciation)/Appreciation | Realized Gain/(Loss) | |
| Gelesis, Inc. | Affiliate | \$ 523 | \$ — | \$ (487) | \$ — | \$ — | \$ — | \$ (1,143) | \$ — | \$ — | |
| Optiscan BioMedical, Corp. | Affiliate | 12,374 | 566 | (505) | — | — | 1,693 | (325) | — | — | |
| | | <u>\$ 12,897</u> | <u>\$ 566</u> | <u>\$ (992)</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 1,693</u> | <u>\$ (1,468)</u> | <u>\$ —</u> | <u>\$ —</u> | |

During the year ended December 31, 2013, Stion Corporation became classified as an affiliate.

A summary of the composition of the Company's investment portfolio as of September 30, 2014 (unaudited) and December 31, 2013 at fair value is shown as follows:

| (in thousands) | September 30, 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 | \$ 648,298 | 64.9% | \$ 634,820 | 69.7% |
| Senior secured debt | 282,026 | 28.2% | 222,805 | 24.5% |
| Preferred stock | 50,476 | 5.1% | 35,554 | 3.9% |
| Common Stock | 18,113 | 1.8% | 17,116 | 1.9% |
| | <u>\$ 998,913</u> | <u>100.0%</u> | <u>\$ 910,295</u> | <u>100.0%</u> |

The increase in senior secured debt is consistent with the overall increase in the investment portfolio at September 30, 2014 from December 31, 2013. The decrease in senior secured debt with warrants is primarily due to exercises of the Company's outstanding warrants to equity in four portfolio companies, with a cumulative fair value of approximately \$65.0 million, during the nine-months ended September 30, 2014. As a result, the existing debt investments that were included in senior secured debt with warrants at December 31, 2013 are included in senior secured debt at September 30, 2014.

A summary of the Company's investment portfolio, at value, by geographic location as of September 30, 2014 (unaudited) and December 31, 2013 is shown as follows:

| (in thousands) | September 30, 2014 | | December 31, 2013 | |
|----------------|---------------------------|-------------------------------|---------------------------|-------------------------------|
| | Investments at Fair Value | Percentage of Total Portfolio | Investments at Fair Value | Percentage of Total Portfolio |
| United States | \$ 943,918 | 94.5% | \$ 864,003 | 94.9% |
| Canada | 25,336 | 2.5% | 25,798 | 2.8% |
| Netherlands | 19,905 | 2.0% | 10,131 | 1.1% |
| Israel | 9,754 | 1.0% | 9,863 | 1.1% |
| England | — | — | 500 | 0.1% |
| | <u>\$ 998,913</u> | <u>100.0%</u> | <u>\$ 910,295</u> | <u>100.0%</u> |

The following table shows the fair value of the Company's portfolio by industry sector at September 30, 2014 (unaudited) and December 31, 2013:

| (in thousands) | September 30, 2014 | | December 31, 2013 | |
|---------------------------------------|---------------------------|-------------------------------|---------------------------|-------------------------------|
| | Investments at Fair Value | Percentage of Total Portfolio | Investments at Fair Value | Percentage of Total Portfolio |
| Drug Discovery & Development | \$ 232,214 | 23.2% | \$ 219,169 | 24.1% |
| Medical Devices & Equipment | 139,154 | 13.9% | 103,614 | 11.4% |
| Software | 112,503 | 11.3% | 65,218 | 7.2% |
| Internet Consumer & Business Services | 106,128 | 10.6% | 122,073 | 13.4% |
| Energy Technology | 98,555 | 9.9% | 164,466 | 18.1% |
| Drug Delivery | 83,247 | 8.3% | 62,022 | 6.8% |
| Specialty Pharmaceuticals | 73,127 | 7.3% | 20,055 | 2.2% |
| Communications & Networking | 56,292 | 5.6% | 35,979 | 4.0% |
| Media/Content/Info | 29,361 | 2.9% | 8,679 | 1.0% |
| Consumer & Business Products | 25,309 | 2.5% | 2,995 | 0.3% |
| Information Services | 14,917 | 1.5% | 46,565 | 5.1% |
| Surgical Devices | 9,822 | 1.0% | 10,307 | 1.0% |
| Healthcare Services, Other | 7,666 | 0.8% | 4,685 | 0.5% |
| Semiconductors | 5,354 | 0.6% | 29,080 | 3.2% |
| Biotechnology Tools | 3,894 | 0.4% | 5,275 | 0.6% |
| Diagnostic | 775 | 0.1% | 902 | 0.1% |
| Electronics & Computer Hardware | 595 | 0.1% | 9,211 | 1.0% |
| | <u>\$ 998,913</u> | <u>100.0%</u> | <u>\$ 910,295</u> | <u>100.0%</u> |

During the three and nine months ended September 30, 2014, the Company funded investments in debt securities totaling approximately \$125.1 million and \$408.3 million, respectively. During the three and nine months ended September 30, 2014, the Company funded equity investments totaling approximately \$3.5 million and \$5.1 million, respectively. During the three months ended September 30, 2014 the Company converted approximately \$250,000 of debt to equity in one portfolio company and during the nine months ended September 30, 2014 the Company converted approximately \$1.5 million of debt to equity in four portfolio companies.

During the three and nine months ended September 30, 2013, the Company funded investments in debt securities totaling approximately \$67.5 million and \$405.4 million, respectively. During the three and nine months ended September 30, 2013, the Company funded equity investments totaling approximately \$1.5 million and \$3.5 million, respectively. The Company did not convert any debt to equity in the three months ended September 30, 2013 and converted approximately \$836,000 of debt to equity in three portfolio companies in the nine months ended September 30, 2013. The Company converted approximately \$803,000 of warrants to debt in both the three and nine months ended September 30, 2013.

No single portfolio investment represents more than 10% of the fair value of the investments as of September 30, 2014 and December 31, 2013.

During the three and nine months ended September 30, 2014, the Company recognized net realized gains of approximately \$5.7 million (or \$0.09 per share) and \$13.0 million (or \$0.21 per share) on the portfolio, respectively. During the three months ended September 30, 2014, the Company recorded gross realized gains of approximately \$5.9 million primarily from the sale of investments in two portfolio companies, including Acceleron Pharma (\$3.1 million) and IPA Holdings (\$1.5 million). These gains were partially offset by gross realized losses of approximately \$218,000 from the liquidation of the Company's investments in two portfolio companies. During the nine months ended September 30, 2014, the Company recorded gross realized gains of approximately \$13.8 million primarily from the sale of investments in six portfolio companies, including Acceleron Pharma (\$4.0 million), Neuralstem (\$1.7 million), IPA Holdings (\$1.5 million), Cell Therapeutics (\$1.3 million), Trulia (\$1.0 million), and Portola Pharmaceuticals (\$700,000). These gains were partially offset by gross realized losses of approximately \$748,000 from the liquidation of the Company's investments in eight portfolio companies.

During the three and nine months ended September 30, 2013, the Company recognized net realized gains of approximately \$7.1 million and \$11.3 million on the portfolio, respectively. During the three months ended September 30, 2013, the Company recorded gross realized gains of approximately \$7.8 million primarily from the sale of investments in three portfolio companies, including iWatt, Inc. (\$4.7 million), AcelRx, Inc. (\$1.1 million) and Facebook, Inc. (\$728,000). These gains were partially offset by gross realized losses of \$460,000 from the liquidation of the Company's investments in six portfolio companies. During the nine months ended September 30, 2013, the Company recorded gross realized gains of approximately \$17.5 million primarily from the sale of investments in eight portfolio companies. These gains were partially offset by approximately \$6.2 million in gross realized losses from the liquidation of the Company's investments in nineteen portfolio companies.

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. Loan exit fees to be paid at the termination of the loan are accreted into interest income over the contractual life of the loan. The Company had approximately \$3.9 million and \$4.0 million of unamortized fees at September 30, 2014 and December 31, 2013, respectively, and approximately \$21.4 million and \$14.4 million in exit fees receivable at September 30, 2014 and December 31, 2013, respectively.

The Company has debt investments in its portfolio that contain a payment-in-kind ("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 the Company's status as a RIC, this non-cash source of income must be paid out to stockholders in the form of dividends even though the Company has not yet collected the cash. Amounts necessary to pay these dividends may come from available cash or the liquidation of certain investments. The Company recorded approximately \$851,000 and \$889,000 in PIK income during the three months ended September 30, 2014 and 2013, respectively. The Company recorded approximately \$2.6 million and \$2.7 million in PIK income during the nine months ended September 30, 2014 and 2013, respectively.

In certain investment transactions, the Company may provide advisory services. For services that are separately identifiable and external evidence exists to substantiate fair value, income is recognized as earned, which is generally when the investment transaction closes. The Company had no income from advisory services in the three and nine months ended September 30, 2014 and 2013.

In the majority of cases, the Company collateralizes its investments by obtaining a first priority security interest in a portfolio company's assets, which may include its intellectual property. In other cases, the Company may obtain a negative pledge covering a company's intellectual property. At September 30, 2014, approximately 59.4% 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 40.6% of the debt investments were to portfolio companies that were prohibited from pledging or encumbering their intellectual property. At September 30, 2014 the Company had no equipment only liens on any of our portfolio companies.

3. Fair Value of Financial Instruments

Fair value estimates are made at discrete points in time based on relevant information. These estimates may be subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. The Company believes that the carrying amounts of its financial instruments, consisting of cash and cash equivalents, receivables, accounts payable and accrued liabilities, approximate the fair values of such items due to the short maturity of such instruments. The Convertible Senior Notes, 2019 Notes payable (the "April 2019 Notes" and the "September 2019 Notes", together the "2019 Notes"), the 2024 Notes, the Asset-Backed Notes and the SBA debentures as sources of liquidity remain a strategic advantage due to their flexible structure, long-term duration, and low fixed interest rates. At September 30, 2014, the April 2019 Notes were trading on the New York Stock Exchange for \$1.020 per dollar at par value, the September 2019 Notes were trading on the New York Stock Exchange for \$1.015 per dollar at par value and the 2024 Notes were trading on the New York Stock Exchange for \$0.988 per dollar at par value. Based on market quotations on September 30, 2014, the Convertible Senior Notes were trading for \$1.258 per dollar at par value and the Asset-Backed Notes were trading for \$1.003 per dollar at par value. Calculated based on the net present value of payments over the term of the notes using estimated market rates for similar notes and remaining terms, the fair value of the SBA debentures would be approximately \$195.8 million, compared to the carrying amount of \$190.2 million as of September 30, 2014.

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

The liabilities of the Company below are recorded at amortized cost and not at fair value on the Consolidated Statement of Assets and Liabilities. The following table provides additional information about the level in the fair value hierarchy of the Company's liabilities at September 30, 2014 (unaudited) and December 31, 2013:

| (in thousands) Description | September 30, 2014 | Identical Assets (Level 1) | Observable Inputs (Level 2) | Unobservable Inputs (Level 3) |
|-------------------------------|--------------------|-------------------------------|--------------------------------|-------------------------------------|
| Convertible Senior Notes | \$ 51,461 | \$ — | \$ 51,461 | \$ — |
| Asset Backed Notes | \$ 28,021 | \$ — | \$ — | \$ 28,021 |
| April 2019 Notes | \$ 86,180 | \$ — | \$ 86,180 | \$ — |
| September 2019 Notes | \$ 87,145 | \$ — | \$ 87,145 | \$ — |
| 2024 Notes | \$ 101,805 | \$ — | \$ 101,805 | \$ — |
| SBA Debentures | \$ 195,841 | \$ — | \$ — | \$ 195,841 |

| (in thousands) Description | December 31, 2013 | Identical Assets (Level 1) | Observable Inputs (Level 2) | Unobservable Inputs (Level 3) |
|-------------------------------|-------------------|-------------------------------|--------------------------------|-------------------------------------|
| Convertible Senior Notes | \$ 105,206 | \$ — | \$ 105,206 | \$ — |
| Asset Backed Notes | \$ 89,893 | \$ — | \$ — | \$ 89,893 |
| April 2019 Notes | \$ 86,281 | \$ — | \$ 86,281 | \$ — |
| September 2019 Notes | \$ 87,248 | \$ — | \$ 87,248 | \$ — |
| SBA Debentures | \$ 222,742 | \$ — | \$ — | \$ 222,742 |

4. Borrowings Long Term

Outstanding Borrowings

At September 30, 2014 (unaudited) and December 31, 2013, the Company had the following available borrowings and outstanding borrowings:

| (in thousands) | September 30, 2014 | | December 31, 2013 | |
|---|--------------------|-------------------------------|-------------------|-------------------------------|
| | Total Available | Carrying Value ⁽¹⁾ | Total Available | Carrying Value ⁽¹⁾ |
| SBA Debentures ⁽²⁾ | \$ 190,200 | \$ 190,200 | \$ 225,000 | \$ 225,000 |
| 2019 Notes | 170,364 | 170,364 | 170,364 | 170,364 |
| 2024 Notes | 103,000 | 103,000 | — | — |
| Asset-Backed Notes | 27,951 | 27,951 | 89,557 | 89,557 |
| Convertible Senior Notes ⁽³⁾ | 40,923 | 40,012 | 75,000 | 72,519 |
| Wells Facility | 75,000 | — | 75,000 | — |
| Union Bank Facility | 75,000 | — | 30,000 | — |
| | <u>\$ 682,438</u> | <u>\$ 531,527</u> | <u>\$ 664,921</u> | <u>\$ 557,440</u> |

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

(2) In March 2014, the Company repaid \$34.8 million of SBA debentures under HT II, priced at approximately 6.38%, including annual fees. At September 30, 2014, the total available borrowings under the SBA debentures were \$190.2 million, of which \$41.2 million was available in HT II and \$149.0 million was available in HT III. At December 31, 2013, the total available borrowings under the SBA debentures were \$225.0 million, of which \$76.0 million was available in HT II and \$149.0 million was available in HT III.

(3) During the three months ended September 30, 2014, holders of approximately \$34.1 million of the Company's Convertible Senior Notes exercised their conversion rights. The balance at September 30, 2014 represents the remaining aggregate principal amount outstanding of the Convertible Senior Notes less the unaccreted discount initially recorded upon issuance of the Convertible Senior Notes. The total unaccreted discount for the Convertible Senior Notes was approximately \$911,000 at September 30, 2014 and \$2.5 million at December 31, 2013.

Long-Term SBA Debentures

On September 27, 2006, HT II received a license to operate as a SBIC under the SBIC program and is able to borrow funds from the SBA against eligible investments and regulatory capital. Under the Small Business Investment Company Act and current SBA policy applicable to SBICs, a SBIC can have outstanding at any time SBA guaranteed debentures up to twice the amount of its regulatory capital. With the Company's net investment of \$38.0 million in HT II as of September 30, 2014, HT II has the capacity to issue a total of \$41.2 million of SBA guaranteed debentures, subject to SBA approval, of which \$41.2 million was available at September 30, 2014. As of September 30, 2014, HT II has paid the SBA commitment fees and facility fees of approximately \$1.5

million and \$3.6 million, respectively. As of September 30, 2014 the Company held investments in HT II in 42 companies with a fair value of approximately \$110.9 million, accounting for approximately 11.1% of the Company's total portfolio at September 30, 2014.

On May 26, 2010, HT III received a license to operate as a SBIC under the SBIC program and is able to borrow funds from the SBA against eligible investments and additional contributions to regulatory capital. With the Company's net investment of \$74.5 million in HT III as of September 30, 2014, HT III has the capacity to issue a total of \$149.0 million of SBA guaranteed debentures, of which \$149.0 million was outstanding as of September 30, 2014. As of September 30, 2014, HT III has paid commitment fees and facility fees of approximately \$1.5 million and \$3.6 million, respectively. As of September 30, 2014, the Company held investments in HT III in 42 companies with a fair value of approximately \$255.5 million accounting for approximately 25.6% of the Company's total portfolio at September 30, 2014.

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

HT II and HT III are periodically examined and audited by the SBA's staff to determine their compliance with SBA regulations. If HT II or HT III fails to comply with applicable SBA regulations, the SBA could, depending on the severity of the violation, limit or prohibit HT II's or HT III's use of debentures, declare outstanding debentures immediately due and payable, and/or limit HT II or HT III from making new investments. In addition, HT II or HT III may also be limited in their ability to make distributions to the Company if they do not have sufficient capital in accordance with SBA regulations. Such actions by the SBA would, in turn, negatively affect the Company because HT II and HT III are the Company's wholly owned subsidiaries. HT II and HT III were in compliance with the terms of the SBIC's leverage as of September 30, 2014 as a result of having sufficient capital as defined under the SBA regulations.

The rates of borrowings under various draws from the SBA beginning in March 2009 are set semiannually in March and September and range from 2.25% to 4.62%. Interest payments on SBA debentures are payable semiannually. There are no principal payments required on these issues prior to maturity and no prepayment penalties. Debentures under the SBA generally mature ten years after being borrowed. Based on the initial draw down date of March 2009, the initial maturity of SBA debentures will occur in March 2019. In addition, the SBA charges a fee that is set annually, depending on the Federal fiscal year the leverage commitment was delegated by the SBA, regardless of the date that the leverage was drawn by the SBIC. The annual fees related to HT II debentures that pooled on September 22, 2010 were 0.406% and 0.285%, depending upon the year in which the underlying commitment was closed. The annual fees on other debentures have been set at 0.906%. The annual fees related to HT III debentures that pooled on March 27, 2013 were 0.804%. The annual fees on other debentures have been set at 0.515%. The average amount of debentures outstanding for the three months ended September 30, 2014 for HT II was approximately \$41.2 million with an average interest rate of approximately 4.56%. The average amount of debentures outstanding for the three months ended September 30, 2014 for HT III was approximately \$149.0 million with an average interest rate of approximately 3.46%. The average amount of debentures outstanding for the nine months ended September 30, 2014 for HT II was approximately \$48.6 million with an average interest rate of approximately 4.80%. The average amount of debentures outstanding for the nine months ended September 30, 2014 for HT III was approximately \$149.0 million with an average interest rate of approximately 3.42%.

As of September 30, 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 September 30, 2014, with the Company's 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, the Company repaid \$34.8 million of SBA debentures under HT II, priced at approximately 6.38%, including annual fees. At September 30, 2014, the Company has issued \$190.2 million in SBA-guaranteed debentures in the Company's SBIC subsidiaries.

The Company reported the following SBA debentures outstanding as of September 30, 2014 (unaudited) and December 31, 2013:

| (in thousands) Issuance/Pooling Date | Maturity Date | Interest Rate ⁽¹⁾ | September 30, 2014 | December 31, 2013 |
|---|-------------------|------------------------------|--------------------|-------------------|
| SBA Debentures: | | | | |
| March 26, 2008 | March 1, 2018 | 6.38% | \$ — | \$ 34,800 |
| March 25, 2009 | March 1, 2019 | 5.53% | 18,400 | 18,400 |
| September 23, 2009 | September 1, 2019 | 4.64% | 3,400 | 3,400 |
| September 22, 2010 | September 1, 2020 | 3.62% | 6,500 | 6,500 |
| September 22, 2010 | September 1, 2020 | 3.50% | 22,900 | 22,900 |
| March 29, 2011 | March 1, 2021 | 4.37% | 28,750 | 28,750 |
| September 21, 2011 | September 1, 2021 | 3.16% | 25,000 | 25,000 |
| March 21, 2012 | March 1, 2022 | 3.28% | 25,000 | 25,000 |
| March 21, 2012 | March 1, 2022 | 3.05% | 11,250 | 11,250 |
| September 19, 2012 | September 1, 2022 | 3.05% | 24,250 | 24,250 |
| March 27, 2013 | March 1, 2023 | 3.16% | 24,750 | 24,750 |
| Total SBA Debentures | | | \$ 190,200 | \$ 225,000 |

(1) Interest rate includes annual charge

2019 Notes

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

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

On September 24, 2012, the Company and the Trustee, entered into the Second Supplemental Indenture to the Base Indenture (the “Second Supplemental Indenture”), dated as of September 24, 2012, relating to the Company’s issuance, offer and sale of \$75.0 million aggregate principal amount of 7.00% senior notes due 2019 (the “September 2019 Notes” and, together with the April 2019 Notes, the “2019 Notes”). The sale of the September 2019 Notes generated net proceeds, before expenses, of approximately \$72.75 million.

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

As of September 30, 2014 (unaudited) and December 31, 2013, the 2019 Notes payable is comprised of:

| (in thousands) | September 30, 2014 | December 31, 2013 |
|------------------------------|--------------------|-------------------|
| April 2019 Notes | \$ 84,490 | \$ 84,490 |
| September 2019 Notes | 85,874 | 85,874 |
| Carrying Value of 2019 Notes | \$ 170,364 | \$ 170,364 |

April 2019 Notes

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

The April 2019 Notes are the Company's direct unsecured obligations and rank: (i) *pari passu* with the Company's other outstanding and future senior unsecured indebtedness, including without limitation, the \$40.9 million in aggregate principal amount of the Convertible Senior Notes; (ii) senior to any of the Company's future indebtedness that expressly provides it is subordinated to the April 2019 Notes; (iii) effectively subordinated to all the Company's existing and future secured indebtedness (including indebtedness that is initially unsecured to which the Company subsequently grant security), to the extent of the value of the assets securing such indebtedness, including without limitation, borrowings under the Company's Credit Facilities; (iv) structurally subordinated to all existing and future indebtedness and other obligations of any of the Company's subsidiaries, including without limitation, the indebtedness of Hercules Technology II, L.P. and Hercules Technology III, L.P. and borrowings under the Company's revolving senior secured credit facility with Wells Fargo Capital Finance, LLC.

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

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

September 2019 Notes

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

The September 2019 Notes are the Company's direct unsecured obligations and rank: (i) *pari passu* with the Company's other outstanding and future senior unsecured indebtedness, including without limitation, the \$40.9 million in aggregate principal amount of the Convertible Senior Notes; (ii) senior to any of the Company's future indebtedness that expressly provides it is subordinated to the September 2019 Notes; (iii) effectively subordinated to all the Company's existing and future secured indebtedness (including indebtedness that is initially unsecured to which the Company subsequently grants security), to the extent of the value of the assets securing such indebtedness, including without limitation, borrowings under the Company's credit facilities; (iv) structurally subordinated to all existing and future indebtedness and other obligations of any of the Company's subsidiaries, including without limitation, the indebtedness of Hercules Technology II, L.P. and Hercules Technology III, L.P. and borrowings under the Company's revolving senior secured credit facility with Wells Fargo Capital Finance.

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

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

For the three and nine months ended September 30, 2014 and 2013 (unaudited), the components of interest expense and related fees and cash paid for interest expense for the April 2019 Notes and September 2019 Notes are as follows:

| (in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|----------------------------------|----------|---------------------------------|----------|
| | 2014 | 2013 | 2014 | 2013 |
| Stated interest expense | \$ 2,981 | \$ 2,981 | \$ 8,944 | \$ 8,944 |
| Amortization of debt issuance cost | 243 | 243 | 725 | 725 |
| Total interest expense and fees | \$ 3,224 | \$ 3,224 | \$ 9,669 | \$ 9,669 |
| Cash paid for interest expense and fees | \$ 2,981 | \$ 2,981 | \$ 8,944 | \$ 8,944 |

As of September 30, 2014, the Company was in compliance with the terms of the Base Indenture, and respective supplemental indentures thereto, governing the April 2019 Notes and September 2019 Notes.

2024 Notes

On July 14, 2014, the Company and U.S. Bank, N.A. (the “Trustee”), entered into the Third Supplemental Indenture (the “Third Supplemental Indenture”) to the Base Indenture between the Company and the Trustee, dated July 14, 2014, relating to the Company’s issuance, offer and sale of \$100.0 million aggregate principal amount of 2024 Notes. On August 6, 2014, the underwriters issued notification to exercise their over-allotment option for an additional \$3.0 million in aggregate principal amount of the 2024 Notes. The sale of the 2024 Notes generated net proceeds of approximately \$99.9 million.

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

The 2024 Notes will be the Company’s direct unsecured obligations and will rank: (i) *pari passu* with the Company’s other outstanding and future senior unsecured indebtedness, including without limitation, the approximately \$84.5 million 7.00% Senior Notes due April 30, 2019 (the “April 2019 Notes”); the approximately \$85.9 million 7.00% Senior Notes due September 30, 2019 (the “September 2019 Notes” and together with the April 2019 Notes, the “2019 Notes”), the \$40.9 million 6.00% Convertible Senior Notes due 2016 (the “Convertible Senior Notes”) and the approximately \$28.0 million fixed-rate asset-backed notes (the “Asset-Backed Notes”); (ii) senior to any of the Company’s future indebtedness that expressly provides it is subordinated to the 2024 Notes; (iii) effectively subordinated to all the Company’s existing and future secured indebtedness (including indebtedness that is initially unsecured to which the Company subsequently grants security), to the extent of the value of the assets securing such indebtedness, including without limitation, borrowings under the Company’s credit facilities; (iv) structurally subordinated to all existing and future indebtedness and other obligations of any of the Company’s subsidiaries, including without limitation, the indebtedness of HT II and HT III and any borrowings under the Company’s revolving senior secured credit facility with Wells Fargo Capital Finance.

The Base Indenture, as supplemented by the Third Supplemental Indenture, contains certain covenants including covenants requiring the Company to comply with (regardless of whether it is subject to) the asset coverage requirements set forth in Section 18(a)(1)(A) as modified by Section 61(a)(1) of the 1940 Act and to comply with the restrictions on dividends, distributions and purchase of capital stock set forth in Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act. These covenants are subject to important limitations and exceptions that are described in the Base Indenture, as supplemented by the Third Supplemental Indenture. The Base Indenture, as supplemented by the Third Supplemental Indenture, also contains certain reporting requirements, including a requirement that the Company provide financial information to the holders of the 2024 Notes and the Trustee if the Company should no longer be subject to the reporting requirements under the Securities Exchange Act of 1934. The Base Indenture provides for customary events of default and further provides that the Trustee or the holders of 25% in aggregate principal amount of the outstanding 2024 Notes in a series may declare such 2024 Notes immediately due and payable upon the occurrence of any event of default after expiration of any applicable grace period. As of September 30, 2014, the Company was in compliance with the terms of the Base Indenture as supplemented by the Third Supplemental Indenture.

At September 30, 2014, the 2024 Notes had an outstanding principal balance of \$103.0 million.

For the three and nine months ended September 30, 2014 (unaudited), the components of interest expense and related fees and cash paid for interest expense for the 2024 Notes are as follows:

| (in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|----------------------------------|------|---------------------------------|------|
| | 2014 | 2013 | 2014 | 2013 |
| Stated interest expense | \$ 1,068 | \$ — | \$ 1,068 | \$ — |
| Amortization of debt issuance cost | 69 | — | 69 | — |
| Total interest expense and fees | \$ 1,137 | \$ — | \$ 1,137 | \$ — |
| Cash paid for interest expense and fees | \$ 278 | \$ — | \$ 278 | \$ — |

Asset-Backed Notes

On December 19, 2012, the Company completed a \$230.7 million term debt securitization in connection with which an affiliate of the Company's made an offer of \$129.3 million in aggregate principal amount of fixed-rate asset-backed notes (the "Asset-Backed Notes"), which Asset-Backed Notes were rated A2(sf) by Moody's Investors Service, Inc. The Asset-Backed Notes were issued by Hercules Capital Funding Trust 2012-1 pursuant to a note purchase agreement, dated as of December 12, 2012, by and among the Company, Hercules Capital Funding Trust 2012-1 LLC, as Trust Depositor (the "Trust Depositor"), Hercules Capital Funding Trust 2012-1, as Issuer (the "Issuer"), and Guggenheim Securities, LLC, as Initial Purchaser, and are backed by a pool of senior loans made to certain of the Company's portfolio companies and secured by certain assets of those portfolio companies and are to be serviced by the Company. Interest on the Asset-Backed Notes will be paid, to the extent of funds available, at a fixed rate of 3.32% per annum. The Asset-Backed Notes have a stated maturity of December 16, 2017.

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

In connection with the issuance and sale of the Asset-Backed Notes, the Company has made customary representations, warranties and covenants in the note purchase agreement. The Asset-Backed Notes are secured obligations of the Issuer and are non-recourse to the Company. The Issuer also entered into an indenture governing the Asset-Backed Notes, which includes customary representations, warranties and covenants. The Asset-Backed Notes were sold without being registered under the Securities Act of 1933, as amended (the "Securities Act"), to "qualified institutional buyers" in compliance with the exemption from registration provided by Rule 144A under the Securities Act and to institutional "accredited investors" (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) who in each case, are "qualified purchasers" for purposes of Section 3(c)(7) under the 1940 Act. In addition, the Trust Depositor entered into an amended and restated trust agreement, which includes customary representation, warranties and covenants.

The Loans are serviced by the Company pursuant to a sale and servicing agreement, which contains customary representations, warranties and covenants. The Company performs certain servicing and administrative functions with respect to the Loans. The Company is entitled to receive a monthly fee from the Issuer for servicing the Loans. This servicing fee is equal to the product of one-twelfth (or in the case of the first payment date, a fraction equal to the number of days from and including December 5, 2012 through and including January 15, 2013 over 360) of 2.00% and the aggregate outstanding principal balance of the Loans, excluding all defaulted Loans and all purchased Loans, as of the first day of the related collection period (the period from the 5th day of the immediately preceding calendar month through the 4th day of the calendar month in which a payment date occurs, and for the first payment date, the period from and including December 5, 2012, to the close of business on January 4, 2013).

The Company also serves as administrator to the Issuer under an administration agreement, which includes customary representations, warranties and covenants.

At September 30, 2014 and December 31, 2013, the Asset Backed Notes had an outstanding principal balance of \$28.0 million and \$89.6 million, respectively.

Under the terms of the Asset Backed Notes, the Company is required to maintain a reserve cash balance, funded through interest and principal collections from the underlying securitized debt portfolio, which may be used to pay monthly interest and principal payments on the Asset-Backed Notes. The Company has segregated these funds and classified them as Restricted Cash. There was approximately \$2.1 million and \$6.3 million of Restricted Cash as of September 30, 2014 and December 31, 2013, respectively, funded through interest collections.

Convertible Senior Notes

In April 2011, the Company issued \$75.0 million in aggregate principal amount of 6.00% convertible senior notes (the “Convertible Senior Notes”) due 2016. During the three months ended September 30, 2014, holders of approximately \$34.1 million of the Company’s Convertible Senior Notes exercised their conversion rights. As of September 30, 2014, the carrying value of the Convertible Senior Notes, comprised of the aggregate principal amount outstanding less the unaccreted discount initially recorded upon issuance of the Convertible Senior Notes, is approximately \$40.0 million.

The Convertible Senior Notes mature on April 15, 2016 (the “Maturity Date”), unless previously converted or repurchased in accordance with their terms. The Convertible Senior Notes bear interest at a rate of 6.00% per year payable semiannually in arrears on April 15 and October 15 of each year, commencing on October 15, 2011. The Convertible Senior Notes are the Company’s senior unsecured obligations and rank senior in right of payment to the Company’s existing and future indebtedness that is expressly subordinated in right of payment to the Convertible Senior Notes; equal in right of payment to the Company’s existing and future unsecured indebtedness that is not so subordinated; effectively junior in right of payment to any of the Company’s secured indebtedness (including unsecured indebtedness that the Company later secure) to the extent of the value of the assets securing such indebtedness; and structurally junior to all existing and future indebtedness (including trade payables) incurred by the Company’s subsidiaries, financing vehicles or similar facilities.

Prior to the close of business on the business day immediately preceding October 15, 2015, holders may convert their Convertible Senior Notes only under certain circumstances set forth in the indenture. On or after October 15, 2015 until the close of business on the scheduled trading day immediately preceding the Maturity Date, holders may convert their Convertible Senior Notes at any time. Upon conversion, the Company will pay or deliver, as the case may be, at the Company’s election, cash, shares of the Company’s common stock or a combination of cash and shares of the Company’s common stock. The conversion rate will initially be 84.0972 shares of common stock per \$1,000 principal amount of Convertible Senior Notes (equivalent to an initial conversion price of approximately \$11.89 per share of common stock). The conversion rate will be subject to adjustment in some events but will not be adjusted for any accrued and unpaid interest. In addition, if certain corporate events occur prior to the Maturity Date, the conversion rate will be increased for converting holders. As of September 30, 2014, the conversion rate was 87.5583 shares of common stock per \$1,000 principal amount of Convertible Senior Notes (equivalent to an adjusted conversion price of approximately \$11.42 per share of common stock).

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

The Convertible Senior Notes are accounted for in accordance with ASC 470-20 (previously FASB Staff Position No. APB 14-1, “Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)”). In accounting for the Convertible Senior Notes, the Company estimated at the time of issuance that the values of the debt and the embedded conversion feature of the Convertible Senior Notes were approximately 92.8% and 7.2%, respectively. The original issue discount of 7.2% attributable to the conversion feature of the Convertible Senior Notes was recorded in “capital in excess of par value” in the consolidated statement of assets and liabilities. As a result, the Company recorded interest expense comprised of both stated interest expense as well as accretion of the original issue discount resulting in an estimated effective interest rate of approximately 8.1%.

Upon meeting the stock trading price conversion requirement as set forth in the Indenture, dated April 15, 2011, between the Company 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 September 30, 2014. As of September 30, 2014, approximately \$34.1 million of the Convertible Senior Notes were converted and were settled with a combination of cash equal to the outstanding principal amount of the converted notes and approximately 924,000 shares of the Company’s common stock. Upon meeting the stock trading price conversion requirement during the three months ended September 30, 2014, the Convertible Senior Notes continue to be convertible through December 30, 2014. See “Subsequent Events.”

The Company recorded a loss on extinguishment of debt for the proportionate amount of unamortized debt issuance costs and original issue discount. The loss was partially offset by a gain in the amount of the difference between the outstanding principal balance of the converted notes and the fair value of the debt instrument. The net loss on extinguishment of debt the Company recorded for the three and nine months ended September 30, 2014 was approximately \$1.0 million and was classified as a component of net investment income in the Company’s Consolidated Statements of Operations.

As of September 30, 2014 (unaudited) and December 31, 2013, the components of the carrying value of the Convertible Senior Notes were as follows:

| (in thousands) | September 30, 2014 | December 31, 2013 |
|--|--------------------|-------------------|
| Principal amount of debt | \$ 40,923 | \$ 75,000 |
| Original issue discount, net of accretion | (911) | (2,481) |
| Carrying value of Convertible Senior Notes | <u>\$ 40,012</u> | <u>\$ 72,519</u> |

For the three and nine months ended September 30, 2014 and 2013 (unaudited), the components of interest expense, fees and cash paid for interest expense for the Convertible Senior Notes were as follows:

| (in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--------------------------------------|----------------------------------|-----------------|---------------------------------|-----------------|
| | 2014 | 2013 | 2014 | 2013 |
| Stated interest expense | \$ 184 | \$ 1,125 | \$ 2,434 | \$ 3,375 |
| Accretion of original issue discount | 197 | 271 | 738 | 812 |
| Amortization of debt issuance cost | 105 | 144 | 394 | 433 |
| Total interest expense | <u>\$ 486</u> | <u>\$ 1,540</u> | <u>\$ 3,566</u> | <u>\$ 4,620</u> |
| Cash paid for interest expense | \$ — | \$ — | \$ 2,250 | \$ 2,250 |

The estimated effective interest rate of the debt component of the Convertible Senior Notes, equal to the stated interest of 6.0% plus the accretion of the original issue discount, was approximately 8.1% for the three and nine months ended September 30, 2014 and 2013. Interest expense decreased by approximately \$950,000 during both the three and nine months ended September 30, 2014 from the comparative periods in 2013, due to Convertible Senior Notes settled prior to the interest payment date. As of September 30, 2014, the Company is in compliance with the terms of the indentures governing the Convertible Senior Notes.

Wells Facility

In August 2008, the Company entered into a \$50.0 million two-year revolving senior secured credit facility with Wells Fargo Capital Finance (the “Wells Facility”). On June 20, 2011, the Company renewed the Wells Facility, and the Wells Facility was further amended on August 1, 2012, December 17, 2012 and August 8, 2014. Under this senior secured facility, Wells Fargo Capital Finance has made commitments of \$75.0 million. The facility contains an accordion feature, in which the Company can increase the credit line up to an aggregate of \$300.0 million, funded by additional lenders and with the agreement of Wells Fargo Capital Finance and subject to other customary conditions. The Company expects to continue discussions with various other potential lenders to join the new facility; however, there can be no assurances that additional lenders will join the Wells Facility.

On August 1, 2012, the Company entered into an amendment to the Wells Facility that reduced the interest rate floor by 75 basis points to 4.25% and extended the maturity date by one year to August 2015. Additionally, the August 2012 amendment added an amortization period that commences on the day immediately following the end of the revolving credit availability period and ends one year thereafter on the maturity date. The August 2012 amendment also reduced the unused line fee, as further discussed below. On August 8, 2014, the Company entered into a further amendment to the Wells Facility to set the interest rate floor at 4.00% and to extend the revolving credit availability period to August 2017.

As amended, borrowings under the Wells Facility will generally bear interest at a rate per annum equal to LIBOR plus 3.50%, with a floor of 4.00% and an advance rate of 50% against eligible debt investments. The Wells Facility is secured by debt investments in the borrowing base. The Wells Facility requires payment of a non-use fee on a scale of 0.0% to 0.50% of the average monthly outstanding balance. The monthly payment of a non-use fee thereafter shall depend on the average balance that was outstanding on a scale between 0.0% and 0.50%. For the three and nine months ended September 30, 2014 and 2013, this non-use fee was approximately \$96,000 and \$284,000, respectively. On June 20, 2011 the Company paid an additional \$1.1 million in structuring fees in connection with the Wells Facility which are being amortized through the end of the term of the Wells Facility. In connection with the August 2014 amendments, the Company paid an additional \$750,000 in structuring fees in connection with the Wells Facility which are being amortized through the end of the term of the Wells Facility.

The Wells Facility includes various financial and operating covenants applicable to the Company and the Company’s subsidiaries, in addition to those applicable to Hercules Funding II, LLC. As amended, these covenants require the Company to maintain certain financial ratios and a minimum tangible net worth in an amount, when added to outstanding subordinated indebtedness, that is in excess of \$500.0 million plus 90% of the cumulative amount of equity raised after June 30, 2014. The Wells Facility provides for customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, bankruptcy events and change of control. The Company was in compliance with all covenants at September 30, 2014. At September 30, 2014 there were no borrowings outstanding on this facility.

Union Bank Facility

The Company has a \$75.0 million revolving senior secured credit facility (the “Union Bank Facility”) with Union Bank (“Union Bank”). The Company originally entered into the Union Bank Facility on February 10, 2010 but, following several amendments, amended and restated the Union Bank Facility on August 14, 2014. The amendment and restatement extends the maturity date of the Union Bank Facility to August 1, 2017, increases the size of the Union Bank Facility to \$75.0 million from \$30.0 million, and adjusts the interest rate for LIBOR borrowings under the Union Bank Facility. LIBOR-based borrowings by the Company under the Union Bank Facility will bear interest at a rate per annum equal to LIBOR plus 2.25% with no floor, whereas previously the Company paid a per annum interest rate on such borrowings equal to LIBOR plus 2.50% with a floor of 4.00%. Other borrowings by the Company under the Union Bank Facility, which are based on a reference rate instead of LIBOR, will continue to bear interest at a rate per annum equal to the reference rate (which is the greater of the federal funds rate plus 1.00% and a periodically announced Union Bank index rate) plus the greater of (i) 4.00% minus the reference rate and (ii) 1.00%. The Company continues to have the option of determining which type of borrowing to request under the Union Bank Facility. Subject to certain conditions, the amendment also removes a previous ceiling on the amount of certain unsecured indebtedness that the Company may incur.

Union Bank has made commitments to lend up to \$75.0 million in aggregate principal amount. The Union Bank Facility contains an accordion feature, pursuant to which the Company may increase the size of the Union Bank Facility to an aggregate principal amount of \$300.0 million by bringing in additional lenders, subject to the approval of Union Bank and other customary conditions. There can be no assurances that additional lenders will join the Union Bank Facility to increase available borrowings.

The Union Bank Facility requires the payment of a non-use fee of 0.50% annually. For the three and nine months ended September 30, 2014, this non-use fee was approximately \$50,000 and \$100,000, respectively. For the three and nine months ended September 30, 2013, this non-use fee was approximately \$38,000 and \$114,000, respectively. The amount that the Company may borrow under the Union Bank Facility is determined by applying an advance rate to eligible loans. The Union Bank Facility generally requires payment of monthly interest on loans based on a reference rate and at the end of a one, two, or three-month period, as applicable, for loans based on LIBOR. All outstanding principal is due upon maturity.

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

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

At September 30, 2014 there were no borrowings outstanding on this facility.

Citibank Credit Facility

The Company, through Hercules Funding Trust I, an affiliated statutory trust, had a securitized credit facility (the “Citibank Credit Facility”) with Citigroup Global Markets Realty Corp. which expired under normal terms. During the first quarter of 2009, the Company paid off all principal and interest owed under the Citibank Credit Facility. Citigroup has an equity participation right through a warrant participation agreement on the pool of debt investments and warrants collateralized under the Citibank Credit Facility. Pursuant to the warrant participation agreement, the Company granted to Citigroup a 10% participation in all warrants held as collateral. However, no additional warrants were included in collateral subsequent to the facility amendment on May 2, 2007. As a result, Citigroup is entitled to 10% of the realized gains on the warrants until the realized gains paid to Citigroup pursuant to the agreement equal \$3,750,000 (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 nine months ended September 30, 2014, the Company reduced the Company's realized gain by approximately \$270,000 for Citigroup's participation in the gain on sale of equity securities which were obtained from exercising a portfolio company warrant which was included in the collateral pool. The Company recorded a decrease on participation liability and an increase on unrealized appreciation by a net amount of approximately \$146,000 as a result of year to date depreciation of fair value on the pool of warrants collateralized under the warrant participation agreement. The value of their participation right on unrealized gains in the related equity investments was approximately \$224,000 as of September 30, 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, the Company has paid Citigroup approximately \$1.9 million under the warrant participation agreement thereby reducing the Company's realized gains by this amount. The Company will continue to pay Citigroup under the warrant participation agreement until the Maximum Participation Limit is reached or the warrants expire. Warrants subject to the Citigroup participation agreement are set to expire between February 2016 and March 2017.

5. Income taxes

The Company has elected to be taxed as a RIC under Subchapter M of the Code and intends to continue to operate so as to qualify to be taxed as a RIC under Subchapter M of the Code and, as such, will not be subject to federal income tax on the portion of taxable income and gains distributed to stockholders.

To qualify as a RIC, the Company is required to meet certain income and asset diversification tests in addition to distributing at least 90% of its investment company taxable income, as defined by the Code. The amount to be paid out as a dividend is determined by the Board of Directors each quarter and is based upon the annual earnings estimated by the management of the Company. To the extent that the Company's earnings fall below the amount of dividends declared, however, a portion of the total amount of the Company's dividends for the fiscal year may be deemed a return of capital for tax purposes to the Company's stockholders.

Taxable income includes the Company's taxable interest, dividend and fee income, as well as taxable net capital gains. Taxable income generally differs from net income for financial reporting purposes due to temporary and permanent differences in the recognition of income and expenses, and generally excludes net unrealized appreciation or depreciation, as gains or losses are not included in taxable income until they are realized.

Taxable income includes non-cash income, such as changes in accrued and reinvested interest and dividends, which includes contractual payment-in-kind interest, and the amortization of discounts and fees. Cash collections of income resulting from contractual PIK interest arrangements or the amortization of discounts and fees generally occur upon the repayment of the loans or debt securities that include such items. Non-cash taxable income is reduced by non-cash expenses, such as realized losses and depreciation and amortization expense.

During the three months ended September 30, 2014, the Company declared a distribution of \$0.31 per share. The determination of the tax attributes of the Company's distributions is made annually as of the end of the Company's fiscal year based upon its taxable income for the full year and distributions paid for the full year. As a result, a determination made on a quarterly basis may not be representative of the actual tax attributes of the Company's distributions for a full year. If the Company had determined the tax attributes of our distributions year-to-date as of September 30, 2014, approximately 100% would be from ordinary income and spillover earnings from 2013. However there can be no certainty to shareholders that this determination is representative of what the tax attributes of its 2014 distributions to shareholders will actually be.

As a RIC, the Company will be subject to a 4% nondeductible federal excise tax on certain undistributed income unless the Company distributes in a timely manner an amount at least equal to the sum of (1) 98% of its ordinary income for each calendar year, (2) 98.2% of its capital gain net income for the 1-year period ending October 31 in that calendar year and (3) any income realized, but not distributed, in the preceding year (the "Excise Tax Avoidance Requirements"). The Company will not be subject to excise taxes on amounts on which the Company is required to pay corporate income tax (such as retained net capital gains). Depending on the level of taxable income earned in a tax year, the Company may choose to carry over taxable income in excess of current year distributions from such taxable income into the next tax year and pay a 4% excise tax on such income, as required. The maximum amount of excess taxable income that may be carried over for distribution in the next year under the Code is the total amount of dividends paid in the following year, subject to certain declaration and payment guidelines. To the extent the Company chooses to carry over taxable income into the next tax year, dividends declared and paid by the Company in a year may differ from taxable income for that year as such dividends may include the distribution of current year taxable income, the distribution of prior year taxable income carried over into and distributed in the current year, or returns of capital.

Taxable income for the nine months ended September 30, 2014 was approximately \$44.0 million or \$0.71 per share. Taxable net realized gains for the same period were \$18.7 million or approximately \$0.30 per share. Taxable income for the nine months ended September 30, 2013 was approximately \$51.3 million or \$0.87 per share. Taxable net realized gains for the same period were \$16.7 million or approximately \$0.28 per share.

The Company intends to distribute approximately \$3.8 million of spillover earnings from the year ended December 31, 2013 to our shareholders in 2014.

6. Shareholders' Equity

On August 16, 2013, the Company entered into an "At-The-Market" ("ATM") equity distribution agreement with JMP Securities LLC ("JMP"). The equity distribution agreement provides that the Company may offer and sell up to 8.0 million shares of its common stock from time to time through JMP, as its sales agent. Sales of the Company's common stock, if any, may be made in negotiated transactions or transactions that are deemed to be "at the market," as defined in Rule 415 under the Securities Act of 1933, as amended, including sales made directly on the NYSE or similar securities exchange or sales made to or through a market maker other than on an exchange, at prices related to the prevailing market prices or at negotiated prices.

During the nine months ended September 30, 2014, the Company sold 650,000 shares of common stock for total accumulated net proceeds of approximately \$9.5 million, all of which is accretive to net asset value. The Company expects to use the net proceeds from the offering to make investments, to repurchase or pay liabilities and for general corporate purposes. As of September 30, 2014, approximately 7.35 million shares remained available for issuance and sale under the equity distribution agreement.

The Company has issued stock options for common stock subject to future issuance, of which 686,988 and 833,923 were outstanding at September 30, 2014 and December 31, 2013, respectively.

7. Equity Incentive Plan

The Company and its stockholders have authorized and adopted the 2004 Equity Incentive Plan (the "2004 Plan") for purposes of attracting and retaining the services of its executive officers and key employees. Under the 2004 Plan, the Company is authorized to issue 7.0 million shares of common stock. On June 1, 2011, stockholders approved an amended and restated plan and provided an increase of 1.0 million shares, authorizing the Company to issue 8.0 million shares of common stock under the 2004 Plan.

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

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

The following table summarizes the common stock options activities for the nine months ended September 30, 2014 and 2013 (unaudited):

| | Nine Months Ended September 30, | | | |
|--|---------------------------------|---------------------------------|----------------------|---------------------------------|
| | 2014 | | 2013 | |
| | Common Stock Options | Weighted Average Exercise Price | Common Stock Options | Weighted Average Exercise Price |
| Outstanding at December 31, | 833,923 | \$ 12.53 | 2,574,749 | \$ 12.00 |
| Granted | 245,000 | \$ 16.06 | 325,000 | \$ 14.16 |
| Exercised | (248,206) | \$ 10.97 | (1,321,941) | \$ 12.17 |
| Forfeited | (143,729) | \$ 15.12 | (115,338) | \$ 10.38 |
| Expired | — | \$ — | (65,000) | \$ 13.30 |
| Outstanding at September 30, | 686,988 | \$ 13.80 | 1,397,470 | \$ 12.41 |
| Shares Expected to Vest at September 30, | 487,686 | \$ 13.80 | 499,959 | \$ 12.41 |

The following table summarizes common stock options outstanding and exercisable at September 30, 2014 (unaudited):

(Dollars in thousands, except exercise price)

| Range of exercise prices | Options outstanding | | | | Options exercisable | | | |
|--------------------------|---------------------|---|---------------------------|---------------------------------|---------------------|---|---------------------------|---------------------------------|
| | Number of shares | Weighted average remaining contractual life | Aggregate intrinsic value | Weighted average exercise price | Number of shares | Weighted average remaining contractual life | Aggregate intrinsic value | Weighted average exercise price |
| \$9.25 - \$14.86 | 385,488 | 4.91 | \$ 888,601 | \$ 12.27 | 199,302 | 4.12 | \$ 676,613 | \$ 11.14 |
| \$15.31 - \$16.34 | 301,500 | 6.80 | — | \$ 15.77 | — | — | — | \$ — |
| \$9.25 - \$16.34 | 686,988 | 5.74 | \$ 888,601 | \$ 13.80 | 199,302 | 4.12 | \$ 676,613 | \$ 11.14 |

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

All options may be exercised for a period ending seven years after the date of grant. At September 30, 2014, options for 199,302 shares were exercisable at a weighted average exercise price of approximately \$11.14 per share with weighted average of remaining contractual term of 4.12 years.

The Company determined that the fair value of options granted under the 2006 and 2004 Plans during the nine months ended September 30, 2014 and 2013 was approximately \$126,000 and \$779,000. During the nine months ended September 30, 2014 and 2013, approximately \$313,000 and \$266,000 of share-based cost due to stock option grants was expensed, respectively. As of September 30, 2014, there was approximately \$710,000 of total unrecognized compensation costs related to stock options. These costs are expected to be recognized over a weighted average period of 2.0 years.

The fair value of options granted is based upon a Black Scholes option pricing model using the assumptions in the following table for the nine months ended September 30, 2014 and 2013:

| | Nine Months Ended September 30, | |
|--------------------------|---------------------------------|---------------|
| | 2014 | 2013 |
| Expected Volatility | 19.90% | 46.90% |
| Expected Dividends | 10% | 10% |
| Expected term (in years) | 4.5 | 4.5 |
| Risk-free rate | 1.24% - 1.66% | 0.56% - 1.63% |

During the nine months ended September 30, 2014 and 2013 the Company granted 989,883 shares and 607,001 shares, respectively, of restricted stock pursuant to the Plans. The Company determined that the fair value of restricted stock granted under the 2006 and 2004 Plans during the nine months ended September 30, 2014 and 2013 was approximately \$13.7 million and \$7.7 million, respectively. During the nine months ended September 30, 2014 and 2013, the Company expensed approximately \$6.6 million and \$4.1 million of compensation expense related to restricted stock, respectively. As of September 30, 2014, there was approximately \$15.2 million of total unrecognized compensation costs related to restricted stock. These costs are expected to be recognized over a weighted average period of 1.6 years.

The following table summarizes the activities for our unvested restricted stock for the nine months ended September 30, 2014 and 2013 (unaudited):

| | Nine Months Ended September 30, | | | |
|---------------------------|---------------------------------|---------------------------------|------------------------|---------------------------------|
| | 2014 | | 2013 | |
| | Restricted Stock Units | Weighted Average Exercise Price | Restricted Stock Units | Weighted Average Exercise Price |
| Unvested at December 31, | 1,035,897 | \$ 11.94 | 899,789 | \$ 10.73 |
| Granted | 989,883 | \$ 13.82 | 607,001 | \$ 12.72 |
| Vested | (478,161) | \$ 12.04 | (364,844) | \$ 10.56 |
| Forfeited | (144,277) | \$ 12.76 | (10,739) | \$ 11.37 |
| Unvested at September 30, | <u>1,403,342</u> | <u>\$ 13.14</u> | <u>1,131,207</u> | <u>\$ 11.85</u> |

The SEC, through an exemptive order granted on June 22, 2010, approved amendments to the Plans which allow participants to elect to have the Company withhold shares of the Company's common stock to pay for the exercise price and applicable taxes with respect to an option exercise ("net issuance exercise"). The exemptive order also permits the holders of restricted stock to elect to have the Company withhold shares of Hercules stock to pay the applicable taxes due on restricted stock at the time of vesting. Each individual can make, and does not preclude the participant from electing to make, a cash payment at the time of option exercise or to pay taxes on restricted stock.

8. Earnings Per Share

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

| (in thousands, except per share data) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|----------------------------------|---------------|---------------------------------|---------------|
| | 2014 | 2013 | 2014 | 2013 |
| Numerator | | | | |
| Net increase in net assets resulting from operations | \$ 15,177 | \$ 36,981 | \$ 50,553 | \$ 74,549 |
| Less: Dividends declared-common and restricted shares | (19,927) | (17,277) | (58,482) | (47,292) |
| Undistributed earnings | (4,750) | 19,704 | (7,929) | 27,257 |
| Undistributed earnings-common shares | (4,750) | 19,704 | (7,929) | 27,257 |
| Add: Dividend declared-common shares | 19,469 | 16,949 | 57,298 | 46,292 |
| Numerator for basic and diluted change in net assets per common share | <u>14,719</u> | <u>36,653</u> | <u>49,369</u> | <u>73,549</u> |
| Denominator | | | | |
| Basic weighted average common shares outstanding | 62,356 | 60,522 | 61,444 | 58,206 |
| Common shares issuable | 1,423 | 228 | 2,110 | 190 |
| Weighted average common shares outstanding assuming dilution | <u>63,779</u> | <u>60,750</u> | <u>63,554</u> | <u>58,396</u> |
| Change in net assets per common share | | | | |
| Basic | \$ 0.24 | \$ 0.61 | \$ 0.80 | \$ 1.26 |
| Diluted | \$ 0.23 | \$ 0.59 | \$ 0.78 | \$ 1.23 |

For the purpose of calculating diluted earnings per share for three and nine months ended September 30, 2014 and 2013, the dilutive effect of the Convertible Senior Notes under the treasury stock method is included in this calculation because the Company's share price was greater than the conversion price in effect (\$11.42 as of September 30, 2014 and \$11.69 as of September 30, 2013, respectively) for the Convertible Senior Notes for such period.

The calculation of change in net assets resulting from operations per common share—assuming dilution, excludes all anti-dilutive shares. For the three months ended September 30, 2014 and 2013, the number of anti-dilutive shares, as calculated based on the weighted average closing price of the Company's common stock for the periods, was approximately 742,043 and 1,549,001, respectively. For the nine months ended September 30, 2014 and 2013, the number of anti-dilutive shares, as calculated based on the weighted average closing price of the Company's common stock for the periods, was approximately 752,116 and 2,081,780 shares, respectively.

At September 30, 2014, the Company was authorized to issue 100,000,000 shares of common stock with a par value of \$0.001. Each share of common stock entitles the holder to one vote.

9. Financial Highlights

Following is a schedule of financial highlights for the nine months ended September 30, 2014 and 2013:

| | <u>Nine Months Ended September 30,</u> | |
|--|--|-----------------|
| | <u>2014</u> | <u>2013</u> |
| Per share data⁽¹⁾: | | |
| Net asset value at beginning of period | \$ 10.51 | \$ 9.75 |
| Net investment income | 0.91 | 0.93 |
| Net realized gain on investments | 0.21 | 0.19 |
| Net unrealized appreciation (depreciation) on investments | (0.30) | 0.15 |
| Total from investment operations | 0.82 | 1.27 |
| Net increase (decrease) in net assets from capital share transactions | (0.27) | 0.15 |
| Distributions of net investment income | (0.95) | (0.82) |
| Stock-based compensation expense included in investment income ⁽²⁾ | 0.11 | 0.07 |
| Net asset value at end of period | <u>\$ 10.22</u> | <u>\$ 10.42</u> |
| Ratios and supplemental data: | | |
| Per share market value at end of period | \$ 14.46 | \$ 15.25 |
| Total return ⁽³⁾ | -6.28% | 47.94% |
| Shares outstanding at end of period | 64,182 | 61,756 |
| Weighted average number of common shares outstanding | 61,444 | 58,206 |
| Net assets at end of period | \$ 645,198 | \$ 643,376 |
| Ratio of operating expense to average net assets ⁽⁴⁾⁽⁵⁾ | 10.17% | 11.84% |
| Ratio of net investment income before investment gains and losses to average net assets ⁽⁴⁾ | 11.38% | 12.27% |
| Average debt outstanding | \$ 519,025 | \$ 585,070 |
| Weighted average debt per common share | \$ 8.44 | \$ 10.05 |

(1) All per share activity is calculated based on the weighted average shares outstanding for the relevant period.

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

(3) The total return for the nine months ended September 30, 2014 and 2013 equals the change in the ending market value over the beginning of the period price per share plus dividends paid per share during the period, divided by the beginning price assuming the dividend is reinvested on the date of the distribution. As such, the total return is not annualized.

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

(5) Operating expense as used in the ratio of operating expense to average net assets does not include loss on debt extinguishment (long-term liabilities - convertible senior notes). If loss on debt extinguishment (long-term liabilities - convertible senior notes) were included in total expense, the ratio for the nine months ended September 30, 2014 would be 10.38%. There was no loss on debt extinguishment (long-term liabilities - convertible senior notes) in the nine months ended September 30, 2013 so the ratio for that period would not change.

10. Commitments and Contingencies

The Company's commitments and contingencies consist primarily of unused commitments to extend credit in the form of loans to the Company's portfolio companies. The balance of unfunded contractual commitments to extend credit at September 30, 2014 totaled approximately \$242.5 million. Approximately \$138.5 million of these unfunded contractual commitments as of September 30, 2014 are dependent upon the portfolio company reaching certain milestones before the debt commitment becomes available. Since a portion of these commitments may expire without being drawn, unfunded contractual commitments do not necessarily represent future cash requirements. In addition, the Company had approximately \$223.0 million of non-binding term sheets outstanding at September 30, 2014. Non-binding outstanding term sheets are subject to completion of the Company's due diligence and final investment committee approval process, as well as the negotiation of definitive documentation with the prospective portfolio companies. These non-binding term sheets generally convert to contractual commitments in approximately 90 days from signing. Not all non-binding term sheets are expected to close and do not necessarily represent the Company's future cash requirements.

Certain premises are leased under agreements which expire at various dates through March 2020. Total rent expense amounted to approximately \$397,000 and \$1.2 million during the three and nine months ended September 30, 2014. There was approximately \$296,000 and \$900,000 recorded in the same periods ended September 30, 2013, respectively. Future commitments under the credit facility and operating leases were as follows at September 30, 2014:

| Contractual Obligations ⁽¹⁾⁽²⁾ | Payments due by period (in thousands) | | | | |
|--|---------------------------------------|------------------|------------------|-------------------|-------------------|
| | Total | Less than 1 year | 1 - 3 years | 3 - 5 years | After 5 years |
| Borrowings ^{(3) (4)} | \$ 531,527 | \$ 363 | \$ 67,600 | \$ 192,164 | \$ 271,400 |
| Operating Lease Obligations ⁽⁵⁾ | 6,666 | 1,586 | 3,038 | 1,576 | 466 |
| | <u>\$ 538,193</u> | <u>\$ 1,949</u> | <u>\$ 70,638</u> | <u>\$ 193,740</u> | <u>\$ 271,866</u> |

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

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

(3) Includes \$190.2 million in borrowings under the SBA debentures, \$170.4 million of the 2019 Notes, \$103.0 million of the 2024 Notes, \$28.0 million in aggregate principal amount of the Asset-Backed Notes and \$40.0 million of the Convertible Senior Notes.

(4) Except for the Convertible Senior Notes, all carrying values are the same as the principal amount outstanding. The aggregate principal amount outstanding of the Convertible Senior Notes is \$40.9 million less the unaccreted discount initially recorded upon issuance of the Convertible Senior Notes. The total unaccreted discount for the Convertible Senior Notes was \$0.9 million at September 30, 2014.

(5) Long-term facility leases.

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

11. Recent Accounting Pronouncements

In June 2013, the FASB issued ASU 2013-08, "Financial Services - Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements," which amends the criteria that define an investment company and clarifies the measurement guidance and requires new disclosures for investment companies. Under ASU 2013-08, an entity already regulated under the 1940 Act is automatically an investment company under the new GAAP definition, so the Company has concluded that there is no impact from adopting this standard on the Company's statement of assets and liabilities or results of operations. The Company has adopted this standard for its fiscal year ending December 31, 2014.

12. Subsequent Events

Dividend Declaration

On October 29, 2014 the Board of Directors declared a cash dividend of \$0.31 per share to be paid on November 24, 2014 to shareholders of record as of November 17, 2014. This dividend represents the Company's thirty-seventh consecutive dividend declaration since the Company's initial public offering, bringing the total cumulative dividend declared to date to \$9.99 per share.

Convertible Senior Notes

In April 2011, the Company issued \$75.0 million in aggregate principal amount of 6.00% convertible senior notes, or the Convertible Senior Notes, due 2016. As of September 30, 2014, the carrying value of the Convertible Senior Notes, comprised of the aggregate principal amount outstanding less the unaccreted discount initially recorded upon issuance of the Convertible Senior Notes, is approximately \$40.0 million.

The Convertible Senior Notes are convertible into shares of the Company's common stock beginning October 15, 2015, or, under certain circumstances, earlier. Upon conversion of the Convertible Notes, the Company has the choice to pay or deliver, as the case may be, at the Company's election, cash, shares of the Company's common stock or a combination of cash and shares of the Company's common stock. The current conversion price of the Convertible Senior Notes is approximately \$11.42 per share of common stock, in each case subject to adjustment in certain circumstances. Upon meeting the stock trading price conversion requirement during the three months ended September 30, 2014, the Convertible Senior Notes continue to be convertible through December 31, 2014.

Subsequent to September 30, 2014 and as of November 3, 2014, approximately \$23.1 million of the Convertible Senior Notes were converted. Of the \$23.1 million, approximately \$416,000 of the Convertible Senior Notes were converted and were settled with a combination of cash equal to the outstanding principal amount of the converted notes and approximately 7,500 shares of the Company's common stock in October 2014, and approximately \$22.7 million of the Convertible Senior Notes converted and will be settled in November 2014. The Company expects to generate an expense of approximately \$1.0 million in the fourth quarter of 2014 related to these conversions.

2021 Asset Backed Notes

On November 4, 2014, Hercules Capital Funding Trust 2014-1, a newly-formed wholly owned subsidiary of the Company, priced a \$129.3 million of fixed-rate asset-backed notes (the "2021 Asset Backed Notes"). The 2021 Asset Backed Notes are anticipated to be rated A(sf) on the Closing Date by Kroll Bond Rating Agency, Inc. ("KBRA"). The securitization is expected to close on November 13, 2014 and is subject to customary closing conditions.

The 2021 Asset Backed Notes will be issued by Hercules Capital Funding Trust 2014-1, LLC, as Trust Depositor, Hercules Capital Funding Trust 2014-1, as Issuer, and Guggenheim Securities, LLC, as Initial Purchaser. The 2021 Asset Backed Notes will be backed by a revolving pool of senior loans made to certain portfolio companies of the Company and secured by certain assets of those portfolio companies. The underlying loans will continue to be serviced by the Company. The securitization has an 18-month reinvestment period during which time principal collections may be reinvested into additional eligible loans. The fixed interest rate on the 2021 Asset Backed Notes will be 3.524%. The 2021 Asset Backed Notes will have a stated maturity of April 16, 2021.

Portfolio Company Developments

As of September 30, 2014, the Company held warrants or equity positions in six companies that have filed registration statements on Form S-1 with the SEC in contemplation of potential initial public offerings, including Box, Inc., Dance Biopharm, Inc., Good Technology, Inc., Zosano, Inc. and two companies which filed confidentially under the JOBS Act. Subsequent to September 30, 2014, Dance Biopharm, Inc. withdrew their Form S-1 Registration Statement. In October 2014, the Company's portfolio company Neothetics, Inc. filed a Form S-1 Registration Statement and in November 2014, the Company's portfolio company Inotek Pharmaceuticals Corporation filed a Form S-1 Registration Statement. In addition, subsequent to September 30, 2014 the following current and former portfolio companies announced or completed M&A transactions or initial public offerings:

1. In October 2014, InterCloud Systems, Inc. completed its acquisition of the Company's portfolio company VaultLogix, LLC. The transaction consists of \$16 million in cash, \$12.75 million in restricted common stock, \$11.5 million of which was valued at \$16.50 per share, with the balance valued at market price, and \$15.5 million in three year convertible seller notes, convertible at a fixed price of \$6.37 per share.
2. In October 2014, AVG Technologies completed its acquisition of the Company's portfolio company Location Labs. Under the terms of the agreement, AVG will pay approximately \$140 million initially, plus up to an additional approximately \$80 million in cash consideration over the next two years based on the achievement of certain performance metrics and milestones.
3. In October 2014, Premiere Global Services, Inc. completed its acquisition of the Company's portfolio company Central Desktop, Inc. Financial terms were not disclosed.
4. In October 2014, Breg, Inc. and the Company's portfolio company United Orthopedic Group, Inc. announced that they had merged. United Orthopedic Group, Inc. will operate as a wholly-owned subsidiary of Breg, Inc. and financial terms were not disclosed.
5. In October 2014, the Company's portfolio company SiTime Corporation reached a definitive agreement to be acquired by MegaChips Corporation in a transaction valued at approximately \$200.0 million, subject to customary closing conditions.
6. In October 2014, the Company's portfolio company Transcept Pharmaceuticals, Inc. completed its merger with Hercules' portfolio company Paratek Pharmaceuticals, Inc. in an all-stock transaction. Immediately prior to the merger, Paratek received gross proceeds of \$93.0 million from a combination of current and new investors.
7. In October 2014, the Company's former portfolio company Zayo Group Holdings, Inc. completed its initial public offering of 24,079,002 shares of its common stock, consisting of 16,008,679 shares sold by the portfolio company and 8,070,323 shares sold by the selling stockholders (including shares sold by the selling stockholders pursuant to the exercise in full of the underwriters' option to purchase additional shares), at a price to the public of \$19.00 per share.

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

Forward-Looking Statements

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

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

The following discussion should be read in conjunction with our consolidated financial statements and related notes and other financial information appearing elsewhere in this report. In addition to historical information, the following discussion and other parts of this report contain forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated by such forward-looking information due to the factors discussed under Item 1A—“Risk Factors” of Part II of this quarterly report on Form 10-Q, Item 1A—“Risk Factors” of our annual report on Form 10-K filed with the SEC on February 27, 2014 and under “Forward-Looking Statements” of this Item 2.

Overview

We are a specialty finance company focused on providing senior secured loans to venture capital-backed companies in technology-related markets, including technology, biotechnology, life science, and energy and renewables technology industries 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 of choice for venture capital-backed companies in technology-related markets requiring sophisticated and customized financing solutions. Our strategy is to evaluate and invest in a broad range of technology-related markets including technology, biotechnology, life science, and energy and renewables technology industries 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 markets 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 markets is generally used for growth and general working capital purposes as well as in select cases for acquisitions or recapitalizations.

We and our affiliates have filed an exemptive application with the SEC to permit greater flexibility to negotiate the terms of potential co-investments with us and our affiliates in a manner consistent with our investment objective, positions, policies, strategies and restrictions as well as regulatory requirements and other pertinent factors. This exemptive application is still pending, and there can be no assurance that we will receive exemptive relief from the SEC to permit us to co-invest with our affiliates. Under the terms of such relief permitting us to co-invest with our affiliates, a “required majority” (as defined in Section 57(o) of the 1940 Act) of our independent directors must make certain conclusions in connection with a co-investment transaction, including that (1) the terms of the transaction, including the consideration to be paid, are reasonable and fair to us and our stockholders and do not involve overreaching of us or our stockholders on the part of any person concerned and (2) the transaction is consistent with the interests of our shareholders and is consistent with our investment objective and strategies.

We also make investments in qualifying small businesses through our two wholly-owned SBICs. Our SBIC subsidiaries, HT II and HT III, hold approximately \$142.8 million and \$305.0 million in assets, respectively, and accounted for approximately 9.2% and 19.7% of our total assets, respectively, prior to consolidation at September 30, 2014. As of September 30, 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 September 30, 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 September 30, 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.

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 \$998.9 million at September 30, 2014, as compared to \$910.3 million at December 31, 2013.

The fair value of our debt investment portfolio at September 30, 2014 was approximately \$907.9 million, compared to a fair value of approximately \$822.0 million at December 31, 2013. The fair value of the equity portfolio at September 30, 2014 was approximately \$68.6 million, compared to a fair value of approximately \$52.7 million at December 31, 2013. The fair value of the warrant portfolio at September 30, 2014 was approximately \$22.4 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.

Our portfolio activity for the nine months ended September 30, 2014 (unaudited) and the year ended December 31, 2013 was comprised of the following:

| (in millions) | September 30, 2014 | December 31, 2013 |
|--|---------------------------|--------------------------|
| Debt Commitments ⁽¹⁾ | | |
| New portfolio company | \$ 486.9 | \$ 535.0 |
| Existing portfolio company | 95.9 | 165.1 |
| Total | <u>\$ 582.7</u> | <u>\$ 700.1</u> |
| Funded Debt Investments | | |
| New portfolio company | \$ 276.9 | \$ 373.1 |
| Existing portfolio company | 131.4 | 118.0 |
| Total | <u>\$ 408.3</u> | <u>\$ 491.1</u> |
| Funded Equity Investments | | |
| New portfolio company | \$ 3.7 | \$ — |
| Existing portfolio company | 1.4 | 3.9 |
| Total | <u>\$ 5.1</u> | <u>\$ 3.9</u> |
| Unfunded Contractual Commitments ⁽²⁾ | | |
| Total | <u>\$ 242.5</u> | <u>\$ 151.0</u> |
| Non-Binding Term Sheets | | |
| New portfolio company | \$ 223.0 | \$ 28.0 |
| Existing portfolio company | — | 10.0 |
| Total | <u>\$ 223.0</u> | <u>\$ 38.0</u> |

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

(2) The amount for September 30, 2014 includes unfunded contractual commitments in 33 new and existing portfolio companies. Approximately \$138.5 million of these unfunded contractual commitments as of September 30, 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 nine months ended September 30, 2014, we received approximately \$316.5 million in aggregate principal repayments. Of the approximately \$316.5 million of aggregate principal repayments, approximately \$104.9 million were scheduled principal payments, and approximately \$211.6 million were early principal repayments related to 25 portfolio companies. Of the approximately \$211.6 million early principal repayments, approximately \$24.0 million were early repayments due to M&A transactions and initial public offerings related to four portfolio companies.

Total portfolio investment activity (inclusive of unearned income) for the nine months ended September 30, 2014 (unaudited) and for the year ended December 31, 2013 was as follows:

| (in millions) | September 30, 2014 | December 31, 2013 |
|---|--------------------|-------------------|
| Beginning Portfolio | \$ 910.3 | \$ 906.3 |
| New fundings | 376.5 | 473.6 |
| Restructure fundings | 36.9 | 23.6 |
| Warrants or OID not related to current period fundings | 0.7 | 3.5 |
| Principal payments received on investments | (104.9) | (176.2) |
| Early payoffs | (211.6) | (300.6) |
| Restructure payoffs | — | (9.8) |
| Accretion of loan discounts and paid-in-kind principal | 18.6 | 31.9 |
| Acceleration of loan discounts and loan fees due to early payoff or restructure | (1.0) | (0.7) |
| New loan fees | (6.5) | (14.3) |
| Warrants converted to equity | 2.0 | 0.2 |
| Proceeds from sale of investments | (3.9) | (22.5) |
| Net realized (loss) on investments | (0.8) | (16.7) |
| Net change in unrealized appreciation (depreciation) | (17.4) | 12.0 |
| Ending Portfolio | <u>\$ 998.9</u> | <u>\$ 910.3</u> |

The following table shows the fair value of our portfolio of investments by asset class as of September 30, 2014 (unaudited) and December 31, 2013.

| (in thousands) | September 30, 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 | \$ 648,298 | 64.9% | \$ 634,820 | 69.7% |
| Senior secured debt | 282,026 | 28.2% | 222,805 | 24.5% |
| Preferred stock | 50,476 | 5.1% | 35,554 | 3.9% |
| Common Stock | 18,113 | 1.8% | 17,116 | 1.9% |
| | <u>\$ 998,913</u> | <u>100.0%</u> | <u>\$ 910,295</u> | <u>100.0%</u> |

The increase in senior secured debt is consistent with the overall increase in the investment portfolio at September 30, 2014 from December 31, 2013. The decrease in senior secured debt with warrants is primarily due to exercises of the our outstanding warrants to equity in four portfolio companies, with a cumulative fair value of approximately \$65.0 million, during the nine months ended September 30, 2014. As a result, the existing debt investments that were included in senior secured debt with warrants at December 31, 2013 are included in senior secured debt at September 30, 2014.

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

| (in thousands) | September 30, 2014 | | December 31, 2013 | |
|----------------|------------------------------|----------------------------------|------------------------------|----------------------------------|
| | Investments at Fair Value | Percentage of Total Portfolio | Investments at Fair Value | Percentage of Total Portfolio |
| United States | \$ 943,918 | 94.5% | \$ 864,003 | 94.9% |
| Canada | 25,336 | 2.5% | 25,798 | 2.8% |
| Netherlands | 19,905 | 2.0% | 10,131 | 1.1% |
| Israel | 9,754 | 1.0% | 9,863 | 1.1% |
| England | — | — | 500 | 0.1% |
| | <u>\$ 998,913</u> | <u>100.0%</u> | <u>\$ 910,295</u> | <u>100.0%</u> |

As of September 30, 2014, the Company held warrants or equity positions in six companies that have filed registration statements on Form S-1 with the SEC in contemplation of potential initial public offerings, including Box, Inc., Dance Biopharm, Inc., Good Technology, Inc., Zosano, Inc. and two 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.

Changes in Portfolio

We generate revenue in the form of interest income, primarily from our investments in debt securities, and commitment and facility fees. Fees generated in connection with our debt investments are recognized over the life of the loan or, in some cases, recognized as earned. In addition, we generate revenue in the form of capital gains, if any, on warrants or other equity-related securities that we acquire from our portfolio companies. Our investments generally range from \$1.0 million to \$40.0 million. As of September 30, 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, or Prime or the London Interbank Offered Rate, or LIBOR, to approximately 15%. 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 \$3.9 million and \$4.0 million of unamortized fees at September 30, 2014 and December 31, 2013, respectively, and approximately \$21.4 million and \$14.4 million in exit fees receivable at September 30, 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 \$851,000 and \$889,000 in PIK income during the three months ended September 30, 2014 and 2013, respectively. We recorded approximately \$2.6 million and \$2.7 million in PIK income during the nine months ended September 30, 2014 and 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 September 30, 2014, approximately 59.4% 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 40.6% of the debt investments were to portfolio companies that were prohibited from pledging or encumbering their intellectual property. At September 30, 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 security. In addition, certain of our loans may include an interest-only period ranging from three to eighteen months or longer. In limited instances in which we choose to defer amortization of the loan for a period of time from the date of the initial investment, the principal amount of the debt securities and any accrued but unpaid interest become due at the maturity date.

The effective yield on our debt investments during the three months ended September 30, 2014 and 2013 was 16.7% and 17.7%, respectively. This decrease in effective yield between periods is primarily due to the one-time fee accelerations during the three months ended September 30, 2013 that did not occur in the three months ended September 30, 2014. The effective yield is derived by dividing total investment income by the weighted average earning investment portfolio assets outstanding during the quarter 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 which are active in the drug discovery and development, medical device and equipment, software, internet consumer and business services, energy technology, drug delivery, specialty pharmaceuticals, communications and networking, media/content/info, consumer and business products, information services, surgical devices, healthcare services, semiconductors, biotechnology tools, diagnostic and electronics and computer hardware industry sectors. These sectors are characterized by high margins, high growth rates, consolidation and product and market extension opportunities. Value for companies in these sectors is often vested in intangible assets and intellectual property.

As of September 30, 2014, approximately 68.9% of the fair value of our portfolio was composed of investments in five industries: 23.2% was composed of investments in the drug discovery and development industry, 13.9% was composed of investments in the medical devices and equipment industry, 11.3% was composed of investments in the software industry, 10.6% was composed of investments in the internet consumer and business services industry and 9.9% was composed of investments in the energy technology industry.

The following table shows the fair value of our portfolio by industry sector at September 30, 2014 (unaudited) and December 31, 2013:

| (in thousands) | September 30, 2014 | | December 31, 2013 | |
|---------------------------------------|---------------------------|-------------------------------|---------------------------|-------------------------------|
| | Investments at Fair Value | Percentage of Total Portfolio | Investments at Fair Value | Percentage of Total Portfolio |
| Drug Discovery & Development | \$ 232,214 | 23.2% | \$ 219,169 | 24.1% |
| Medical Devices & Equipment | 139,154 | 13.9% | 103,614 | 11.4% |
| Software | 112,503 | 11.3% | 65,218 | 7.2% |
| Internet Consumer & Business Services | 106,128 | 10.6% | 122,073 | 13.4% |
| Energy Technology | 98,555 | 9.9% | 164,466 | 18.1% |
| Drug Delivery | 83,247 | 8.3% | 62,022 | 6.8% |
| Specialty Pharmaceuticals | 73,127 | 7.3% | 20,055 | 2.2% |
| Communications & Networking | 56,292 | 5.6% | 35,979 | 4.0% |
| Media/Content/Info | 29,361 | 2.9% | 8,679 | 1.0% |
| Consumer & Business Products | 25,309 | 2.5% | 2,995 | 0.3% |
| Information Services | 14,917 | 1.5% | 46,565 | 5.1% |
| Surgical Devices | 9,822 | 1.0% | 10,307 | 1.0% |
| Healthcare Services, Other | 7,666 | 0.8% | 4,685 | 0.5% |
| Semiconductors | 5,354 | 0.6% | 29,080 | 3.2% |
| Biotechnology Tools | 3,894 | 0.4% | 5,275 | 0.6% |
| Diagnostic | 775 | 0.1% | 902 | 0.1% |
| Electronics & Computer Hardware | 595 | 0.1% | 9,211 | 1.0% |
| | <u>\$ 998,913</u> | <u>100.0%</u> | <u>\$ 910,295</u> | <u>100.0%</u> |

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 nine months ended September 30, 2014 and the year ended December 31, 2013, our ten largest portfolio companies represented approximately 28.9% and 29.3% of the total fair value of our investments in portfolio companies, respectively. At September 30, 2014 we had two investments that represent 5% or more of our net assets and at December 31, 2013, we had one investment that represented 5% or more of our net assets. At September 30, 2014, we had five equity investments representing approximately 75.1% of the total fair value of our equity investments, and each represented 5% or more of the total fair value of our equity investments. At December 31, 2013, we had six equity investments which represented approximately 75.7% of the total fair value of our equity investments, and each represented 5% or more of the total fair value of our equity investments.

As of September 30, 2014, 100.0% of our debt investments were in a senior secured first lien position, and approximately 98.1% 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 when market interest rates may rise in the near future.

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 September 30, 2014, we held warrants in 125 portfolio companies, with a fair value of approximately \$22.4 million. The fair value of our warrant portfolio decreased by approximately 37.1%, 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 \$2.9 million on nine of our warrant positions due to poor company performance.

Our existing warrant holdings currently would require us to invest approximately \$83.2 million to exercise such warrants as of September 30, 2014. Warrants may appreciate or depreciate in value depending largely upon the underlying portfolio company's performance and overall market conditions. Of the warrants which we have monetized since inception, we have realized warrant gain

multiples in the range of approximately 1.01x to 14.91x 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 three and nine months ended September 30, 2014 and 2013 (unaudited). We did not hold any Control investments at either September 30, 2014 or 2013.

| (in thousands) | | Three Months Ended September 30, 2014 | | | | | Nine Months Ended September 30, 2014 | | | | |
|----------------------------|-----------|---------------------------------------|-------------------|--|--|----------------------|--------------------------------------|--|--|----------------------|--|
| Portfolio Company | Type | Fair Value at September 30, 2014 | Investment Income | Net Change in Unrealized (Depreciation)/Appreciation | Reversal of Unrealized (Depreciation)/Appreciation | Realized Gain/(Loss) | Investment Income | Net Change in Unrealized (Depreciation)/Appreciation | Reversal of Unrealized (Depreciation)/Appreciation | Realized Gain/(Loss) | |
| Gelesis, Inc. | Affiliate | \$ 316 | \$ — | \$ (36) | \$ — | \$ — | \$ — | \$ (156) | \$ — | \$ — | |
| Optiscan BioMedical, Corp. | Affiliate | 6,029 | — | (23) | — | — | — | (67) | — | — | |
| Stion Corporation | Affiliate | 2,500 | 138 | 606 | — | — | 1,777 | (2,634) | — | — | |
| | | <u>\$ 8,845</u> | <u>\$ 138</u> | <u>\$ 547</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 1,777</u> | <u>\$ (2,857)</u> | <u>\$ —</u> | <u>\$ —</u> | |

| (in thousands) | | Three Months Ended September 30, 2013 | | | | | Nine Months Ended September 30, 2013 | | | | |
|----------------------------|-----------|---------------------------------------|-------------------|--|--|----------------------|--------------------------------------|--|--|----------------------|--|
| Portfolio Company | Type | Fair Value at September 30, 2013 | Investment Income | Net Change in Unrealized (Depreciation)/Appreciation | Reversal of Unrealized (Depreciation)/Appreciation | Realized Gain/(Loss) | Investment Income | Net Change in Unrealized (Depreciation)/Appreciation | Reversal of Unrealized (Depreciation)/Appreciation | Realized Gain/(Loss) | |
| Gelesis, Inc. | Affiliate | \$ 523 | \$ — | \$ (487) | \$ — | \$ — | \$ — | \$ (1,143) | \$ — | \$ — | |
| Optiscan BioMedical, Corp. | Affiliate | 12,374 | 566 | (505) | — | — | 1,693 | (325) | — | — | |
| | | <u>\$ 12,897</u> | <u>\$ 566</u> | <u>\$ (992)</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 1,693</u> | <u>\$ (1,468)</u> | <u>\$ —</u> | <u>\$ —</u> | |

During the year ended December 31, 2013 Stion Corporation became classified as an affiliate.

Portfolio Grading

We use an investment grading system, which grades each debt investment on a scale of 1 to 5 to characterize and monitor our expected level of risk on the debt investments in our portfolio with 1 being the highest quality. The following table shows the distribution of our outstanding debt investments on the 1 to 5 investment grading scale at fair value as of September 30, 2014 (unaudited) and December 31, 2013, respectively:

| (in thousands) | September 30, 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 |
| 1 | 22 | \$ 279,330 | 30.8% | 15 | \$ 162,586 | 19.8% |
| 2 | 42 | 422,940 | 46.6% | 42 | 429,804 | 52.3% |
| 3 | 18 | 155,187 | 17.1% | 18 | 184,692 | 22.5% |
| 4 | 5 | 28,253 | 3.1% | 4 | 30,687 | 3.7% |
| 5 | 6 | 22,213 | 2.4% | 5 | 14,219 | 1.7% |
| | | <u>\$ 907,923</u> | <u>100.0%</u> | | <u>\$ 821,988</u> | <u>100.0%</u> |

As of September 30, 2014, our debt investments had a weighted average investment grading of 2.07, 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 have been downgraded until their funding is complete or their operations improve.

At September 30, 2014, we had three debt investments on non-accrual with a cumulative cost and fair value of approximately \$21.7 million and \$6.5 million, respectively. At December 31, 2013 we had two debt investments on non-accrual with a cumulative cost and fair value of approximately \$23.3 million and \$12.6 million, respectively.

Results of Operations

Comparison of the three and nine month periods ended September 30, 2014 and 2013

Investment Income

Total investment income for the three months ended September 30, 2014 was approximately \$37.0 million as compared to approximately \$41.0 million for the three months ended September 30, 2013. Total investment income for the nine months ended September 30, 2014 was approximately \$106.8 million as compared to approximately \$106.5 million for the nine months ended September 30, 2013.

Interest income for the three months ended September 30, 2014 totaled approximately \$33.3 million as compared to approximately \$36.2 million for the three months ended September 30, 2013. Interest income for the nine months ended September 30, 2014 totaled approximately \$94.7 million as compared to approximately \$95.4 million for the nine months ended September 30, 2013. The decrease in interest income for both the three and nine months ended September 30, 2014 as compared to the same periods ended September 30, 2013 is primarily attributable to a lower weighted average yielding loan portfolio balance outstanding and a decrease in default interest income, partially offset by an increase in acceleration of loan exit fees related to early payoffs and loan restructurings.

Income from commitment, facility and loan related fees for the three months ended September 30, 2014 totaled approximately \$3.7 million as compared to approximately \$4.8 million for the three months ended September 30, 2013. Income from commitment, facility and loan related fees for the nine months ended September 30, 2014 totaled approximately \$12.1 million as compared to approximately \$11.1 million for the nine months ended September 30, 2013. The decrease in fee income for the three months ended September 30, 2014 is primarily attributable to fewer one-time fees as well as a lower weighted average yielding loan portfolio balance outstanding compared to the three months ended September 30, 2013. The increase in fee income for the nine months ended September 30, 2014 as compared to September 30, 2013 is primarily attributable to an increase in acceleration of commitment and facility fees related to early payoffs and loan restructurings as well as an increase in prepayment penalties collected on early payoffs.

The following table shows the PIK-related activity for the nine months ended September 30, 2014 and 2013, at cost (unaudited):

| (in thousands) | Nine Months Ended September 30, | |
|--|---------------------------------|----------|
| | 2014 | 2013 |
| Beginning PIK loan balance | \$ 4,982 | \$ 3,309 |
| PIK interest capitalized during the period | 1,990 | 2,410 |
| Payments received from PIK loans | (1,786) | (824) |
| Ending PIK loan balance | \$ 5,186 | \$ 4,895 |

The increase in payments received from PIK loans during the nine months ended September 30, 2014 is due to the addition of seven PIK loans which have incurred PIK capitalizations during the period partially offset by the paydown of four PIK loans during the nine months ended September 30, 2014.

In certain investment transactions, we may earn income from advisory services; however, we had no income from advisory services in the three and nine months ended September 30, 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. Our operating expenses totaled approximately \$17.0 million and \$19.5 million during the three months ended September 30, 2014 and 2013, respectively. Operating expenses totaled approximately \$49.9 million and \$52.3 million during the nine months ended September 30, 2014 and 2013, respectively.

Interest and Fees on our Borrowings

Interest and fees on our borrowings totaled approximately \$7.9 million and \$8.7 million for the three months ended September 30, 2014 and 2013, respectively, and approximately \$24.7 million and \$26.1 million for the nine months ended September 30, 2014 and 2013, respectively. The decrease in both the three and nine months was primarily attributable to the lower weighted average balances outstanding on our SBA obligations, Convertible Senior Notes, and Asset Backed Notes due to the payoff of \$34.8 million of SBA debentures in the first quarter of 2014, the settlement of \$34.1 million of our Convertible Senior Notes during the third quarter of 2014, and the amortization of our Asset Backed Notes from a balance of \$89.6 million as of December 31, 2013 to \$28.0 million as of September 30, 2014. Interest expense decreased by approximately \$950,000 related to Convertible Senior Notes settled prior to the interest payment date, offset by interest and fees on our 6.25% notes due 2024 (the "2024 Notes") issued in the third quarter of 2014.

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 6.0% for the three months ended September 30, 2014 and 2013, respectively, and a weighted average cost of debt of approximately 6.6% and 6.0% for the nine months ended September 30, 2014 and 2013, respectively. The increase in both periods was primarily driven by the acceleration of fees related to the early payoffs of SBA obligations and our Asset-Backed 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 \$2.4 million from \$2.2 million for the three months ended September 30, 2014 and 2013, respectively. This increase was primarily due to increased rent expense and outside consulting fees offset by decreased legal fees. Expenses increased to \$7.0 million from \$6.8 million for the nine months ended September 30, 2014 and 2013, respectively. This increase was primarily due to increased rent expense and marketing expense offset by decreased accounting fees and legal fees.

Employee Compensation

Employee compensation and benefits totaled approximately \$3.9 million for the three months ended September 30, 2014 as compared to approximately \$7.0 million for the three months ended September 30, 2013 and approximately \$11.4 million for the nine months ended September 30, 2014 as compared to approximately \$15.0 million for the nine months ended September 30, 2013. The decrease for both comparative periods was primarily due to decreasing our 2014 variable compensation accrued for the three and nine months ended September 30, 2014 as compared to the variable compensation accrued for the three and nine months ended September 30, 2013.

Stock-based compensation totaled approximately \$2.8 million for the three months ended September 30, 2014 as compared to approximately \$1.6 million for the three months ended September 30, 2013 and approximately \$6.8 million for the nine months ended September 30, 2014 as compared to approximately \$4.3 million for the nine months ended September 30, 2013. The increase for both comparative periods was primarily due to the increase of restricted stock units granted in April 2014 (981,550 shares) as compared to restricted stock units granted in March 2013 (606,001 shares).

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 September 30, 2014. As of September 30, 2014, holders of approximately \$34.1 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 924,000 shares of the Company's common stock.

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 three and nine months ended September 30, 2014 was approximately \$1.0 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 three and nine months ended September 30, 2014 and 2013 is as follows:

| (in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--------------------|----------------------------------|----------|---------------------------------|-----------|
| | 2014 | 2013 | 2014 | 2013 |
| Realized gains | \$ 5,882 | \$ 7,827 | \$ 13,755 | \$ 17,476 |
| Realized losses | (218) | (702) | (748) | (6,167) |
| Net realized gains | \$ 5,664 | \$ 7,125 | \$ 13,007 | \$ 11,309 |

During the three months ended September 30, 2014 and 2013, we recognized net realized gains of approximately \$5.7 million and \$7.1 million, respectively. During the three months ended September 30, 2014, we recorded gross realized gains of approximately \$5.9 million primarily from the sale of investments in two portfolio companies, including Acceleron Pharma (\$3.1 million) and IPA Holdings (\$1.5 million). These gains were partially offset by gross realized losses of approximately \$218,000 from the liquidation of our investments in two portfolio companies.

During the three months ended September 30, 2013, we recorded gross realized gains of approximately \$7.8 million primarily from the sale of investments in three portfolio companies, including iWatt, Inc. (\$4.7 million), AcelRx, Inc. (\$1.1 million) and Facebook, Inc. (\$728,000). These gains were partially offset by gross realized losses of approximately \$460,000 from the liquidation of our investments in six portfolio companies.

During the nine months ended September 30, 2014 and 2013, we recognized net realized gains of approximately \$13.0 million and \$11.3 million, respectively. During the nine months ended September 30, 2014, we recorded gross realized gains of approximately \$13.8 million primarily from the sale of investments in six portfolio companies, including Acceleron Pharma (\$4.0 million), Neuralstem (\$1.7 million), IPA Holdings (\$1.5 million), Cell Therapeutics (\$1.3 million), Trulia (\$1.0 million) and Portola Pharmaceuticals (\$700,000). These gains were partially offset by gross realized losses of approximately \$748,000 from the liquidation of our investments in eight portfolio companies.

During the nine months ended September 30, 2013, we recorded gross realized gains of approximately \$17.5 million primarily from the sale of investments in eight portfolio companies. These gains were partially offset by gross realized losses of approximately \$6.2 million from the liquidation of our investments in nineteen portfolio companies.

The net unrealized appreciation and depreciation of our investments is based on the fair value of each investment determined in good faith by our Board of Directors. The following table summarizes the change in net unrealized appreciation/depreciation of investments for the three and nine months ended September 30, 2014 and 2013:

| (in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|----------------------------------|-----------|---------------------------------|-----------|
| | 2014 | 2013 | 2014 | 2013 |
| Gross unrealized appreciation on portfolio investments | \$ 12,656 | \$ 28,760 | \$ 48,230 | \$ 58,168 |
| Gross unrealized depreciation on portfolio investments | (17,753) | (15,626) | (59,699) | (44,117) |
| Reversal of prior period net unrealized appreciation upon a realization event | (4,273) | (6,196) | (6,761) | (13,599) |
| Reversal of prior period net unrealized depreciation upon a realization event | 219 | 2,335 | 849 | 7,977 |
| Net unrealized (depreciation) on taxes payable | (212) | — | (604) | — |
| Net unrealized appreciation (depreciation) on escrow receivables | (309) | (923) | (465) | 564 |
| Citigroup warrant participation | 190 | (54) | 146 | 45 |
| Net unrealized appreciation (depreciation) on portfolio investments | \$ (9,482) | \$ 8,296 | \$ (18,304) | \$ 9,038 |

During the three months ended September 30, 2014, we recorded approximately \$9.5 million of net unrealized depreciation, of which \$9.1 million is net unrealized depreciation from our debt, equity and warrant investments. Approximately \$1.1 million is attributed to net unrealized depreciation on our debt investments which primarily related to \$2.1 million unrealized depreciation for collateral based impairments on nine portfolio companies. Approximately \$4.2 million is attributed to net unrealized depreciation on our equity investments which primarily related to the \$3.6 million reversal of prior period net unrealized appreciation upon being realized as a gain for our sale of shares of Acceleron Pharma. Additionally, approximately \$3.8 million is attributed to net unrealized depreciation on our warrant investments which primarily related to \$2.1 million of unrealized depreciation on our public portfolio

company investments and \$1.0 million of unrealized depreciation on three private portfolio company investments due to declines in portfolio company performance.

Net unrealized depreciation increased by approximately \$212,000 as a result of estimated taxes payable for the three months ended September 30, 2014.

Net unrealized depreciation further increased by approximately \$309,000 as a result of reducing escrow receivables for the three months ended September 30, 2014 related to merger and acquisition transactions closed on former portfolio companies.

During the three months ended September 30, 2014, net unrealized depreciation was offset by approximately \$190,000 as a result of net depreciation of fair value on the pool of warrants collateralized under the warrant participation agreement due to the sale of shares of Acceleron Pharma that were subject to the agreement.

During the three months ended September 30, 2013, we recorded approximately \$8.3 million of net unrealized appreciation, of which \$9.3 million is net unrealized appreciation from our debt, equity and warrant investments. Approximately \$7.3 million is attributed to net unrealized appreciation on equity, which primarily resulted from appreciation of our investment in Virident Systems due to the announcement of the portfolio company's acquisition by Western Digital, Inc. Approximately \$2.1 million is attributed to net unrealized appreciation on our debt investments, which primarily resulted from fair value adjustments made as a result of a decrease in interest rates reflected in our current quarter effective yield offset by \$3.4 million of unrealized depreciation for collateral based impairments. We recorded approximately \$99,000 of net unrealized depreciation on our warrant investments.

During the three months ended September 30, 2013, net unrealized appreciation decreased by approximately \$54,000 as a result of appreciation of fair value on the pool of warrants collateralized under the warrant participation agreement. Additionally during the three months ended September 30, 2013, net unrealized appreciation on escrow receivables decreased by approximately \$923,000, primarily due to the reversal of prior period net unrealized appreciation upon being realized as a gain.

The following table summarizes the change in net unrealized appreciation/(depreciation) in the investment portfolio by category for the three months ended September 30, 2014 and 2013 (unaudited).

| (in millions) | Three Months Ended September 30, 2014 | | | |
|--|---------------------------------------|----------|----------|----------|
| | Debt | Equity | Warrants | Total |
| Collateral Based Impairments | \$ (2.1) | \$ (0.1) | \$ (0.4) | \$ (2.6) |
| Reversals of Prior Period Collateral based impairments | — | — | — | — |
| Reversals due to Debt Payoffs & Warrant/Equity sales | 0.5 | (3.9) | (0.3) | (3.7) |
| Fair Value Market/Yield Adjustments* | | | | |
| Level 1 & 2 Assets | — | (1.2) | (2.1) | (3.3) |
| Level 3 Assets | 0.5 | 1.0 | (1.0) | 0.5 |
| Total Fair Value Market/Yield Adjustments | 0.5 | (0.2) | (3.1) | (2.8) |
| Total Unrealized Appreciation/(Depreciation) | \$ (1.1) | \$ (4.2) | \$ (3.8) | \$ (9.1) |

| (in millions) | Three Months Ended September 30, 2013 | | | |
|--|---------------------------------------|--------|----------|----------|
| | Debt | Equity | Warrants | Total |
| Collateral Based Impairments | \$ (3.4) | \$ — | \$ (0.1) | \$ (3.5) |
| Reversals due to Debt Payoffs & Warrant/Equity sales | 1.4 | (0.7) | (3.1) | (2.4) |
| Fair Value Market/Yield Adjustments* | | | | |
| Level 1 & 2 Assets | — | 2.0 | 1.9 | 3.9 |
| Level 3 Assets | 4.1 | 6.0 | 1.2 | 11.3 |
| Total Fair Value Market/Yield Adjustments | 4.1 | 8.0 | 3.1 | 15.2 |
| Total Unrealized Appreciation/(Depreciation) | \$ 2.1 | \$ 7.3 | \$ (0.1) | \$ 9.3 |

* 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.

During the nine months ended September 30, 2014, we recorded approximately \$18.3 million of net unrealized depreciation, of which \$17.4 million is net unrealized depreciation from our debt, equity and warrant investments. Approximately \$7.8 million is attributed to net unrealized depreciation on our debt investments which primarily related to \$12.6 million of unrealized depreciation for collateral based impairments on nine portfolio companies. Approximately \$18.3 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 \$1.9 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 \$8.7 million of net unrealized appreciation on our equity investments, including approximately \$8.4 million of net unrealized appreciation due to the exercise of our warrants in Box, Inc. to equity.

Net unrealized depreciation increased by approximately \$604,000 as a result of estimated taxes payable for the nine months ended September 30, 2014.

Net unrealized depreciation further increased by approximately \$465,000 as a result of reducing escrow receivables for the nine months ended September 30, 2014 related to merger and acquisition transactions closed on former portfolio companies.

During the nine months ended September 30, 2014, net unrealized depreciation was offset by approximately \$146,000 as a result of net depreciation of fair value on the pool of warrants collateralized under the warrant participation agreement due to the sale of shares of Acceleron Pharma that were subject to the agreement.

During the nine months ended September 30, 2013, we recorded approximately \$9.0 million of net unrealized appreciation of which approximately \$8.4 million is net unrealized appreciation from our debt, equity and warrant investments. Approximately \$14.7 million is attributed to net unrealized appreciation on equity which primarily resulted from appreciation of our investment in Virident Systems due to the announcement of the portfolio company's acquisition by Western Digital, Inc. of approximately \$7.2 million and approximately \$2.7 million due to the reversal of prior period net unrealized depreciation upon being realized as a loss. Approximately \$3.9 million is attributed to net unrealized appreciation on our warrant investments, of which approximately \$10.9 million is due to the reversal of prior period net unrealized appreciation upon being realized as a gain and \$2.7 million is due to the reversal of prior period net unrealized depreciation upon being realized as a loss. We recorded approximately \$10.2 million of net unrealized depreciation on our debt investments, which primarily related to \$10.3 million of unrealized depreciation for collateral based impairments on with portfolio companies.

For the nine months ended September 30, 2013, net unrealized appreciation increased by approximately \$45,000 as a result of depreciation during the nine months ended September 30, 2013 of fair value on the pool of warrants collateralized under the warrant participation agreement.

The following table summarizes the change in net unrealized appreciation/(depreciation) in the investment portfolio by category for the nine months ended September 30, 2014 and 2013 (unaudited).

| (in millions) | Nine Months Ended September 30, 2014 | | | |
|--|--------------------------------------|----------|-----------|-----------|
| | Debt | Equity | Warrants | Total |
| Collateral Based Impairments | \$ (12.6) | \$ (1.2) | \$ (2.9) | \$ (16.7) |
| Reversals of Prior Period Collateral based impairments | — | 0.6 | — | 0.6 |
| Reversals due to Debt Payoffs & Warrant/Equity sales | 0.3 | (4.7) | (9.7) | (14.1) |
| Fair Value Market/Yield Adjustments* | | | | |
| Level 1 & 2 Assets | — | 3.7 | (2.4) | 1.3 |
| Level 3 Assets | 4.5 | 10.3 | (3.3) | 11.5 |
| Total Fair Value Market/Yield Adjustments | 4.5 | 14.0 | (5.7) | 12.8 |
| Total Unrealized Appreciation/(Depreciation) | \$ (7.8) | \$ 8.7 | \$ (18.3) | \$ (17.4) |

| (in millions) | Nine Months Ended September 30, 2013 | | | |
|--|--------------------------------------|---------|----------|-----------|
| | Debt | Equity | Warrants | Total |
| Collateral Based Impairments | \$ (10.3) | \$ — | \$ (0.1) | \$ (10.4) |
| Reversals due to Debt Payoffs & Warrant/Equity sales | 1.6 | 2.7 | (8.2) | (3.9) |
| Fair Value Market/Yield Adjustments* | | | | |
| Level 1 & 2 Assets | — | 2.0 | 3.2 | 5.2 |
| Level 3 Assets | (1.5) | 10.0 | 9.0 | 17.5 |
| Total Fair Value Market/Yield Adjustments | (1.5) | 12.0 | 12.2 | 22.7 |
| Total Unrealized Appreciation/(Depreciation) | \$ (10.2) | \$ 14.7 | \$ 3.9 | \$ 8.4 |

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

Income and Excise Taxes

We account for income taxes in accordance with the provisions of ASC 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 allowances are used to reduce deferred tax assets to the amount likely to be realized. We intend to distribute approximately \$3.8 million of spillover earnings from the year ended December 31, 2013 to our shareholders in 2014.

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

For the three months ended September 30, 2014 and 2013, the net increase in net assets resulting from operations totaled approximately \$15.2 million and approximately \$37.0 million, respectively. For the nine months ended September 30, 2014 and 2013, the net increase in net assets resulting from operations totaled approximately \$50.6 million and approximately \$74.5 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 were \$0.24 and \$0.23, respectively, for the three months ended September 30, 2014, whereas the basic and fully diluted net change in net assets per common share for the three months ended September 30, 2013 was \$0.61 and \$0.59, respectively. The basic and fully diluted net change in net assets per common share was \$0.80 and \$0.78 for the nine months ended September 30, 2014, whereas the basic and fully diluted net change in net assets per common share for the nine months ended September 30, 2013 was \$1.26 and \$1.23, respectively.

For the purpose of calculating diluted earnings per share for three and nine months ended September 30, 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 in effect (\$11.42 as of September 30, 2014 and \$11.69 as of September 30, 2013, respectively) for the Convertible Senior Notes for such periods.

Financial Condition, Liquidity, and Capital Resources

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

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

During the nine months ended September 30, 2014, we sold 650,000 shares of common stock for total accumulated net proceeds of approximately \$9.5 million, all of which is accretive to net asset value. We expect to use the net proceeds from the offering to make investments, to repurchase or pay liabilities and for general corporate purposes. As of September 30, 2014, approximately 7.35 million shares remained available for issuance and sale under the equity distribution agreement.

As of September 30, 2014, approximately \$34.1 million of our Convertible Senior Notes were converted and were settled with a combination of cash equal to the outstanding principal amount of the converted notes and approximately 924,000 of our common stock. Upon meeting the stock trading price conversion requirement during the three months ended September 30, 2014, the Convertible Senior Notes continue to be convertible through December 31, 2014. See "Subsequent Events".

At September 30, 2014, we had \$40.9 million of Convertible Senior Notes, \$170.4 million of 2019 Notes, \$103.0 million of 2024 Notes, \$28.0 million of Asset-Backed Notes and \$190.2 million of SBA debentures payable. We had no borrowings outstanding under either the Wells Facility or the Union Bank Facility.

At September 30, 2014, we had \$308.6 million in available liquidity, including \$158.6 million in cash and cash equivalents. We had available borrowing capacity of approximately \$75.0 million under the Wells Facility and \$75.0 million under the Union Bank Facility, subject to existing terms and advance rates and regulatory requirements. We primarily invest cash on hand in interest bearing deposit accounts.

At September 30, 2014, we had \$112.5 million of cash in restricted accounts related to our SBIC that we may use to fund new investments in the SBIC. With our net investments of \$38.0 million and \$74.5 million in HT II and HT III, respectively, we have the combined capacity to issue a total of \$190.2 million of SBA guaranteed debentures, subject to SBA approval. At September 30, 2014, we have issued \$190.2 million in SBA guaranteed debentures in our SBIC subsidiaries.

At September 30, 2014, we had approximately \$2.1 million of restricted cash, which consists of collections of interest and principal payments on assets that are securitized. In accordance with the terms of the related securitized Asset-Backed Notes, based on current characteristics of the securitized debt investment portfolios, the restricted funds may be used to pay monthly interest and principal on the securitized debt and are not distributed to us or available for our general operations. During the nine months ended September 30, 2014, we principally funded our operations from (i) cash receipts from interest, dividend and fee income from our investment portfolio and (ii) cash proceeds from the realization of portfolio investments through the repayments of debt investments and the sale of debt and equity investments.

During the nine months ended September 30, 2014, our operating activities used \$34.1 million of cash and cash equivalents, compared to \$4.7 million provided during the nine months ended September 30, 2013. This \$38.8 million decrease in cash provided by operating activities resulted primarily from the decrease in net assets resulting from operations of approximately \$24.0 million, the decrease of proceeds received from investment payoffs of approximately \$19.9 million and the decrease in sale of investments of approximately \$11.5 million. These decreases were partially offset by increases in unrealized appreciation on investments of approximately \$27.3 million.

During the nine months ended September 30, 2014, our investing activities provided \$4.1 million of cash, compared to approximately \$3.9 million used during the nine months ended September 30, 2013. This \$8.0 million increase in cash provided by investing activities was primarily due to a reduction of approximately \$7.8 million in cash, classified as restricted cash, on assets that are securitized.

During the nine months ended September 30, 2014, our financing activities used \$79.7 million of cash, compared to \$21.2 million provided during the nine months ended September 30, 2013. This \$100.9 million increase in cash used by financing activities was primarily due to a decrease in proceeds from issuance of common stock of \$86.7 million and an increase in repayments of Asset-Backed Notes and Long-Term SBA Debentures of \$34.8 million and \$34.8 million, respectively, during the nine months ended September 30, 2014. In addition, during the nine months ended September 30, 2014, we paid \$34.1 million in cash to settle our Convertible Senior Notes, of which \$31.6 million is included in cash flows from financing activities and \$2.5 million is included in cash flows from operating activities which represents the proportional interest paid of the original issue discount. These increases in cash used by financing activities were partially offset by cash provided by the net issuance of our 2024 Notes for \$99.7 million.

As of September 30, 2014, net assets totaled \$656.2 million, with a net asset value per share of \$10.22. We intend to generate additional cash primarily from cash flows from operations, including income earned from investments in our portfolio companies and, to a lesser extent, from the temporary investment of cash in other high-quality debt investments that mature in one year or less as well as from future borrowings as required to meet our lending activities. Our primary use of funds will be investments in portfolio companies and cash distributions to holders of our common stock.

As required by the 1940 Act, our asset coverage must be at least 200% after each issuance of senior securities. As of September 30, 2014 our asset coverage ratio under our regulatory requirements as a business development company was 292.2%, excluding our SBA debentures as a result of our exemptive order from the SEC which allows us to exclude all SBA leverage from our asset coverage ratio. As a result of the SEC exemptive order, our ratio of total assets on a consolidated basis to outstanding indebtedness may be less than 200%, which while providing increased investment flexibility, also may increase our exposure to risks associated with leverage. Total leverage when including our SBA debentures was 223.4% at September 30, 2014.

Outstanding Borrowings

At September 30, 2014 (unaudited) and December 31, 2013, we had the following available borrowings and outstanding amounts:

| (in thousands) | September 30, 2014 | | December 31, 2013 | |
|---|--------------------|-------------------------------|-------------------|-------------------------------|
| | Total Available | Carrying Value ⁽¹⁾ | Total Available | Carrying Value ⁽¹⁾ |
| SBA Debentures ⁽²⁾ | \$ 190,200 | \$ 190,200 | \$ 225,000 | \$ 225,000 |
| 2019 Notes | 170,364 | 170,364 | 170,364 | 170,364 |
| 2024 Notes | 103,000 | 103,000 | — | — |
| Asset-Backed Notes | 27,951 | 27,951 | 89,557 | 89,557 |
| Convertible Senior Notes ⁽³⁾ | 40,923 | 40,012 | 75,000 | 72,519 |
| Wells Facility | 75,000 | — | 75,000 | — |
| Union Bank Facility | 75,000 | — | 30,000 | — |
| | <u>\$ 682,438</u> | <u>\$ 531,527</u> | <u>\$ 664,921</u> | <u>\$ 557,440</u> |

- (1) Except for the Convertible Senior Notes, all carrying values are the same as the principal amount outstanding.
- (2) In March 2014, we repaid \$34.8 million of SBA debentures under HT II, priced at approximately 6.38%, including annual fees. At September 30, 2014, the total available borrowings under the SBA debentures were \$190.2 million, of which \$41.2 million was available in HT II and \$149.0 million was available in HT III. At December 31, 2013, the total available borrowings under the SBA debentures were \$225.0 million, of which \$76.0 million was available in HT II and \$149.0 million was available in HT III.
- (3) During the three months ended September 30, 2014, holders of approximately \$34.1 million of the Company's Convertible Senior Notes exercised their conversion rights. The balance at September 30, 2014 represents the remaining aggregate principal amount outstanding of the Convertible Senior Notes less the unaccreted discount initially recorded upon issuance of the Convertible Senior Notes. The total unaccreted discount for the Convertible Senior Notes was approximately \$911,000 at September 30, 2014 and \$2.5 million at December 31, 2013.

Our net asset value may decline as a result of economic conditions in the United States. Our continued compliance with the covenants under our Credit Facilities, Convertible Senior Notes, 2019 Notes, 2024 Notes, Asset-Backed Notes and SBA debentures depend on many factors, some of which are beyond our control. Material net asset devaluation could have a material adverse effect on our operations and could require us to reduce our borrowings in order to comply with certain covenants, including the ratio of total assets to total indebtedness. We believe that our current cash and cash equivalents, cash generated from operations, and funds available from our Credit Facilities will be sufficient to meet our working capital and capital expenditure commitments for at least the next 12 months.

Debt financing costs are fees and other direct incremental costs we incur in obtaining debt financing and are recognized as prepaid expenses and amortized into the consolidated statement of operations as loan fees over the term of the related debt instrument. Prepaid financing costs, net of accumulated amortization, as of September 30, 2014 (unaudited) and December 31, 2013 were as follows:

| (in thousands) | September 30, 2014 | December 31, 2013 |
|--------------------------|--------------------|-------------------|
| SBA Debentures | \$ 4,202 | \$ 5,074 |
| 2019 Notes | 4,595 | 5,319 |
| 2024 Notes | 3,288 | — |
| Asset-Backed Notes | 883 | 2,686 |
| Convertible Senior Notes | 485 | 1,323 |
| Wells Facility | 880 | 398 |
| Union Bank Facility | 171 | — |
| | <u>\$ 14,504</u> | <u>\$ 14,800</u> |

Commitments

In the normal course of business, we are party to financial instruments with off-balance sheet risk. These consist primarily of unfunded contractual commitments to extend credit, in the form of loans, to our portfolio companies. Unfunded contractual commitments to provide funds to portfolio companies are not reflected on our balance sheet. Our unfunded contractual commitments may be significant from time to time. As of September 30, 2014, we had unfunded contractual commitments of approximately \$242.5 million. Approximately \$138.5 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 our future cash requirements. 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.

In addition, we had approximately \$223.0 million of non-binding term sheets outstanding to nine new and existing companies, which generally convert to contractual commitments within approximately 90 days of signing. Non-binding outstanding term sheets are subject to completion of our due diligence and final investment committee approval process, as well as the negotiation of definitive documentation with the prospective portfolio companies. Not all non-binding term sheets are expected to close and do not necessarily represent future cash requirements.

Contractual Obligations

The following table shows our contractual obligations as of September 30, 2014 (unaudited):

| Contractual Obligations⁽¹⁾⁽²⁾ | Payments due by period (in thousands) | | | | |
|--|--|-------------------------|--------------------|--------------------|----------------------|
| | Total | Less than 1 year | 1 - 3 years | 3 - 5 years | After 5 years |
| Borrowings⁽³⁾⁽⁴⁾ | \$ 531,527 | \$ 363 | \$ 67,600 | \$ 192,164 | \$ 271,400 |
| Operating Lease Obligations⁽⁵⁾ | 6,666 | 1,586 | 3,038 | 1,576 | 466 |
| | <u>\$ 538,193</u> | <u>\$ 1,949</u> | <u>\$ 70,638</u> | <u>\$ 193,740</u> | <u>\$ 271,866</u> |

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

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

(3) Includes \$190.2 million in borrowings under the SBA debentures, \$170.4 million of the 2019 Notes, \$103.0 million of the 2024 Notes, \$28.0 million in aggregate principal amount of the Asset-Backed Notes and \$40.0 million of the Convertible Senior Notes.

(4) Except for the Convertible Senior Notes, all carrying values are the same as the principal amount outstanding. The aggregate principal amount outstanding of the Convertible Senior Notes is \$40.9 million less the unaccreted discount initially recorded upon issuance of the Convertible Senior Notes. The total unaccreted discount for the Convertible Senior Notes was \$0.9 million at September 30, 2014.

(5) Long-term facility leases.

Certain premises are leased under agreements which expire at various dates through March 2020. Total rent expense amounted to approximately \$397,000 and \$1.2 million during the three and nine months ended September 30, 2014, respectively. There was approximately \$296,000 and \$900,000 recorded in the same periods ended September 30, 2013, respectively.

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

Borrowings

Long-term SBA Debentures

On September 27, 2006, HT II received a license to operate as a SBIC under the SBIC program and is able to borrow funds from the SBA against eligible investments and regulatory capital. Under the Small Business Investment Company Act and current SBA policy applicable to SBICs, a SBIC can have outstanding at any time SBA guaranteed debentures up to twice the amount of its regulatory capital. With our net investment of \$38.0 million in HT II as of September 30, 2014, HT II has the capacity to issue a total of \$41.2 million of SBA guaranteed debentures, subject to SBA approval, of which \$41.2 million was available at September 30, 2014. As of September 30, 2014, HT II has paid the SBA commitment fees and facility fees of approximately \$1.5 million and \$3.6 million, respectively. As of September 30, 2014 we held investments in HT II in 42 companies with a fair value of approximately \$110.9 million, accounting for approximately 11.1% of our total portfolio at September 30, 2014.

On May 26, 2010, HT III received a license to operate as a SBIC under the SBIC program and is able to borrow funds from the SBA against eligible investments and additional contributions to regulatory capital. With our net investment of \$74.5 million in HT III as of September 30, 2014, HT III has the capacity to issue a total of \$149.0 million of SBA guaranteed debentures, of which \$149.0 million was outstanding as of September 30, 2014. As of September 30, 2014, HT III has paid commitment fees and facility fees of approximately \$1.5 million and \$3.6 million, respectively. As of September 30, 2014, we held investments in HT III in 42 companies with a fair value of approximately \$255.5 million accounting for approximately 25.6% of our total portfolio at September 30, 2014.

SBICs are designed to stimulate the flow of private equity capital to eligible small businesses. Under present SBA regulations, eligible small businesses include businesses that have a tangible net worth not exceeding \$19.5 million and have average annual fully taxed net income not exceeding \$6.5 million for the two most recent fiscal years. In addition, SBICs must devote 25.0% of its investment activity to "smaller" enterprises as defined by the SBA. A smaller enterprise is one that has a tangible net worth not exceeding \$6.0 million and has average annual fully taxed net income not exceeding \$2.0 million for the two most recent fiscal years. SBA regulations also provide alternative size standard criteria to determine eligibility, which depend on the industry in which the

business is engaged and are based on such factors as the number of employees and gross sales. According to SBA regulations, SBICs may make long-term loans to small businesses, invest in the equity securities of such businesses and provide them with consulting and advisory services. Through its wholly-owned subsidiaries HT II and HT III, we plan to provide long-term loans to qualifying small businesses, and in connection therewith, make equity investments.

HT II and HT III are periodically examined and audited by the SBA's staff to determine their compliance with SBA regulations. If HT II or HT III fails to comply with applicable SBA regulations, the SBA could, depending on the severity of the violation, limit or prohibit HT II's or HT III's use of debentures, declare outstanding debentures immediately due and payable, and/or limit HT II or HT III from making new investments. In addition, HT II or HT III may also be limited in their ability to make distributions to us if they do not have sufficient capital in accordance with SBA regulations. Such actions by the SBA would, in turn, negatively affect us because HT II and HT III are our wholly owned subsidiaries. HT II and HT III were in compliance with the terms of the SBIC's leverage as of September 30, 2014 as a result of having sufficient capital as defined under the SBA regulations.

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

The average amount of debentures outstanding for the three months ended September 30, 2014 for HT II was approximately \$41.2 million with an average interest rate of approximately 4.56%. The average amount of debentures outstanding for the three months ended September 30, 2014 for HT III was approximately \$149.0 million with an average interest rate of approximately 3.46%. The average amount of debentures outstanding for the nine months ended September 30, 2014 for HT II was approximately \$48.6 million with an average interest rate of approximately 4.80%. The average amount of debentures outstanding for the nine months ended September 30, 2014 for HT III was approximately \$149.0 million with an average interest rate of approximately 3.42%.

As of September 30, 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 September 30, 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 September 30, 2014, we have issued \$190.2 million in SBA-guaranteed debentures in our SBIC subsidiaries.

We reported the following SBA debentures outstanding as of September 30, 2014 (unaudited) and December 31, 2013:

| (in thousands) Issuance/Pooling Date | Maturity Date | Interest Rate ⁽¹⁾ | September 30, 2014 | December 31, 2013 |
|---|-------------------|------------------------------|--------------------|-------------------|
| SBA Debentures: | | | | |
| March 26, 2008 | March 1, 2018 | 6.38% | \$ — | \$ 34,800 |
| March 25, 2009 | March 1, 2019 | 5.53% | 18,400 | 18,400 |
| September 23, 2009 | September 1, 2019 | 4.64% | 3,400 | 3,400 |
| September 22, 2010 | September 1, 2020 | 3.62% | 6,500 | 6,500 |
| September 22, 2010 | September 1, 2020 | 3.50% | 22,900 | 22,900 |
| March 29, 2011 | March 1, 2021 | 4.37% | 28,750 | 28,750 |
| September 21, 2011 | September 1, 2021 | 3.16% | 25,000 | 25,000 |
| March 21, 2012 | March 1, 2022 | 3.28% | 25,000 | 25,000 |
| March 21, 2012 | March 1, 2022 | 3.05% | 11,250 | 11,250 |
| September 19, 2012 | September 1, 2022 | 3.05% | 24,250 | 24,250 |
| March 27, 2013 | March 1, 2023 | 3.16% | 24,750 | 24,750 |
| Total SBA Debentures | | | \$ 190,200 | \$ 225,000 |

(1) Interest rate includes annual charge

2019 Notes

On March 6, 2012, we and U.S. Bank National Association (the "Trustee") entered into an indenture (the "Base Indenture"). On April 17, 2012, we and the Trustee entered into the First Supplemental Indenture to the Base Indenture (the "First Supplemental

Indenture”), dated April 17, 2012, relating to our issuance, offer and sale of \$43.0 million aggregate principal amount of 7.00% senior notes due 2019 (the “April 2019 Notes”). The sale of the April 2019 Notes generated net proceeds, before expenses, of approximately \$41.7 million.

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

On September 24, 2012, we and the Trustee, entered into the Second Supplemental Indenture to the Base Indenture (the “Second Supplemental Indenture”), dated as of September 24, 2012, relating to our issuance, offer and sale of \$75.0 million aggregate principal amount of 7.00% senior notes due 2019 (the “September 2019 Notes” and, together with the April 2019 Notes, the “2019 Notes”). The sale of the September 2019 Notes generated net proceeds, before expenses, of approximately \$72.75 million.

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

As of September 30, 2014 (unaudited) and December 31, 2013, the 2019 Notes payable is comprised of:

| (in thousands) | September 30, 2014 | December 31, 2013 |
|------------------------------|--------------------|-------------------|
| April 2019 Notes | \$ 84,490 | \$ 84,490 |
| September 2019 Notes | 85,874 | 85,874 |
| Carrying Value of 2019 Notes | <u>\$ 170,364</u> | <u>\$ 170,364</u> |

April 2019 Notes

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

The April 2019 Notes are our direct unsecured obligations and rank: (i) *pari passu* with our other outstanding and future senior unsecured indebtedness, including without limitation, the \$40.9 million in aggregate principal amount of the Convertible Senior Notes; (ii) senior to any of our future indebtedness that expressly provides it is subordinated to the April 2019 Notes; (iii) effectively subordinated to all our existing and future secured indebtedness (including indebtedness that is initially unsecured to which we subsequently grant security), to the extent of the value of the assets securing such indebtedness, including without limitation, borrowings under our Credit Facilities; (iv) structurally subordinated to all existing and future indebtedness and other obligations of any of our subsidiaries, including without limitation, the indebtedness of Hercules Technology II, L.P. and Hercules Technology III, L.P. and borrowings under our revolving senior secured credit facility with Wells Fargo Capital Finance, LLC.

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

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

September 2019 Notes

The September 2019 Notes will mature on September 30, 2019 and may be redeemed in whole or in part at our option at any time or from time to time on or after September 30, 2015, upon not less than 30 days nor more than 60 days written notice by mail prior to the date fixed for redemption thereof, at a redemption price of 100% of the outstanding principal amount thereof plus accrued

and unpaid interest payments otherwise payable for the then-current quarterly interest period accrued to but not including the date fixed for redemption. The September 2019 Notes bear interest at a rate of 7.00% per year payable quarterly on March 30, June 30, September 30 and December 30 of each year, commencing on December 30, 2012, and trade on the New York Stock Exchange under the trading symbol “HTGY.”

The September 2019 Notes are our direct unsecured obligations and rank: (i) *pari passu* with our other outstanding and future senior unsecured indebtedness, including without limitation, the \$40.9 million in aggregate principal amount of the Convertible Senior Notes; (ii) senior to any of our future indebtedness that expressly provides it is subordinated to the September 2019 Notes; (iii) effectively subordinated to all our existing and future secured indebtedness (including indebtedness that is initially unsecured to which we subsequently grant security), to the extent of the value of the assets securing such indebtedness, including without limitation, borrowings under our credit facilities; (iv) structurally subordinated to all existing and future indebtedness and other obligations of any of our subsidiaries, including without limitation, the indebtedness of Hercules Technology II, L.P. and Hercules Technology III, L.P. and borrowings under our revolving senior secured credit facility with Wells Fargo Capital Finance.

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

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

For the three and nine months ended September 30, 2014 and 2013 (unaudited), the components of interest expense and related fees and cash paid for interest expense for the April 2019 Notes and September 2019 Notes are as follows:

| (in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|----------------------------------|----------|---------------------------------|----------|
| | 2014 | 2013 | 2014 | 2013 |
| Stated interest expense | \$ 2,981 | \$ 2,981 | \$ 8,944 | \$ 8,944 |
| Amortization of debt issuance cost | 243 | 243 | 725 | 725 |
| Total interest expense and fees | \$ 3,224 | \$ 3,224 | \$ 9,669 | \$ 9,669 |
| Cash paid for interest expense and fees | \$ 2,981 | \$ 2,981 | \$ 8,944 | \$ 8,944 |

As of September 30, 2014, we are in compliance with the terms of the Base Indenture, and respective supplemental indentures thereto, governing the April 2019 Notes and September 2019 Notes. See Note 4 to our consolidated financial statements for more detail on the 2019 Notes.

2024 Notes

On July 14, 2014, we and U.S. Bank, N.A. (the “Trustee”), entered into the Third Supplemental Indenture (the “Third Supplemental Indenture”) to the Base Indenture between us and the Trustee, dated July 14, 2014, relating to our issuance, offer and sale of \$100.0 million aggregate principal amount of 2024 Notes. On August 6, 2014, the underwriters issued notification to exercise their over-allotment option for an additional \$3.0 million in aggregate principal amount of the 2024 Notes. The sale of the 2024 Notes generated net proceeds of approximately \$99.9 million.

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

The 2024 Notes will be our direct unsecured obligations and will rank: (i) *pari passu* with our other outstanding and future senior unsecured indebtedness, including without limitation, the approximately \$84.5 million 7.00% Senior Notes due April 30, 2019 (the “April 2019 Notes”); the approximately \$85.9 million 7.00% Senior Notes due September 30, 2019 (the “September 2019 Notes” and together with the April 2019 Notes, the “2019 Notes”), the \$40.9 million 6.00% Convertible Senior Notes due 2016 (the “Convertible Senior Notes and the approximately \$28.0 million fixed-rate asset-backed notes (the “Asset-Backed Notes”); (ii) senior to any of our future indebtedness that expressly provides it is subordinated to the 2024 Notes; (iii) effectively subordinated to all of our existing and future secured indebtedness (including indebtedness that is initially unsecured to which we subsequently grant security), to the extent of the value of the assets securing such indebtedness, including without limitation, borrowings under our credit facilities; (iv) structurally subordinated to all existing and future indebtedness and other obligations of any of our subsidiaries, including without limitation, the indebtedness of HT II and HT III and any borrowings under our revolving senior secured credit facility with Wells Fargo Capital Finance.

The Base Indenture, as supplemented by the Third Supplemental Indenture, contains certain covenants including covenants requiring us to comply with (regardless of whether it is subject to) the asset coverage requirements set forth in Section 18(a)(1)(A) as modified by Section 61(a)(1) of the 1940 Act and to comply with the restrictions on dividends, distributions and purchase of capital stock set forth in Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act. These covenants are subject to important limitations and exceptions that are described in the Base Indenture, as supplemented by the Third Supplemental Indenture. The Base Indenture, as supplemented by the Third Supplemental Indenture, also contains certain reporting requirements, including a requirement that we provide financial information to the holders of the 2024 Notes and the Trustee if we should no longer be subject to the reporting requirements under the Securities Exchange Act of 1934. The Base Indenture provides for customary events of default and further provides that the Trustee or the holders of 25% in aggregate principal amount of the outstanding 2024 Notes in a series may declare such 2024 Notes immediately due and payable upon the occurrence of any event of default after expiration of any applicable grace period. As of September 30, 2014, we were in compliance with the terms of the Base Indenture, as supplemented by the Third Supplemental Indenture.

At September 30, 2014, the 2024 Notes had an outstanding principal balance of \$103.0 million.

For the three and nine months ended September 30, 2014 (unaudited), the components of interest expense and related fees and cash paid for interest expense for the 2024 Notes are as follows:

| (in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|----------------------------------|------|---------------------------------|------|
| | 2014 | 2013 | 2014 | 2013 |
| Stated interest expense | \$ 1,068 | \$ — | \$ 1,068 | \$ — |
| Amortization of debt issuance cost | 69 | — | 69 | — |
| Total interest expense and fees | \$ 1,137 | \$ — | \$ 1,137 | \$ — |
| Cash paid for interest expense and fees | \$ 278 | \$ — | \$ 278 | \$ — |

Asset-Backed Notes

On December 19, 2012, we completed a \$230.7 million term debt securitization in connection with which an affiliate of ours made an offer of \$129.3 million in aggregate principal amount of fixed-rate asset-backed notes (the “Asset-Backed Notes”), which Asset-Backed Notes were rated A2(sf) by Moody’s Investors Service, Inc. The Asset-Backed Notes were issued by Hercules Capital Funding Trust 2012-1 pursuant to a note purchase agreement, dated as of December 12, 2012, by and among us, Hercules Capital Funding 2012-1 LLC, as Trust Depositor (the “Trust Depositor”), Hercules Capital Funding Trust 2012-1, as Issuer (the “Issuer”), and Guggenheim Securities, LLC, as Initial Purchaser, and are backed by a pool of senior loans made to certain of our portfolio companies and secured by certain assets of those portfolio companies and are to be serviced by us. Interest on the Asset-Backed Notes will be paid, to the extent of funds available, at a fixed rate of 3.32% per annum. The Asset-Backed Notes have a stated maturity of December 16, 2017.

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

In connection with the issuance and sale of the Asset-Backed Notes, we have made customary representations, warranties and covenants in the note purchase agreement. The Asset-Backed Notes are secured obligations of the Issuer and are non-recourse to us. The Issuer also entered into an indenture governing the Asset-Backed Notes, which includes customary representations, warranties and covenants. The Asset-Backed Notes were sold without being registered under the Securities Act of 1933, as amended (the “Securities Act”), to “qualified institutional buyers” in compliance with the exemption from registration provided by Rule 144A under

the Securities Act and to institutional “accredited investors” (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) who in each case, are “qualified purchasers” for purposes of Section 3(c)(7) under the 1940 Act. In addition, the Trust Depositor entered into an amended and restated trust agreement, which includes customary representation, warranties and covenants.

The Loans are serviced by us pursuant to a sale and servicing agreement, which contains customary representations, warranties and covenants. We perform certain servicing and administrative functions with respect to the Loans. We are entitled to receive a monthly fee from the Issuer for servicing the Loans. This servicing fee is equal to the product of one-twelfth (or in the case of the first payment date, a fraction equal to the number of days from and including December 5, 2012 through and including January 15, 2013 over 360) of 2.00% and the aggregate outstanding principal balance of the Loans, excluding all defaulted Loans and all purchased Loans, as of the first day of the related collection period (the period from the 5th day of the immediately preceding calendar month through the 4th day of the calendar month in which a payment date occurs, and for the first payment date, the period from and including December 5, 2012, to the close of business on January 4, 2013).

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

At September 30 2014 and December 31, 2013, the Asset Backed Notes had an outstanding principal balance of \$28.0 million and \$89.6 million, respectively.

Under the terms of the Asset Backed Notes, we are required to maintain a reserve cash balance, funded through interest and principal collections from the underlying securitized debt portfolio, which may be used to pay monthly interest and principal payments on the Asset-Backed Notes. We have segregated these funds and classified them as Restricted Cash. There was approximately \$2.1 million and \$6.3 million of Restricted Cash as of September 30, 2014 and December 31, 2013, respectively, funded through interest collections.

Convertible Senior Notes

In April 2011, we issued \$75.0 million in aggregate principal amount of 6.00% convertible senior notes (the “Convertible Senior Notes”) due 2016. During the three months ended September 30, 2014, holders of approximately \$34.1 million of our Convertible Senior Notes exercised their conversion rights. As of September 30, 2014, the carrying value of the Convertible Senior Notes, comprised of the aggregate principal amount outstanding less the unaccreted discount initially recorded upon issuance of the Convertible Senior Notes, is approximately \$40.0 million

The Convertible Senior Notes mature on April 15, 2016 (the “Maturity Date”), unless previously converted or repurchased in accordance with their terms. The Convertible Senior Notes bear interest at a rate of 6.00% per year payable semiannually in arrears on April 15 and October 15 of each year, commencing on October 15, 2011. The Convertible Senior Notes are our senior unsecured obligations and rank senior in right of payment to our existing and future indebtedness that is expressly subordinated in right of payment to the Convertible Senior Notes; equal in right of payment to our existing and future unsecured indebtedness that is not so subordinated; effectively junior in right of payment to any of our secured indebtedness (including unsecured indebtedness that we later secure) to the extent of the value of the assets securing such indebtedness; and structurally junior to all existing and future indebtedness (including trade payables) incurred by our subsidiaries, financing vehicles or similar facilities.

Prior to the close of business on the business day immediately preceding October 15, 2015, holders may convert their Convertible Senior Notes only under certain circumstances set forth in the indenture. On or after October 15, 2015 until the close of business on the scheduled trading day immediately preceding the Maturity Date, holders may convert their Convertible Senior Notes at any time. Upon conversion, we will pay or deliver, as the case may be, at our election, cash, shares of our common stock or a combination of cash and shares of our common stock. The conversion rate will initially be 84.0972 shares of common stock per \$1,000 principal amount of Convertible Senior Notes (equivalent to an initial conversion price of approximately \$11.89 per share of common stock). The conversion rate will be subject to adjustment in some events but will not be adjusted for any accrued and unpaid interest. In addition, if certain corporate events occur prior to the Maturity Date, the conversion rate will be increased for converting holders. As of September 30, 2014, the conversion rate was 87.5583 shares of common stock per \$1,000 principal amount of Convertible Senior Notes (equivalent to an adjusted conversion price of approximately \$11.42 per share of common stock).

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

The Convertible Senior Notes are accounted for in accordance with ASC 470-20 (previously FASB Staff Position No. APB 14-1, “Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)”). In accounting for the Convertible Senior Notes, we estimated at the time of issuance that the values of the debt and the embedded conversion feature of the Convertible Senior Notes were approximately 92.8% and 7.2%, respectively. The original issue discount of 7.2% attributable to the conversion feature of the Convertible Senior Notes was recorded in “capital in excess of par value” in the consolidated statement of assets and liabilities. As a result, we record interest expense comprised of both stated interest expense as well as accretion of the original issue discount resulting in an estimated effective interest rate of approximately 8.1%.

Upon meeting the stock trading price conversion requirement during the three months ended June 30, 2014, the Convertible Senior Notes became convertible on July 1, 2014 and continued to be convertible through September 30, 2014. As of September 30, 2014, approximately \$34.1 million of the Convertible Senior Notes were converted and were settled with a combination of cash equal to the outstanding principal amount of the converted notes and approximately 924,000 shares of our common stock. Upon meeting the stock trading price conversion requirement during the three months ended September 30, 2014, the Convertible Senior Notes continue to be convertible through December 30, 2014. See “Subsequent Events.”

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 three and nine months ended September 30, 2014 was approximately \$1.0 million and was classified as a component of net investment income in our Consolidated Statements of Operations.

As of September 30, 2014 (unaudited) and December 31, 2013, the components of the carrying value of the Convertible Senior Notes were as follows:

| (in thousands) | September 30, 2014 | December 31, 2013 |
|--|--------------------|-------------------|
| Principal amount of debt | \$ 40,923 | \$ 75,000 |
| Original issue discount, net of accretion | (911) | (2,481) |
| Carrying value of Convertible Senior Notes | <u>\$ 40,012</u> | <u>\$ 72,519</u> |

For the three and nine months ended September 30, 2014 and 2013 (unaudited), the components of interest expense, fees and cash paid for interest expense for the Convertible Senior Notes were as follows:

| (in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--------------------------------------|----------------------------------|-----------------|---------------------------------|-----------------|
| | 2014 | 2013 | 2014 | 2013 |
| Stated interest expense | \$ 184 | \$ 1,125 | \$ 2,434 | \$ 3,375 |
| Accretion of original issue discount | 197 | 271 | 738 | 812 |
| Amortization of debt issuance cost | 105 | 144 | 394 | 433 |
| Total interest expense | <u>\$ 486</u> | <u>\$ 1,540</u> | <u>\$ 3,566</u> | <u>\$ 4,620</u> |
| Cash paid for interest expense | \$ — | \$ — | \$ 2,250 | \$ 2,250 |

The estimated effective interest rate of the debt component of the Convertible Senior Notes, equal to the stated interest of 6.0% plus the accretion of the original issue discount, was approximately 8.1% for the three and nine months ended September 30, 2014 and 2013. Interest expense decreased by approximately \$950,000 during both the three and nine months ended September 30, 2014 from the comparative periods in 2013, due to Convertible Senior Notes settled prior to the interest payment date. As of September 30, 2014, we are in compliance with the terms of the indentures governing the Convertible Senior Notes.

Wells Facility

In August 2008, we entered into a \$50.0 million two-year revolving senior secured credit facility with Wells Fargo Capital Finance (the “Wells Facility”). On June 20, 2011, we renewed the Wells Facility, and the Wells Facility was further amended on August 1, 2012, December 17, 2012 and August 8, 2014. Under this senior secured facility, Wells Fargo Capital Finance has made commitments of \$75.0 million. The facility contains an accordion feature, in which we can increase the credit line up to an aggregate of \$300.0 million, funded by additional lenders and with the agreement of Wells Fargo Capital Finance and subject to other customary conditions. We expect to continue discussions with various other potential lenders to join the new facility; however, there can be no assurances that additional lenders will join the Wells Facility.

On August 1, 2012, we entered into an amendment to the Wells Facility that reduced the interest rate floor by 75 basis points to 4.25% and extended the maturity date by one year to August 2015. Additionally, the August 2012 amendment added an amortization

period that commences on the day immediately following the end of the revolving credit availability period and ends one year thereafter on the maturity date. The August 2012 amendment also reduced the unused line fee, as further discussed below. On August 8, 2014, the Company entered into a further amendment to the Wells Facility to set the interest rate floor at 4.00% and to extend the revolving credit availability period to August 2017.

As amended, borrowings under the Wells Facility will generally bear interest at a rate per annum equal to LIBOR plus 3.50%, with a floor of 4.00% and an advance rate of 50% against eligible debt investments. The Wells Facility is secured by debt investments in the borrowing base. The Wells Facility requires payment of a non-use fee on a scale of 0.0% to 0.50% of the average monthly outstanding balance. The monthly payment of a non-use fee thereafter shall depend on the average balance that was outstanding on a scale between 0.0% and 0.50%. For the three and nine months ended September 30, 2014 and 2013, this non-use fee was approximately \$96,000 and \$284,000, respectively. On June 20, 2011 we paid an additional \$1.1 million in structuring fees in connection with the Wells Facility which are being amortized through the end of the term of the Wells Facility. In connection with the August 2014 amendments, the Company paid an additional \$750,000 in structuring fees in connection with the Wells Facility which are being amortized through the end of the term of the Wells Facility.

The Wells Facility includes various financial and operating covenants applicable to us and our subsidiaries, in addition to those applicable to Hercules Funding II, LLC. As amended, these covenants require us to maintain certain financial ratios and a minimum tangible net worth in an amount, when added to outstanding subordinated indebtedness, that is in excess of \$500.0 million plus 90% of the cumulative amount of equity raised after June 30, 2014. The Wells Facility provides for customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, bankruptcy events and change of control. We were in compliance with all covenants at September 30, 2014. See Note 4 to our consolidated financial statements for more detail on the Wells Facility.

Union Bank Facility

We have a \$75.0 million revolving senior secured credit facility (the "Union Bank Facility") with Union Bank ("Union Bank"). We originally entered into the Union Bank Facility on February 10, 2010 but, following several amendments, amended and restated the Union Bank Facility on August 14, 2014. The amendment and restatement extends the maturity date of the Union Bank Facility to August 1, 2017, increases the size of the Union Bank Facility to \$75.0 million from \$30.0 million, and adjusts the interest rate for LIBOR borrowings under the Union Bank Facility. LIBOR-based borrowings under the Union Bank Facility will bear interest at a rate per annum equal to LIBOR plus 2.25% with no floor, whereas previously we paid a per annum interest rate on such borrowings equal to LIBOR plus 2.50% with a floor of 4.00%. Other borrowings under the Union Bank Facility, which are based on a reference rate instead of LIBOR, will continue to bear interest at a rate per annum equal to the reference rate (which is the greater of the federal funds rate plus 1.00% and a periodically announced Union Bank index rate) plus the greater of (i) 4.00% minus the reference rate and (ii) 1.00%. We continue to have the option of determining which type of borrowing to request under the Union Bank Facility. Subject to certain conditions, the amendment also removes a previous ceiling on the amount of certain unsecured indebtedness that we may incur.

Union Bank has made commitments to lend up to \$75.0 million in aggregate principal amount. The Union Bank Facility contains an accordion feature, pursuant to which we may increase the size of the Union Bank Facility to an aggregate principal amount of \$300.0 million by bringing in additional lenders, subject to the approval of Union Bank and other customary conditions. There can be no assurances that additional lenders will join the Union Bank Facility to increase available borrowings.

The Union Bank Facility requires the payment of a non-use fee of 0.50% annually. For the three and nine months ended September 30, 2014, this non-use fee was approximately \$50,000 and \$100,000, respectively. For the three and nine months ended September 30, 2013, this non-use fee was approximately \$38,000 and \$114,000, respectively. The amount that we may borrow under the Union Bank Facility is determined by applying an advance rate to eligible loans. The Union Bank Facility generally requires payment of monthly interest on loans based on a reference rate and at the end of a one, two, or three-month period, as applicable, for loans based on LIBOR. All outstanding principal is due upon maturity.

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

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

At September 30, 2014 there were no borrowings outstanding on this facility.

Citibank Credit Facility

We, through Hercules Funding Trust I, an affiliated statutory trust, had a securitized credit facility (the “Citibank Credit Facility”) with Citigroup Global Markets Realty Corp. which expired under normal terms. During the first quarter of 2009, we paid off all principal and interest owed under the Citibank Credit Facility. Citigroup has an equity participation right through a warrant participation agreement on the pool of debt investments and warrants collateralized under the Citibank Credit Facility. Pursuant to the warrant participation agreement, we granted to Citigroup a 10% participation in all warrants held as collateral. However, no additional warrants were included in collateral subsequent to the facility amendment on May 2, 2007. As a result, Citigroup is entitled to 10% of the realized gains on the warrants until the realized gains paid to Citigroup pursuant to the agreement equal \$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 nine months ended September 30, 2014, we reduced our realized gain by approximately \$270,000 for Citigroup’s participation in the gain on sale of equity securities which were obtained from exercising a portfolio company warrant which was included in the collateral pool. We recorded a decrease on participation liability and an increase on unrealized appreciation by a net amount of approximately \$146,000 as a result of year to date depreciation of fair value on the pool of warrants collateralized under the warrant participation agreement. The value of their participation right on unrealized gains in the related equity investments was approximately \$224,000 as of September 30, 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 Citigroup approximately \$1.9 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 participation agreement are set to expire between February 2016 and March 2017.

Dividends

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

| Date Declared | Record Date | Payment Date | Amount Per Share |
|----------------------|--------------------|---------------------|-------------------------|
| October 27, 2005 | November 1, 2005 | November 17, 2005 | \$ 0.03 |
| December 9, 2005 | January 6, 2006 | January 27, 2006 | 0.30 |
| April 3, 2006 | April 10, 2006 | May 5, 2006 | 0.30 |
| July 19, 2006 | July 31, 2006 | August 28, 2006 | 0.30 |
| October 16, 2006 | November 6, 2006 | December 1, 2006 | 0.30 |
| February 7, 2007 | February 19, 2007 | March 19, 2007 | 0.30 |
| May 3, 2007 | May 16, 2007 | June 18, 2007 | 0.30 |
| August 2, 2007 | August 16, 2007 | September 17, 2007 | 0.30 |
| November 1, 2007 | November 16, 2007 | December 17, 2007 | 0.30 |
| February 7, 2008 | February 15, 2008 | March 17, 2008 | 0.30 |
| May 8, 2008 | May 16, 2008 | June 16, 2008 | 0.34 |
| August 7, 2008 | August 15, 2008 | September 19, 2008 | 0.34 |
| November 6, 2008 | November 14, 2008 | December 15, 2008 | 0.34 |
| February 12, 2009 | February 23, 2009 | March 30, 2009 | 0.32 * |
| May 7, 2009 | May 15, 2009 | June 15, 2009 | 0.30 |
| August 6, 2009 | August 14, 2009 | September 14, 2009 | 0.30 |
| October 15, 2009 | October 20, 2009 | November 23, 2009 | 0.30 |
| December 16, 2009 | December 24, 2009 | December 30, 2009 | 0.04 |
| February 11, 2010 | February 19, 2010 | March 19, 2010 | 0.20 |
| May 3, 2010 | May 12, 2010 | June 18, 2010 | 0.20 |
| August 2, 2010 | August 12, 2010 | September 17, 2010 | 0.20 |
| November 4, 2010 | November 10, 2010 | December 17, 2010 | 0.20 |
| March 1, 2011 | March 10, 2011 | March 24, 2011 | 0.22 |
| May 5, 2011 | May 11, 2011 | June 23, 2011 | 0.22 |
| August 4, 2011 | August 15, 2011 | September 15, 2011 | 0.22 |
| November 3, 2011 | November 14, 2011 | November 29, 2011 | 0.22 |
| February 27, 2012 | March 12, 2012 | March 15, 2012 | 0.23 |
| April 30, 2012 | May 18, 2012 | May 25, 2012 | 0.24 |
| July 30, 2012 | August 17, 2012 | August 24, 2012 | 0.24 |
| October 26, 2012 | November 14, 2012 | November 21, 2012 | 0.24 |
| February 26, 2013 | March 11, 2013 | March 19, 2013 | 0.25 |
| April 29, 2013 | May 14, 2013 | May 21, 2013 | 0.27 |
| July 29, 2013 | August 13, 2013 | August 20, 2013 | 0.28 |
| November 4, 2013 | November 18, 2013 | November 25, 2013 | 0.31 |
| February 24, 2014 | March 10, 2014 | March 17, 2014 | 0.31 |
| April 28, 2014 | May 12, 2014 | May 19, 2014 | 0.31 |
| July 28, 2014 | August 18, 2014 | August 25, 2014 | 0.31 |
| October 29, 2014 | November 17, 2014 | November 24, 2014 | 0.31 |
| | | | <u>\$ 9.99</u> |

* Dividend paid in cash and stock.

On October 29, 2014 the Board of Directors declared a cash dividend of \$0.31 per share to be paid on November 24, 2014 to shareholders of record as of November 17, 2014. This dividend represents our thirty-seventh consecutive dividend declaration since our initial public offering, bringing the total cumulative dividend declared to date to \$9.99 per share.

Our Board of Directors maintains a variable dividend policy with the objective of distributing four quarterly distributions in an amount that approximates 90 - 100% of our taxable quarterly income or potential annual income for a particular year. In addition, at

the end of the year, our Board of Directors may choose to pay an additional special dividend, or fifth dividend, so that we may distribute approximately all of our annual taxable income in the year it was earned, or may elect to maintain the option to spill over our excess taxable income into the coming year for future dividend payments.

Distributions in excess of our current and accumulated earnings and profits would generally be treated first as a return of capital to the extent of the stockholder's tax basis, and any remaining distributions would be treated as a capital gain. The determination of the tax attributes of our distributions is made annually as of the end of our fiscal year based upon our taxable income for the full year and distributions paid for the full year. Of the dividends declared during the years ended December 31, 2013 and 2012, 100% were distributions of ordinary income. There can be no certainty to stockholders that this determination is representative of what the tax attributes of our 2014 distributions to stockholders will actually be.

Each year a statement on Form 1099-DIV identifying the source of the distribution (i.e., paid from ordinary income, paid from net capital gains on the sale of securities, and/or a return of paid-in-capital surplus which is a nontaxable distribution) is mailed to our stockholders. To the extent our taxable earnings fall below the total amount of our distributions for that fiscal year, a portion of those distributions may be deemed a tax return of capital to our stockholders.

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

As a RIC, we will be subject to a 4% nondeductible federal excise tax on certain undistributed income unless we distribute in a timely manner an amount at least equal to the sum of (1) 98% of our ordinary income for each calendar year, (2) 98.2% of our capital gain net income for the 1-year period ending October 31 in that calendar year and (3) any income realized, but not distributed, in the preceding year (the "Excise Tax Avoidance Requirements"). We will not be subject to excise taxes on amounts on which we are required to pay corporate income tax (such as retained net capital gains). Depending on the level of taxable income earned in a tax year, we may choose to carry over taxable income in excess of current year distributions from such taxable income into the next tax year and pay a 4% excise tax on such income, as required. The maximum amount of excess taxable income that may be carried over for distribution in the next year under the Code is the total amount of dividends paid in the following year, subject to certain declaration and payment guidelines. To the extent we choose to carry over taxable income into the next tax year, dividends declared and paid by us in a year may differ from taxable income for that year as such dividends may include the distribution of current year taxable income, the distribution of prior year taxable income carried over into and distributed in the current year, or returns of capital.

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

We intend to distribute approximately \$3.8 million of spillover earnings from the year ended December 31, 2013 to our shareholders in 2014.

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

Critical Accounting Policies

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

Valuation of Portfolio Investments

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

At September 30, 2014, approximately 83.3% of our total assets represented investments in portfolio companies that are valued at fair value by the Board of Directors. Value, as defined in Section 2(a)(41) of the 1940 Act, is (i) the market price for those securities for which a market quotation is readily available and (ii) for all other securities and assets, fair value is as determined in good faith by the Board of Directors. Our investments are carried at fair value in accordance with the 1940 Act and Accounting Standards Codification topic 820 Fair Value Measurements and Disclosures (“ASC 820”). Our debt securities are primarily invested in venture capital-backed companies in technology-related markets, including technology, biotechnology, life science and energy and renewables technology industries. Given the nature of lending to these types of businesses, our investments in these portfolio companies are generally considered Level 3 assets under ASC 820 because there is no known or accessible market or market indexes for these investment securities to be traded or exchanged. As such, we value substantially all of our investments at fair value as determined in good faith pursuant to a consistent valuation policy and our Board of Directors in accordance with the provisions of ASC 820 and the 1940 Act. Due to the inherent uncertainty in determining the fair value of investments that do not have a readily available market value, the fair value of our investments determined in good faith by our Board of Directors may differ significantly from the value that would have been used had a readily available market existed for such investments, and the differences could be material.

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

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

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

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

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

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

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

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

In accordance with ASU 2011-04, the following table provides quantitative information about our Level 3 fair value measurements of our investments as of September 30, 2014. In addition to the techniques and inputs noted in the table below, according to our valuation policy, we may also use other valuation techniques and methodologies when determining our fair value measurements. The table below is not intended to be all-inclusive, but rather provides information on the significant Level 3 inputs as they relate to our fair value measurements.

| Investment Type - Level Three Debt Investments | Fair Value at September 30, 2014 (in thousands) | Valuation Techniques/Methodologies | Unobservable Input ^(a) | Range | Weighted Average ^(b) |
|--|---|---|---|-----------------|---------------------------------------|
| Pharmaceuticals | \$ 82,606 | Originated Within 6 Months | Origination Yield | 9.79% - 17.50% | 12.58% |
| | 224,002 | Market Comparable Companies | Hypothetical Market Yield | 7.45% - 16.07% | 13.07% |
| | | | Premium/(Discount) | (1.00%) - 0.50% | |
| Medical Devices | 46,070 | Originated Within 6 Months | Origination Yield | 8.20% - 16.56% | 13.90% |
| | 74,172 | Market Comparable Companies | Hypothetical Market Yield | 11.72% - 23.60% | 14.88% |
| | | | Premium/(Discount) | (1.00%) - 1.50% | |
| | 9,367 | Liquidation ^(c) | Probability weighting of alternative outcomes | 25.00% - 75.00% | |
| Technology | 79,778 | Originated Within 6 Months | Origination Yield | 6.86% - 43.33% | 14.39% |
| | 104,927 | Market Comparable Companies | Hypothetical Market Yield | 3.48% - 19.44% | 14.09% |
| | | | Premium/(Discount) | (0.50%) - 0.50% | |
| | 161 | Liquidation ^(c) | Probability weighting of alternative outcomes | 50.00% | |
| Energy Technology | 30,000 | Originated Within 6 Months | Origination Yield | 14.16% | 14.16% |
| | 58,209 | Market Comparable Companies | Hypothetical Market Yield | 12.25% - 17.53% | 15.39% |
| | | | Premium/(Discount) | (0.50%) - 1.00% | |
| | 5,492 | Liquidation ^(c) | Probability weighting of alternative outcomes | 20.00% - 80.00% | |
| Lower Middle Market | 61,546 | Market Comparable Companies | Hypothetical Market Yield | 11.59% - 15.90% | 13.80% |
| | 17,737 | Liquidation ^(c) | Premium/(Discount) | 0.00% - 0.50% | |
| | | | Probability weighting of alternative outcomes | 10.00% - 75.00% | |
| Debt Investments Where Fair Value Approximates Cost | | | | | |
| | 91,917 | Imminent Payoffs | | | |
| | 21,939 | Debt Investments Maturing in Less than One Year | | | |
| | <u>\$ 907,923</u> | Total Level Three Debt Investments | | | |

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

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

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

Technology, above, is comprised of debt investments in the Software, Semiconductors, Electronics and Computer Hardware, Internet Consumer and Business Services, Information Services, Media/Content/Info and Communications and Networking industries in the Schedule of Investments.

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

Energy Technology, above, aligns with the Energy Technology industry in the Schedule of Investments.

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

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

| Investment Type - Level Three Debt Investments | Fair Value at December 31, 2013 (in thousands) | Valuation Techniques/Methodologies | Unobservable Input ^(a) | | Weighted Average ^(c) |
|--|--|---|---|-----------------|---------------------------------------|
| | | | | Range | |
| Pharmaceuticals | \$ 25,811 | Originated Within 6 Months | Origination Yield | 12.56% - 14.53% | 13.36% |
| | 250,607 | Market Comparable Companies | Hypothetical Market Yield | 13.83% - 15.47% | 14.13% |
| | | | Premium/(Discount) | (1.00%) - 0.00% | |
| Medical Devices | 46,900 | Originated Within 6 Months | Origination Yield | 13.54% - 17.37% | 14.87% |
| | 34,723 | Market Comparable Companies | Hypothetical Market Yield | 14.32% - 17.37% | 15.23% |
| | | | Premium/(Discount) | (1.00%) - 1.00% | |
| Technology | 18,796 | Originated Within 6 Months | Origination Yield | 10.62% - 15.97% | 14.26% |
| | 98,290 | Market Comparable Companies | Hypothetical Market Yield | 14.72% - 21.08% | 15.48% |
| | | | Premium/(Discount) | 0.00% - 1.00% | |
| | | | Probability weighting of alternative outcomes | 30.00% - 70.00% | |
| Energy Technology | 32,597 | Originated Within 6 Months | Origination Yield | 14.68% - 15.97% | 15.17% |
| | 108,238 | Market Comparable Companies | Hypothetical Market Yield | 15.37% | 15.37% |
| | | | Premium/(Discount) | (0.50%) - 1.50% | |
| Lower Middle Market | 121,347 | Market Comparable Companies | Hypothetical Market Yield | 14.83% - 19.73% | 16.12% |
| | 31,818 | Broker Quote ^(b) | Premium/(Discount) | 0.00% - 1.00% | |
| | | | 12,576 | Liquidation | Price Quotes |
| | | | | | Par Value |
| Debt Investments Where Fair Value Approximates Amortized Cost | | | | | |
| | 15,906 | Imminent Payoffs | | | |
| | 22,236 | Debt Investments Maturing in Less than One Year | | | |
| | 500 | Convertible Debt at Par | | | |
| | <u>\$ 821,988</u> | Total Level Three Debt Investments | | | |

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

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

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

Technology, above, is comprised of debt investments in the Software, Semiconductors, Electronics and Computer Hardware, Internet Consumer and Business Services, Information Services, Media/Content/Info and Communications and Networking industries in the Schedule of Investments.

Lower Middle Market, above, is comprised of debt investments in the Communications and Networking, Software, Electronics and Computer Hardware, Information Services, Internet Consumer and Business Services, Media/Content/Info, and Specialty Pharmaceuticals industries in the Schedule of Investments. Energy Technology, above, aligns with the Energy Technology industry in the Schedule of Investments. In our quarterly and annual reports filed with the Commission prior to the 2013 Annual Report on Form 10-K, we referred to the Energy Technology industry as "Clean Tech" and we referred to these investments as "Clean Tech" in the Schedule of Investments included in such reports.

(b) A broker quote valuation technique was used to derive the fair value of debt investments which are part of a syndicated facility.

(c) Weighted averages are calculated based on the fair market value of each investment.

| Investment Type - Level Three Equity and Warrant Investments | Fair Value at September 30, 2014 (in thousands) | Valuation Techniques/ Methodologies | Unobservable Input ^(a) | | Weighted Average ^(e) |
|---|---|--|---|-----------------|------------------------------------|
| | | | | Range | |
| Equity Investments | \$ 9,434 | Market Comparable Companies | EBITDA Multiple ^(b) | 4.6x - 22.8x | 8.9x |
| | | | Revenue Multiple ^(b) | 0.8x - 3.7x | 2.2x |
| | | | Discount for Lack of Marketability ^(c) | 9.24% - 35.82% | 16.55% |
| | | | Average Industry Volatility ^(d) | 54.11% - 97.91% | 61.99% |
| | | | Risk-Free Interest Rate | 0.10% - 0.89% | 0.15% |
| | 42,307 | Market Adjusted OPM Backsolve | Estimated Time to Exit (in months) | 10 - 32 | 11 |
| | | | Average Industry Volatility ^(d) | 34.93% - 84.30% | 55.96% |
| | | | Risk-Free Interest Rate | 0.10% - 1.38% | 0.21% |
| | | | Estimated Time to Exit (in months) | 17 - 47 | 11 |
| | | | | | |
| Warrant Investments | 7,980 | Market Comparable Companies | EBITDA Multiple ^(b) | 0.0x - 96.6x | 17.1x |
| | | | Revenue Multiple ^(b) | 0.3x - 13.9x | 3.7x |
| | | | Discount for Lack of Marketability ^(c) | 11.76% - 35.82% | 21.98% |
| | | | Average Industry Volatility ^(d) | 38.61% - 90.38% | 62.85% |
| | | | Risk-Free Interest Rate | 0.05% - 1.38% | 0.71% |
| | 9,783 | Market Adjusted OPM Backsolve | Estimated Time to Exit (in months) | 7 - 47 | 27 |
| | | | Average Industry Volatility ^(d) | 29.91% - 97.91% | 67.12% |
| | | | Risk-Free Interest Rate | 0.05% - 2.66% | 0.82% |
| | | | Estimated Time to Exit (in months) | 7 - 48 | 28 |
| | | | | | |
| Total Level Three Warrant and Equity Investments | \$ 69,504 | | | | |

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

| Investment Type - Level Three Equity and Warrant Investments | Fair Value at December 31, 2013 (in thousands) | Valuation Techniques/ Methodologies | Unobservable Input ^(a) | | Range |
|---|--|--|---|----------------|-------|
| | | | | | |
| Equity Investments | \$ 10,244 | Market Comparable Companies | EBITDA Multiple ^(b) | 8.6x - 17.7x | |
| | | | Revenue Multiple ^(b) | 0.7x - 13.8x | |
| | | | Discount for Lack of Marketability ^(c) | 9.1% - 23.6% | |
| | | | Average Industry Volatility ^(d) | 43.4% - 110.7% | |
| | | | Risk-Free Interest Rate | 0.1% - 0.4% | |
| | 9,289 | Market Adjusted OPM Backsolve | Estimated Time to Exit (in months) | 6 - 30 | |
| | | | Average Industry Volatility ^(d) | 45.6% - 109.7% | |
| | | | Risk-Free Interest Rate | 0.1% - 0.9% | |
| | 18,127 | Other | Estimated Time to Exit (in months) | 6 - 42 | |
| | | | Average Industry Volatility ^(d) | 44.0% | |
| | | | Risk-Free Interest Rate | 0.1% | |
| | | | Estimated Time to Exit (in months) | 12 | |
| | | | | | |
| Warrant Investments | 10,200 | Market Comparable Companies | EBITDA Multiple ^(b) | 5.0x - 51.4x | |
| | | | Revenue Multiple ^(b) | 0.5x - 13.8x | |
| | | | Discount for Lack of Marketability ^(c) | 6.4% - 36.0% | |
| | | | Average Industry Volatility ^(d) | 21.3% - 110.7% | |
| | | | Risk-Free Interest Rate | 0.1% - 1.0% | |
| | 8,913 | Market Adjusted OPM Backsolve | Estimated Time to Exit (in months) | 6 - 48 | |
| | | | Average Industry Volatility ^(d) | 35.7% - 109.9% | |
| | | | Risk-Free Interest Rate | 0.1% - 2.7% | |
| | 9,595 | Other | Estimated Time to Exit (in months) | 3 - 48 | |
| | | | Average Industry Volatility ^(d) | 44.0% - 56.9% | |
| | | | Risk-Free Interest Rate | 0.1% - 1.0% | |
| | | | Estimated Time to Exit (in months) | 12 - 48 | |
| | | | | | |
| Total Level Three Warrant and Equity Investments | \$ 66,368 | | | | |

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

Debt Investments

We follow the guidance set forth in ASC 820 which establishes a framework for measuring the fair value of assets and liabilities and outlines a fair value hierarchy which prioritizes the inputs used to measure fair value and the effect of fair value measures on earnings. Our debt securities are primarily invested in venture capital-backed companies in technology-related markets, including technology, biotechnology, life science and energy and renewables technology industries at all stages of development. Given the nature of lending to these types of businesses, our investments in these portfolio companies are considered Level 3 assets under ASC 820 because there is no known or accessible market or market indexes for debt instruments for these investment securities to be traded or exchanged.

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

We apply a procedure for debt investments that assumes a sale of investment in a hypothetical market to a hypothetical market participant where buyers and sellers are willing participants. The hypothetical market does not include scenarios where the underlying security was simply repaid or extinguished, but includes an exit concept. We determine the yield at inception for each debt investment. We then use senior secured, leveraged loan yields provided by third party providers to determine the change in market yields between inception of the debt security and the measurement date. Industry specific indices are used to benchmark/assess market based movements. Under this process, we also evaluate the collateral for recoverability of the debt investments as well as apply all of its historical fair value analysis.

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

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

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

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

Equity-Related Securities and Warrants

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

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

Income Recognition

We record interest income on the accrual basis and we recognize it as earned in accordance with the contractual terms of the loan agreement to the extent that such amounts are expected to be collected. Original Issue Discount (“OID”) initially represents the value of detachable equity warrants obtained in conjunction with the acquisition of debt securities and is accreted into interest income over the term of the loan as a yield enhancement. When a loan becomes 90 days or more past due, or if management otherwise does not expect the portfolio company to be able to service its debt and other obligations, we will generally place the loan on non-accrual status and cease recognizing interest income on that loan until all principal has been paid. Any uncollected interest related to prior periods is reversed from income in the period that collection of the interest receivable is determined to be doubtful. However, we may make exceptions to this policy if the investment has sufficient collateral value and is in the process of collection. At September 30, 2014, we had three debt investments on non-accrual with a cumulative cost and approximate fair value of \$21.7 million and \$6.5 million, respectively, compared to two debt investments on non-accrual at December 31, 2013 a cumulative cost and approximate fair market value of \$23.3 million and \$12.6 million, respectively.

Paid-In-Kind and End of Term Income

Contractual paid-in-kind (“PIK”) interest, which represents contractually deferred interest added to the loan balance that is generally due at the end of the loan term, is generally recorded on the accrual basis to the extent such amounts are expected to be collected. We will generally cease accruing PIK interest if there is insufficient value to support the accrual or we do not expect the portfolio company to be able to pay all principal and interest due. In addition, we may also be entitled to an end-of-term payment that we amortize into income over the life of the loan. To maintain our status as a RIC, PIK and end-of-term 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 \$851,000 and \$889,000 in PIK income during the three months ended September 30, 2014 and 2013, respectively. We recorded approximately \$2.6 million and \$2.7 million in PIK income during the nine months ended September 30, 2014 and 2013, respectively.

Fee Income

Fee income, generally collected in advance, includes loan commitment and facility fees for due diligence and structuring, as well as fees for transaction services and management services rendered by us to portfolio companies and other third parties. Loan and commitment fees are amortized into income over the contractual life of the loan. Management fees are generally recognized as income when the services are rendered. Loan origination fees are capitalized and then amortized into interest income using the effective interest rate method. In certain loan arrangements, warrants or other equity interests are received from the borrower as additional origination fees.

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

Equity Offering Expenses

Our offering costs are charged against the proceeds from equity offerings when received.

Debt Issuance Costs

Debt issuance costs are fees and other direct incremental costs incurred by us in obtaining debt financing. Debt issuance costs are recognized as prepaid expenses and amortized over the life of the related debt instrument using the straight line method, which closely approximates the effective yield method.

Stock-Based Compensation

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

Income Taxes

We operate to qualify to be taxed as a RIC under the Code. Generally, a RIC is entitled to deduct dividends it pays to its shareholders from its income to determine “taxable income.” Taxable income includes our taxable interest, dividend and fee income, as well as taxable net capital gains. Taxable income generally differs from net income for financial reporting purposes due to temporary and permanent differences in the recognition of income and expenses, and generally excludes net unrealized appreciation or depreciation, as gains or losses are not included in taxable income until they are realized. In addition, gains realized for financial reporting purposes may differ from gains included in taxable income as a result of our election to recognize gains using installment sale treatment, which generally results in the deferment of gains for tax purposes until notes or other amounts, including amounts held in escrow, received as consideration from the sale of investments are collected in cash.

Taxable income includes non-cash income, such as changes in accrued and reinvested interest and dividends, which includes contractual PIK interest arrangements, and the amortization of discounts and fees. Cash collections of income resulting from contractual PIK interest arrangements or the amortization of discounts and fees generally occur upon the repayment of the loans or debt securities that include such items. Non-cash taxable income is reduced by non-cash expenses, such as realized losses and depreciation and amortization expense.

As a RIC, we will be subject to a 4% nondeductible federal excise tax on certain undistributed income unless we distribute in a timely manner an amount at least equal to the sum of (1) 98% of our ordinary income for each calendar year, (2) 98.2% of our capital gain net income for the 1-year period ending October 31 in that calendar year and (3) any income realized, but not distributed, in the preceding year (the “Excise Tax Avoidance Requirements”). We will not be subject to excise taxes on amounts on which we are required to pay corporate income tax (such as retained net capital gains).

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

At December 31, 2013 no excise tax was recorded. We intend to distribute approximately \$3.8 million of spillover earnings from the year ended December 31, 2013 to our shareholders in 2014.

Because federal income tax regulations differ from accounting principles generally accepted in the United States, distributions in accordance with tax regulations may differ from net investment income and realized gains recognized for financial reporting purposes. Differences may be permanent or temporary. Permanent differences are reclassified among capital accounts in the financial statement to reflect their tax character. Temporary differences arise when certain items of income, expense, gain or loss are recognized at some time in the future. Differences in classification may also result from the treatment of short-term gains as ordinary income for tax purposes.

Recent Accounting Pronouncements

In June 2013, the FASB issued ASU 2013-08, “Financial Services - Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements,” which amends the criteria that define an investment company and clarifies the measurement guidance and requires new disclosures for investment companies. Under ASU 2013-08, an entity already regulated under the 1940 Act is automatically an investment company under the new GAAP definition, so we have concluded that there is no impact from adopting this standard on our statement of assets and liabilities or results of operations. We have adopted this standard for our fiscal year ending December 31, 2014.

Subsequent Events

Dividend Declaration

On October 29, 2014 the Board of Directors declared a cash dividend of \$0.31 per share to be paid on November 24, 2014 to shareholders of record as of November 17, 2014. This dividend represents our thirty-seventh consecutive dividend declaration since our initial public offering, bringing the total cumulative dividend declared to date to \$9.99 per share.

Convertible Senior Notes

In April 2011, we issued \$75.0 million in aggregate principal amount of 6.00% convertible senior notes, or the Convertible Senior Notes, due 2016. As of September 30, 2014, the carrying value of the Convertible Senior Notes, comprised of the aggregate principal amount outstanding less the unaccreted discount initially recorded upon issuance of the Convertible Senior Notes, is approximately \$40.0 million.

The Convertible Senior Notes are convertible into shares of our common stock beginning October 15, 2015, or, under certain circumstances, earlier. 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 \$11.42 per share of common stock, in each case subject to adjustment in certain circumstances. Upon meeting the stock trading price conversion requirement during the three months ended September 30, 2014, the Convertible Senior Notes continue to be convertible through December 31, 2014.

Subsequent to September 30, 2014 and as of November 3, 2014, approximately \$23.1 million of the Convertible Senior Notes were converted. Of the \$23.1 million, approximately \$416,000 of the Convertible Senior Notes were converted and were settled with a combination of cash equal to the outstanding principal amount of the converted notes and approximately 7,500 shares of the Company's common stock in October 2014, and approximately \$22.7 million of the Convertible Senior Notes converted and will be settled in November 2014. We expect to generate an expense of approximately \$1.0 million in the fourth quarter of 2014 related to these conversions.

2021 Asset Backed Notes

On November 4, 2014, Hercules Capital Funding Trust 2014-1, our newly-formed wholly owned subsidiary, priced a \$129.3 million of fixed-rate asset-backed notes (the "2021 Asset Backed Notes"). The 2021 Asset Backed Notes are anticipated to be rated A(sf) on the Closing Date by Kroll Bond Rating Agency, Inc. ("KBRA"). The securitization is expected to close on November 13, 2014 and is subject to customary closing conditions.

The 2021 Asset Backed Notes will be issued by Hercules Capital Funding Trust 2014-1, LLC, as Trust Depositor, Hercules Capital Funding Trust 2014-1, as Issuer, and Guggenheim Securities, LLC, as Initial Purchaser. The 2021 Asset Backed Notes will be backed by a revolving pool of senior loans made to certain of our portfolio companies and secured by certain assets of those portfolio companies. The underlying loans will continue to be serviced by us. The securitization has an 18-month reinvestment period during which time principal collections may be reinvested into additional eligible loans. The fixed interest rate on the 2021 Asset Backed Notes will be 3.524%. The 2021 Asset Backed Notes will have a stated maturity of April 16, 2021.

Closed and Pending Commitments

As of November 3, 2014, Hercules has:

- a. Closed debt and equity commitments of approximately \$83.7 million to new and existing portfolio companies.
- b. Pending commitments (signed non-binding term sheets) of approximately \$211.3 million. The table below summarizes our year-to-date closed and pending commitments as follows:

| Closed Commitments and Pending Commitments (in millions) | | |
|---|----|-------|
| January 1 - September 30, 2014 Closed Commitments | \$ | 587.7 |
| Q4-14 Closed Commitments (as of November 3, 2014) | \$ | 83.7 |
| Total Year-to-date 2014 Closed Commitments (a) | \$ | 671.4 |
| Pending Commitments (as of November 3, 2014)(b) | \$ | 211.3 |
| Year to date 2014 Closed and Pending Commitments | \$ | 882.7 |

Notes:

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

Portfolio Company Developments

As of September 30, 2014, we held warrants or equity positions in six companies that have filed registration statements on Form S-1 with the SEC in contemplation of potential initial public offerings, including Box, Inc., Dance Biopharm, Inc., Good Technology, Inc., Zosano, Inc. and two companies which filed confidentially under the JOBS Act. Subsequent to September 30, 2014, Dance Biopharm, Inc. withdrew their Form S-1 Registration Statement. In October 2014, our portfolio company Neothetics, Inc. filed a Form S-1 Registration Statement and in November 2014, our portfolio company Inotek Pharmaceuticals Corporation filed a Form S-1 Registration Statement. In addition, subsequent to September 30, 2014 the following current and former portfolio companies announced or completed M&A transactions or initial public offerings:

1. In October 2014, InterCloud Systems, Inc. completed its acquisition of our portfolio company VaultLogix, LLC. The transaction consists of \$16 million in cash, \$12.75 million in restricted common stock, \$11.5 million of which was valued at \$16.50 per share, with the balance valued at market price, and \$15.5 million in three year convertible seller notes, convertible at a fixed price of \$6.37 per share.
2. In October 2014, AVG Technologies completed its acquisition of our portfolio company Location Labs. Under the terms of the agreement, AVG will pay approximately \$140 million initially, plus up to an additional approximately \$80 million in cash consideration over the next two years based on the achievement of certain performance metrics and milestones.
3. In October 2014, Premiere Global Services, Inc. completed its acquisition of Hercules portfolio company Central Desktop, Inc. Financial terms were not disclosed.
4. In October 2014, Breg, Inc. and our portfolio company United Orthopedic Group, Inc. announced that they had merged. United Orthopedic Group, Inc. will operate as a wholly-owned subsidiary of Breg, Inc. and financial terms were not disclosed.
5. In October 2014, our portfolio company SiTime Corporation reached a definitive agreement to be acquired by MegaChips Corporation in a transaction valued at approximately \$200.0 million, subject to customary closing conditions.
6. In October 2014, our portfolio company Transcept Pharmaceuticals, Inc. completed its merger with our portfolio company Paratek Pharmaceuticals, Inc. in an all-stock transaction. Immediately prior to the merger, Paratek received gross proceeds of \$93.0 million from a combination of current and new investors.
7. In October 2014, our former portfolio company Zayo Group Holdings, Inc. completed its initial public offering of 24,079,002 shares of its common stock, consisting of 16,008,679 shares sold by the portfolio company and 8,070,323 shares sold by the selling stockholders (including shares sold by the selling stockholders pursuant to the exercise in full of the underwriters' option to purchase additional shares), at a price to the public of \$19.00 per share.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to financial market risks, including changes in interest rates. Interest rate risk is defined as the sensitivity of our current and future earnings to interest rate volatility, variability of spread relationships, the difference in re-pricing intervals between our assets and liabilities and the effect that interest rates may have on our cash flows. Changes in interest rates may affect both our cost of funding and our interest income from portfolio investments, cash and cash equivalents and idle funds investments. Our investment income will be affected by changes in various interest rates, including LIBOR and Prime rates, to the extent our debt investments include variable interest rates. As of September 30, 2014, approximately 98.1% of the loans in our portfolio had variable rates based on floating Prime or LIBOR rates with a floor. Changes in interest rates can also affect, among other things, our ability to acquire and originate loans and securities and the value of our investment portfolio.

Based on our Consolidated Statement of Assets and Liabilities as of September 30, 2014, the following table shows the approximate annualized increase (decrease) in components of net assets resulting from operations of hypothetical base rate changes in interest rates, assuming no changes in our investments and borrowings.

| (in thousands) Basis Point Change ⁽¹⁾ | Interest Income | Interest Expense | Net Income |
|---|--------------------|---------------------|---------------|
| 100 | \$ 6,819 | \$ — | \$ 6,819 |
| 200 | \$ 13,198 | \$ — | \$ 13,198 |
| 300 | \$ 21,489 | \$ — | \$ 21,489 |
| 400 | \$ 30,260 | \$ — | \$ 30,260 |
| 500 | \$ 39,070 | \$ — | \$ 39,070 |

(1) A decline in interest rates would not have a material impact on our Consolidated Financial Statements.

We do not currently engage in any hedging activities. However, we may, in the future, hedge against interest rate fluctuations by using standard hedging instruments such as futures, options, and forward contracts. While hedging activities may insulate us against changes in interest rates, they may also limit our ability to participate in the benefits of lower interest rates with respect to our borrowed funds and higher interest rates with respect to our portfolio of investments. During the nine months ended September 30, 2014, we did not engage in interest rate hedging activities.

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

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

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

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our chief executive and chief financial officers, under the supervision and with the participation of our management, conducted an evaluation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934. As of the end of the period covered by this quarterly report on Form 10-Q, our chief executive and chief financial officers have concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our chief executive and chief financial officers, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financing reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934, as amended, that occurred during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

In addition to the risks discussed below, important risk factors that could cause results or events to differ from current expectations are described in Part I, Item 1A “Risk Factors” of the Company’s Annual Report on Form 10-K for the year ended December 31, 2013 filed with the Securities and Exchange Commission on February 27, 2014.

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

Our total investment in companies may be significant individually or in the aggregate. As a result, if a significant investment in one or more companies fails to perform as expected, our financial results could be more negatively affected and the magnitude of the loss could be more significant than if we had made smaller investments in more companies. The following table shows the fair value of the totals of investments held in portfolio companies at September 30, 2014 that represent greater than 5% of our net assets:

| (in thousands) | September 30, 2014 | |
|---------------------------------|--------------------|--------------------------|
| | Fair Value | Percentage of Net Assets |
| Merrimack Pharmaceuticals, Inc. | \$ 48,121 | 7.3% |
| Alimera Sciences, Inc. | \$ 33,895 | 5.2% |

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.

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.

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.

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 telecommunications 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.

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

During the nine month period ended September 30, 2014, we issued approximately 76,000 shares of common stock to shareholders in connection with the dividend reinvestment plan. These issuances were not subject to the registration requirements of the Securities Act of 1933, as amended. The aggregate value of the shares of our common stock issued under our dividend reinvestment plan was approximately \$1.2 million.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable

ITEM 5. OTHER INFORMATION

Not Applicable

ITEM 6. EXHIBITS

| Exhibit Number | Description |
|-----------------------|--|
| 10.1 | Fifth Amendment to Loan and Security Agreement by and among Hercules Funding II LLC and Wells Fargo Capital Finance, LLC (f/k/a Wells Fargo Foothill, LLC), dated as of August 8, 2014.* |
| 10.2 | Second Amended and Restated Loan and Security Agreement between Hercules Technology Growth Capital, Inc. and Union Bank, N.A., dated as of August 14, 2014. ⁽¹⁾ |
| 31.1 | Chief Executive Officer Certification Pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002* |
| 31.2 | Chief Financial Officer Certification Pursuant to Exchange Act Rule 13a-14 (a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002* |
| 32.1 | Chief Executive Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002* |
| 32.2 | Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002* |

* Filed herewith.

⁽¹⁾ Previously filed as part of the Current Report on Form 8-K of the Company, as filed on August 19, 2014.

SIGNATURES

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

HERCULES TECHNOLOGY GROWTH CAPITAL, INC. (Registrant)

Dated: November 6, 2014

/S/ MANUEL A. HENRIQUEZ

Manuel A. Henriquez
Chairman, President, and Chief Executive Officer

Dated: November 6, 2014

/S/ JESSICA BARON

Jessica Baron
Vice President, Finance and Chief Financial Officer

EXHIBIT INDEX

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Section 2: EX-10.1 (EX-10.1)

Exhibit 10.1

FIFTH AMENDMENT TO LOAN AND SECURITY AGREEMENT

THIS FIFTH AMENDMENT TO LOAN AND SECURITY AGREEMENT (this "Fifth Amendment" or this "Amendment") is entered into as of August 8, 2014, by and among HERCULES FUNDING II LLC, a Delaware limited liability company ("Borrower"), the lenders identified on the signature page hereof (such lenders, together with their respective successors and assigns, are referred to hereinafter each individually as a "Lender" and collectively as the "Lenders"), and WELLS FARGO CAPITAL FINANCE, LLC, formerly known as Wells Fargo Foothill, LLC, a Delaware limited liability company, as the arranger and administrative agent for the Lenders (in such capacity, "Agent"), with reference to the following facts, which shall be construed as part of this Fifth Amendment:

RECITALS

A. Borrower, Lenders and Agent have entered into that certain Loan and Security Agreement dated as of August 25, 2008, as amended by that certain First Amendment to Loan and Security Agreement dated as of April 30, 2009, that certain Second Amendment to Loan and Security Agreement dated as of June 20, 2011, that certain Third Amendment to Loan and Security Agreement dated as of August 1, 2012, and that certain Fourth Amendment to Loan and Security Agreement dated as of December 17, 2012 (as amended or modified from time to time, the "Loan Agreement"), pursuant to which Lenders and Agent are providing financial accommodations to or for the benefit of Borrower upon the terms and conditions contained therein. Unless otherwise defined herein, capitalized terms or matters of construction defined or established in the Loan Agreement shall be applied herein as defined or established therein.

B. As of the date hereof, Wells Fargo Capital Finance, LLC is the sole Lender under the Loan Agreement.

C. Borrower has requested that Lenders and Agent agree to amend certain provisions of the Loan Agreement, and Lenders and Agent are willing to do so to the extent provided in, and subject to the terms and conditions of, this Fifth Amendment.

AGREEMENT

NOW, THEREFORE, in consideration of the continued performance by Borrower of its promises and obligations under the Loan Agreement and the other Loan Documents, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Borrower, Lenders and Agent hereby agree as follows:

1. Ratification of Existing Loan Documents. Each of the parties acknowledges, confirms, and ratifies the provisions of the Loan Agreement and the other Loan Documents, which shall be unmodified and shall continue to be in full force and effect in accordance with their terms except as expressly provided under this Fifth Amendment.

2. Amendments to the Loan Agreement. The Loan Agreement is hereby amended as follows:

2.1 Addition of New Definitions. Section 1.1 of the Loan Agreement is amended by adding in appropriate alphabetical order the following new definitions:

"Fifth Amendment" means the Fifth Amendment to Loan and Security Agreement, dated as of August 8, 2014, by and among Lenders, Agent and Borrower.

"Fifth Amendment Closing Date" means August 8, 2014.

"Fifth Amendment Closing Fee" has the meaning given to such term in the Fee Letter.

2.2 Amendment to Definition of Fee Letter. **Section 1.1** of the Loan Agreement is amended by deleting the existing definition of the term "Fee Letter" and replacing it with the following amended and restated version thereof:

"Fee Letter" means that certain Third Amended and Restated Fee Letter, dated as of the Fifth Amendment Closing Date, between Borrower and Agent, in form and substance satisfactory to Agent.

2.3 Amendment to Definition of Revolving Credit Availability Period. **Section 1.1** of the Loan Agreement is amended by deleting the existing definition of the term "Revolving Credit Availability Period" and replacing it with the following amended and restated version thereof:

"Revolving Credit Availability Period" means the period commencing on the Closing Date and ending on the earlier of (a) August 1, 2017, and (b) termination pursuant to Section 9.1.

2.4 Amendment to Interest Rates. **Section 2.5** of the Loan Agreement is amended by deleting the existing text of **Section 2.5(a)** and replacing it with the following amended and restated version thereof:

(a) **Interest Rates.** Except as provided in Section 2.5(b) below, all Obligations (except for Bank Product Obligations) that have been charged to the Loan Account pursuant to the terms hereof shall bear interest on the Daily Balance thereof as follows:

(i) if the relevant Obligation is a LIBOR Rate Loan, at a per annum rate equal to (A) the LIBOR Rate plus (B) the LIBOR Rate Margin (provided, however, that in no case shall such per annum rate be less than four percent (4.00%) at any time), and

(ii) otherwise, at a per annum rate equal to (A) the Base Rate plus (B) the Base Rate Margin (provided, however, that in no case shall such per annum rate be less than four percent (4.00%) at any time).

2.5 Amendment to Early Termination by Borrower, Section 3.6 of the Loan Agreement is amended by deleting the existing text thereof and replacing it with the following amended and restated version thereof:

3.6 Early Termination by Borrower. Borrower has the option, at any time upon ninety (90) days prior written notice to Agent, to terminate this Agreement by repaying to Agent all of the Obligations in full. If Borrower has sent a notice of termination pursuant to the provisions of this Section 3.6, then the Commitments shall terminate and Borrower shall be obligated to repay the Obligations in full, on the date set forth as the date of termination of this Agreement in such notice. In the event of the termination of this Agreement and repayment of the Obligations at any **time prior to the Maturity Date**, for any other reason, including (a) termination upon the election of the Required Lenders to terminate after the occurrence and during the continuation of an Event of Default, (b) foreclosure by Agent or Lenders and sale of Collateral, (c) **sale** of the Collateral in any Insolvency Proceeding of Borrower, or (d) restructure, reorganization, or compromise of the Obligations by the confirmation of a plan of reorganization or any other plan of compromise, restructure, or arrangement in any Insolvency Proceeding of Borrower, then, in view of the impracticability and extreme difficulty of ascertaining the actual amount of **damages to the Lender Group or profits lost** by the Lender Group as a result of such early termination, and by mutual agreement of the parties as to a reasonable estimation and calculation of the lost profits or damages of the Lender Group, **Borrower shall pay** to Agent, in cash, for the ratable benefit of Lenders, the Applicable Prepayment Premium, if any, determined as of such date. For purposes of this Agreement, "Applicable Prepayment Premium" means, as of any date of determination, an amount equal to (a) during the period starting on the Fifth Amendment Closing Date and ending on July 31, 2015, three percent (3.00%) multiplied by the Maximum Revolver Amount on such date, (b) during the period starting on August 1, 2015 and ending on July 31, 2016, two percent (2.00%) multiplied by the Maximum Revolver Amount on such date, (c) **during the period starting on August 1, 2016 and ending on January 31, 2017, one percent (1.00%) multiplied the Maximum Revolver Amount on such date**, and (d) thereafter, zero dollars (\$0.00).

2.6 Amendment to Financial Covenant Regarding Minimum Tangible Net Worth of HTGC, Section 7.16 of the Loan Agreement is amended by deleting the existing text of **Section 7.16(c) and replacing it with the following amended and restated** version thereof:

(c) **Minimum Tangible Net Worth of HTGC.** Permit HTGC, on a consolidated basis with its Subsidiaries, to fail to maintain as of the end of each of its fiscal quarters a sum of (i) Tangible Net Worth, plus (ii) Subordinated Debt, that is greater than or equal to the sum of (A) \$500,000,000, plus (B) ninety percent (90%) of the cumulative amount of equity raised by HTGC after June 30, 2014.

3. Conditions Precedent. Notwithstanding any other provision of this Fifth Amendment, this Fifth Amendment shall be of no force or effect, and Lenders and Agent shall not have any obligations hereunder, unless and until each of the following conditions have been satisfied:

3.1 Receipt of Executed Fifth Amendment. Agent shall have received this Fifth Amendment, duly executed by Borrower, each Lender, and Agent;

3.2 Receipt of Executed Third Amended and Restated Fee Letter. Agent shall have received the Fee Letter, duly executed by Borrower and Agent;

3.3 Payment of Fifth Amendment Closing Fee. Agent shall have received from Borrower payment of the Fifth Amendment Closing Fee;

3.4 Secretary's Certificate. Agent shall have received a certificate from the Secretary of Borrower attesting to (a) the resolutions of Borrower's Board of Directors (i) authorizing Borrower's execution, delivery, and performance of this Fifth Amendment, the Fee Letter, and all other Loan Documents executed in connection therewith to which Borrower is a party, and (ii) authorizing specific officers of Borrower to execute the same, and (b) the incumbency and signatures of such specific officers of Borrower; and

3.5 Closing Certificate. Agent shall have received a certificate from the chief financial officer and chief executive officer of Borrower, certifying as to (a) the truth and accuracy of the representations and warranties of Borrower contained in Section 5 of the **Loan** Agreement as amended by this Fifth Amendment, (b) the absence of any Defaults or Events of Default, and (c) that after giving effect to the incurrence of Indebtedness under the Loan Agreement and the other transactions contemplated by the Loan Agreement as amended by this Fifth Amendment, Borrower is Solvent.

4. Representations and Warranties regarding Loan Agreement. Borrower hereby represents and warrants that the representations and warranties contained in the Loan Agreement were true and correct in all material respects when made and, except to the extent that (a) a particular representation or warranty by its terms expressly applies only to an earlier date, or (b) Borrower has previously advised Agent in writing as contemplated under the Loan Agreement, are true and correct in all material respects as of the date hereof. Borrower hereby further represents and warrants that no event has occurred and is continuing, or would result from the transactions contemplated under this Fifth Amendment, that constitutes or would constitute a Default or an Event of Default.

5. Miscellaneous.

5.1 Headings. The various headings of this Fifth Amendment are inserted for convenience of reference only and shall not affect the meaning or interpretation of this Fifth Amendment or any provisions hereof.

5.2 Counterparts. This Fifth Amendment may be executed by the parties hereto in several counterparts, each of which shall be deemed to be an original and all of which together shall be deemed to be one and the same instrument. Delivery of an executed counterpart of a signature page to this Fifth Amendment by either (i) facsimile transmission or (ii) electronic transmission in either Tagged Image Format Files (TIFF) or Portable Document Format (PDF), shall be effective as delivery of a manually executed counterpart thereof.

5.3 Interpretation. No provision of this Fifth Amendment shall be construed against or interpreted to the disadvantage of any party hereto by any court or other governmental or judicial authority by reason of such party's having or being deemed to have structured, drafted or dictated such provision.

5.4 Complete Agreement. This Fifth Amendment constitutes the complete agreement between the parties with respect to the subject matter hereof, and supersedes any prior written or oral agreements, writings, communications or understandings of the parties with respect thereto.

5.5 **GOVERNING LAW. THIS FIFTH AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK APPLICABLE TO CONTRACTS MADE AND PERFORMED IN SUCH STATE, WITHOUT REGARD TO THE PRINCIPLES THEREOF REGARDING CONFLICT OF LAWS.**

5.6 Effect. Upon the effectiveness of this Fifth Amendment, each reference in the Loan Agreement to "this Agreement," "hereunder," "hereof" or words of like import shall mean and be a reference to the Loan Agreement as amended hereby and each reference in the other Loan Documents to the Loan Agreement, "thereunder," "thereof," or words of like import shall mean and be a reference to the Loan Agreement as amended hereby.

5.7 Conflict of Terms. In the event of any inconsistency between the provisions of this Fifth Amendment and any provision of the Loan Agreement, the terms and provisions of this Fifth Amendment shall govern and control.

5.8 No Novation or Waiver. Except as specifically set forth in this Fifth Amendment, the execution, delivery and effectiveness of this Fifth Amendment shall not (a) limit, impair, constitute a waiver by, or otherwise affect any right, power or remedy of, Agent or Lenders under the Loan Agreement or any other Loan Document, (b) constitute a waiver of any provision in the Loan Agreement or in any of the other Loan Documents or of any Default or Event of Default that may have occurred and be continuing, or (c) alter, modify, amend or in any way affect any of the terms, conditions, obligations, covenants or agreements contained in the Loan Agreement or in any of the other Loan Documents, all of which are ratified and affirmed in all respects and shall continue in full force and effect.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have executed this Fifth Amendment to Loan and Security Agreement as of the day and year first above written.

HERCULES FUNDING II LLC,
a Delaware limited liability company, as Borrower

By: /s/ Jessica Baron
Name: Jessica Baron
Title: Chief Financial Officer

WELLS FARGO CAPITAL FINANCE, LLC,
formerly known as Wells Fargo Foothill, LLC,
a Delaware limited liability company,
as Agent and a Lender

By: /s/ Aharon Tamavsky
Name: Aharon Tarnavsky Title: Vice
President

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Section 3: EX-31.1 (EX-31.1)

Exhibit 31.1

**CERTIFICATION PURSUANT TO
RULE 13a-14(a) and 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS AMENDED, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Manuel A. Henriquez, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Hercules Technology Growth Capital, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2014

By: _____ /S/ MANUEL A. HENRIQUEZ

**Manuel A. Henriquez
Chairman, President, and
Chief Executive Officer**

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Section 4: EX-31.2 (EX-31.2)

Exhibit 31.2

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Section 6: EX-32.2 (EX-32.2)

Exhibit 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q for the quarter ended September 30, 2014 (the "Report") of Hercules Technology Growth Capital, Inc. (the "Registrant"), as filed with the Securities and Exchange Commission on the date hereof, I, Jessica Baron, the Vice President, Finance and Chief Financial Officer of the Registrant, certify, to the best of my knowledge, that:

- 1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: November 6, 2014

By: _____ /S/ JESSICA BARON
Jessica Baron
Vice President, Finance and
Chief Financial Officer
(Principal Accounting Officer)

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