

Hercules Capital, Inc.
Form 497
April 24, 2018
Table of Contents

Index to Financial Statements

**Filed Pursuant to Rule 497
Registration No. 333-214767**

PROSPECTUS SUPPLEMENT

(To prospectus dated September 7, 2017)

\$75,000,000

5.25% Notes due 2025

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

We are offering \$75,000,000 in aggregate principal amount of 5.25% notes due 2025, or the Notes. The Notes will mature on April 30, 2025. We will pay interest quarterly on the Notes on January 30, April 30, July 30 and October 30 of each year, beginning on July 30, 2018. We may redeem the Notes in whole or in part at any time or from time to time, at the redemption price set forth under Specific Terms of the Notes and the Offering Optional Redemption in this prospectus supplement. The Notes will be issued in minimum denominations of \$25 and integral multiples of \$25 in excess thereof.

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

We intend to apply to list the Notes on the New York Stock Exchange, or NYSE, and we expect trading in the Notes on the NYSE to begin within 30 days of the original issue date under the symbol HCXZ. The Notes are expected to trade flat, which means that purchasers will not pay, and sellers will not receive, any accrued and unpaid interest on the Notes that is not reflected in the trading price. Currently, there is no public market for the Notes.

An investment in the Notes involves risks that are described in the Supplementary Risk Factors section beginning on page S-14 in this prospectus supplement and the Risk Factors section beginning on page 14 of the accompanying prospectus.

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

Edgar Filing: Hercules Capital, Inc. - Form 497

	Per Note	Total
Public offering price	\$ 25.0000	\$ 75,000,000
Sales load (underwriting discounts and commissions) ⁽¹⁾	\$ 0.6733	\$ 2,020,000
Proceeds to us (before expenses) ⁽²⁾	\$ 24.3267	\$ 72,980,000

- (1) Reflects an underwriting discount of \$0.7500 per Note sold to retail investors and \$0.2500 per Note sold to institutional investors, for which the underwriters received a weighted average underwriting discount of \$0.6733 per Note.
- (2) Before deducting expenses payable by us related to this offering, estimated at \$250,000. See Underwriting in this prospectus supplement for complete details of underwriters' compensation.

The underwriters may also purchase up to an additional \$11,250,000 total aggregate principal amount of Notes offered hereby, to cover overallocments, if any, within 30 days of the date of this prospectus supplement. If the underwriters exercise this option in full, the total public offering price will be \$86,250,000, the total sales load (underwriting discounts and commissions) paid by us will be \$2,357,500, and total proceeds, before expenses, will be \$83,892,500.

THE NOTES ARE NOT DEPOSITS OR OTHER OBLIGATIONS OF A BANK AND ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENT AGENCY.

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

Delivery of the Notes in book-entry form only through The Depository Trust Company will be made on or about April 26, 2018.

Joint Book-Running Managers

Keefe, Bruyette & Woods,

A Stifel Company

Morgan Stanley

Lead Manager

Wells Fargo Securities

Janney Montgomery Scott

Co-Managers

B. Riley FBR

Compass Point

MUFG

The date of this prospectus supplement is April 23, 2018.

Table of Contents

Index to Financial Statements

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

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

TABLE OF CONTENTS

Prospectus Supplement

	Page
<u>Prospectus Supplement Summary</u>	S-1
<u>Specific Terms of the Notes and the Offering</u>	S-7
<u>Forward-Looking Statements</u>	S-12
<u>Industry and Market Data</u>	S-13
<u>Supplementary Risk Factors</u>	S-14
<u>Use of Proceeds</u>	S-27
<u>Selected Consolidated Financial Data</u>	S-28
<u>Capitalization</u>	S-30
<u>Senior Securities</u>	S-31
<u>Ratio of Earnings to Fixed Charges</u>	S-34
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	S-35
<u>Management</u>	S-89
<u>Underwriting</u>	S-91
<u>Certain United States Federal Income Tax Considerations</u>	S-95
<u>Legal Matters</u>	S-99
<u>Experts</u>	S-99
<u>Available Information</u>	S-99
<u>Index to Financial Statements</u>	S-100

Prospectus

	Page
<u>Summary</u>	1
<u>Fees and Expenses</u>	10
<u>Selected Consolidated Financial Data</u>	12
<u>Risk Factors</u>	14
<u>Forward-Looking Statements</u>	61
<u>Use of Proceeds</u>	62
<u>Price Range of Common Stock and Distributions</u>	63
<u>Ratio of Earnings to Fixed Charges</u>	66

Table of Contents

Index to Financial Statements

	Page
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	67
<u>Business</u>	125
<u>Portfolio Companies</u>	138
<u>Senior Securities</u>	162
<u>Management</u>	165
<u>Corporate Governance</u>	176
<u>Executive Compensation</u>	181
<u>Control Persons and Principal Stockholders</u>	201
<u>Certain Relationships and Related Transactions</u>	203
<u>Certain United States Federal Income Tax Considerations</u>	204
<u>Regulation</u>	214
<u>Determination of Net Asset Value</u>	220
<u>Sales of Common Stock Below Net Asset Value</u>	224
<u>Dividend Reinvestment Plan</u>	229
<u>Description of Capital Stock</u>	230
<u>Description of Our Preferred Stock</u>	237
<u>Description of Our Subscription Rights</u>	239
<u>Description of Warrants</u>	241
<u>Description of Our Debt Securities</u>	243
<u>Plan of Distribution</u>	256
<u>Brokerage Allocation and Other Practices</u>	258
<u>Custodian, Transfer and Dividend Paying Agent and Registrar</u>	258
<u>Legal Matters</u>	258
<u>Experts</u>	258
<u>Available Information</u>	259
<u>Index to Financial Statements</u>	F-1

Table of Contents

Index to Financial Statements

PROSPECTUS SUPPLEMENT SUMMARY

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

Our Company

We are a specialty finance company focused on providing senior secured loans to high-growth, innovative venture capital-backed companies in a variety of technology, life sciences and sustainable and renewable technology industries. Our investment objective is to maximize our portfolio's total return by generating current income from our debt investments and capital appreciation from our warrant and equity-related investments. We are an internally-managed, non-diversified closed-end investment company that has elected to be regulated as a business development company under the 1940 Act. Effective January 1, 2006, we elected to be treated for tax purposes as a regulated investment company, or RIC, under the Internal Revenue Code of 1986, as amended, or the Code.

As of December 31, 2017, our total assets were approximately \$1.7 billion, of which our investments comprised \$1.5 billion at fair value and \$1.6 billion at cost. Since inception through December 31, 2017, we have made debt and equity commitments of almost \$7.3 billion to our portfolio companies.

We also make investments in qualifying small businesses through our two wholly-owned small business investment companies, or SBICs. Our SBIC subsidiaries, Hercules Technology II, L.P., or HT II, and Hercules Technology III, L.P., or HT III, hold approximately \$111.8 million and \$284.0 million in assets, respectively, and accounted for approximately 5.4% and 13.8% of our total assets, respectively, prior to consolidation at December 31, 2017. At December 31, 2017, we have issued \$190.2 million in SBA-guaranteed debentures in our SBIC subsidiaries. See Regulation Small Business Administration Regulations in the accompanying prospectus for additional information regarding our SBIC subsidiaries.

As of December 31, 2017, our investment professionals, including Manuel A. Henriquez, our co-founder, Chairman, President and Chief Executive Officer, are currently comprised of 35 professionals who have, on average, more than 15 years of experience in venture capital, structured finance, commercial lending or acquisition finance with the types of technology-related companies that we are targeting. We believe that we can leverage the experience and relationships of our management team to successfully identify attractive investment opportunities, underwrite prospective portfolio companies and structure customized financing solutions.

Table of Contents

Index to Financial Statements

Organizational Chart

The following chart summarizes our organizational structure as of April 19, 2018. This chart is provided for illustrative purposes only.

Our Market Opportunity

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

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

unfulfilled demand exists for structured debt financing to technology-related companies due to the complexity of evaluating risk in these investments; and

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

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

Table of Contents

Index to Financial Statements

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

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

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

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

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

Our Business Strategy

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

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

Mitigate Risk of Principal Loss and Build a Portfolio of Equity-Related Securities. We expect that our investments have the potential to produce attractive risk-adjusted returns through current income, in the form of interest and fee income, as well as capital appreciation from warrant and equity-related securities. We believe that we can mitigate the risk of loss on our debt investments through the combination of loan principal

Table of Contents**Index to Financial Statements**

amortization, cash interest payments, relatively short maturities (typically between 24-48 months), security interests in the assets of our portfolio companies, and on select investment covenants requiring prospective portfolio companies to have certain amounts of available cash at the time of our investment and the continued support from a venture capital or private equity firm at the time we make our investment.

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

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

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

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

Recent Developments**Distribution Declaration**

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

Closed and Pending Commitments

As of April 19, 2018, we have:

Closed debt and equity commitments of approximately \$305.5 million to new and existing portfolio companies and funded approximately \$271.3 million subsequent to December 31, 2017.

Pending commitments (signed non-binding term sheets) of approximately \$280.0 million.

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

Closed Commitments and Pending Commitments (in millions)			
January 1	March 31, 2018	Closed Commitments	\$ 266.0
April 1	April 19, 2018	Closed Commitment ^(a)	\$ 39.5
		Pending Commitments (as of April 19, 2018) ^(b)	\$ 280.0
Closed and Pending Commitments as of April 19, 2018			\$ 585.5

Table of Contents

Index to Financial Statements

- 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 they do not necessarily represent any future cash requirements.

Redemption of 2024 Notes

On February 9, 2018, our Board of Directors approved a redemption of \$100.0 million of our outstanding aggregate principal amount of 6.25% notes due 2024 (the 2024 Notes), which were redeemed on April 2, 2018.

Restricted Stock Unit Grants

In January 2018, we granted 746,684 restricted stock units pursuant to the amended 2004 Plan.

ATM Equity Program Issuances

Subsequent to December 31, 2017 and as of April 19, 2018, we sold 1,112,600 shares of common stock for total accumulated net proceeds of approximately \$13.8 million, including \$125,700 of offering expenses, under our at-the-market, or ATM, equity distribution agreement, dated September 8, 2017, or the Equity Distribution Agreement, with JMP Securities LLC, or JMP. As of April 19, 2018 approximately 9.3 million shares remain available for issuance and sale under the Equity Distribution Agreement.

Portfolio Company Developments

As of April 19, 2018, we held warrants or equity positions in four companies that have filed registration statements on Form S-1 with the Securities and Exchange Commission (the SEC) in contemplation of potential initial public offerings. Three companies filed confidentially under the Jumpstart Our Business Startups Act of 2012 (the JOBS Act) and one company filed a Form S-1 Registration with the SEC. There can be no assurance that these companies will complete their initial public offerings in a timely manner or at all. In addition, subsequent to December 31, 2017, our portfolio companies announced or completed the following liquidity events:

1. In September 2017, our portfolio company Inotek Pharmaceuticals Corporation announced they had entered into a definitive merger agreement with Rocket Pharmaceuticals Ltd. The deal was completed on January 4, 2018. The combined company will be named Rocket Pharmaceuticals, Inc. and is now listed on the NASDAQ Global Market under the symbol RCKT and began trading on January 5, 2018.
2. In October 2017, our portfolio company Neothetics, Inc. announced they have entered into a definitive agreement under which privately-held Evofem Biosciences will merge with a wholly-owned subsidiary of Neothetics in an all-stock transaction. In January 2018, Evofem Biosciences completed the reverse merger acquisition of Neothetics and its stock began trading on the NASDAQ Capital Market under the ticker symbol EVFM.
3. In March 2018, our portfolio company IntegenX Inc., the market leader of rapid human DNA identification technology for use in forensics and law enforcement applications, announced that they have been acquired by Thermo Fisher Scientific Inc., the world leader in serving science. Terms of the transaction were not disclosed.

Table of Contents

Index to Financial Statements

Corporate Information

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

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

Table of Contents**Index to Financial Statements****SPECIFIC TERMS OF THE NOTES AND THE OFFERING**

This prospectus supplement sets forth certain terms of the Notes that we are offering pursuant to this prospectus supplement and supplements the accompanying prospectus that is attached to the back of this prospectus supplement. This section outlines the specific legal and financial terms of the Notes. You should read this section together with the more general description of the Notes in the accompanying prospectus under the heading "Description of Our Debt Securities" before investing in the Notes. Capitalized terms used in this prospectus supplement and not otherwise defined shall have the meanings ascribed to them in the accompanying prospectus or in the indenture governing the Notes (as amended from time to time, the "indenture").

Issuer	Hercules Capital, Inc.
Title of the securities	5.25% Notes due 2025
Aggregate principal amount being offered	\$75,000,000
Overallotment option	The underwriters may also purchase from us up to an additional \$11,250,000 aggregate principal amount of Notes to cover overallotments, if any, within 30 days of the date of this prospectus supplement.
Initial public offering price	100% of the aggregate principal amount.
Principal payable at maturity	100% of the aggregate principal amount; the principal amount of each Note will be payable on its stated maturity date at the office of the Trustee in The City of New York or at such other office designated by the Trustee.
Type of Note	Fixed rate note
Listing	We intend to apply to list the Notes on the New York Stock Exchange within 30 days of the original issue date under the symbol HCXZ.
Interest rate	5.25% per year
Day count basis	360-day year of twelve 30-day months
Original issue date of the Notes	April 26, 2018
Stated maturity date	April 30, 2025

Edgar Filing: Hercules Capital, Inc. - Form 497

Date interest starts accruing on the Notes

April 26, 2018

Interest payment dates for the Notes

Each January 30, April 30, July 30, and October 30, commencing July 30, 2018. If an interest payment date falls on a non-business day, the applicable interest payment will be made on the next business day and no additional interest will accrue as a result of such delayed payment.

S-7

Table of Contents

Index to Financial Statements

Interest periods for the Notes	The initial interest period will be the period from and including April 26, 2018, to, but excluding, the initial interest payment date, and the subsequent interest periods will be the periods from and including an interest payment date to, but excluding, the next interest payment date or the stated maturity date, as the case may be.
Regular record dates for interest	Each January 15, April 15, July 15 and October 15.
Specified currency	U.S. Dollars
Place of payment	New York City or such other office designated by the Trustee
Ranking of Notes	<p>The Notes will be our general unsecured obligations and will rank:</p> <p><i>pari passu</i> with our other outstanding and future unsecured indebtedness, including, without limitation, approximately \$150.0 million in aggregate principal amount of 4.625% notes due 2022 (the 2022 Notes), approximately \$183.5 million in aggregate principal amount of the 2024 Notes and approximately \$230.0 million in aggregate principal amount of 4.375% convertible notes due 2022 (the 2022 Convertible Notes), each as of December 31, 2017.</p> <p>senior to any of our future indebtedness that expressly provides it is subordinated to the Notes.</p> <p>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.</p> <p>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, borrowings under the \$120.0 million revolving senior credit facility with Wells Fargo Capital Finance, LLC (the Wells Facility), borrowings under the \$75.0 million revolving senior secured credit facility with MUFG Union Bank, N.A. (the Union Bank Facility), and together with the Wells Facility, the Credit Facilities), and approximately \$49.2 million of fixed rate asset-backed notes, or the 2021 Asset-Backed Notes, each as of December 31, 2017. Note that there were no borrowings outstanding under the Wells Facility or Union Bank Facility as of December 31, 2017.</p>
Denominations	We will issue the Notes in denominations of \$25 and integral multiples of \$25 in excess thereof.
Business day	

Edgar Filing: Hercules Capital, Inc. - Form 497

Each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which banking institutions in New York City, or in such other place of payment designated by the Trustee, are authorized or required by law or executive order to close.

S-8

Table of Contents

Index to Financial Statements

Optional redemption	<p>We may redeem in whole or in part at any time, or from time to time, at our option on or after April 30, 2021 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.</p> <p>You may be prevented from exchanging or transferring the Notes when they are subject to redemption. In case any Notes are to be redeemed in part only, the redemption notice will provide that, upon surrender of such Note, you will receive, without a charge, a new Note or Notes of authorized denominations representing the principal amount of your remaining unredeemed Notes. Any exercise of our option to redeem the Notes will be done in compliance with the indenture and the 1940 Act.</p> <p>If we redeem only some of the Notes, the Trustee or The Depository Trust Company, or DTC, as applicable, will determine the method for selection of the particular Notes to be redeemed, in accordance with the indenture and the 1940 Act, in each case, to the extent applicable. Unless we default in payment of the redemption price, on and after the date of redemption, interest will cease to accrue on the Notes called for redemption.</p>
Sinking fund	<p>The Notes will not be subject to any sinking fund.</p>
Repayment at option of Holders	<p>Holder will not have the option to have the Notes repaid prior to the stated maturity date.</p>
Defeasance and covenant defeasance	<p>The Notes are subject to defeasance by us.</p> <p>The Notes are subject to covenant defeasance by us.</p>
Form of Notes	<p>The Notes will be represented by global securities that will be deposited and registered in the name of DTC or its nominee. Except in limited circumstances, you will not receive certificates for the Notes. Beneficial interests in the Notes will be represented through book-entry accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in DTC. Investors may elect to hold interests in the Notes through either DTC, if they are a participant, or indirectly through organizations which are participants in DTC.</p>
Trustee, Paying Agent and Security Registrar	<p>U.S. Bank National Association</p>

Table of Contents

Index to Financial Statements

Other covenants

In addition to the covenants described in the prospectus attached to this prospectus supplement, the following covenants shall apply to the Notes:

We agree that for the period of time during which the Notes are outstanding, we will not violate Section 18(a)(1)(A) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions, whether or not we continue to be subject to such provisions of the 1940 Act, but giving effect to any exemptive relief granted to us by the SEC. Currently, these provisions generally prohibit us from making additional borrowings, including through the issuance of additional debt or the sale of additional debt securities, unless our asset coverage, as defined in the 1940 Act, equals at least 200% (or 150%, subject to certain approval and disclosure requirements) after such borrowings. See Supplementary Risk Factors Risks Related to our Business Structure Recently passed legislation may allow us to incur additional leverage , in this prospectus supplement.

We agree that for the period of time during which the Notes are outstanding, we will not violate Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions, giving effect to (i) any exemptive relief granted to us by the SEC and (ii) no-action relief granted by the SEC to another BDC (or to us if we determine to seek such similar no-action or other relief) permitting the BDC to declare any cash dividend or distribution notwithstanding the prohibition contained in Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act in order to maintain the BDC's status as a regulated investment company under Subchapter M of the Code. Currently, these provisions generally prohibit us from declaring any cash dividend or distribution upon any class of our capital stock, or purchasing any such capital stock if our asset coverage, as defined in the 1940 Act, is below 200% (or 150%, subject to certain approval and disclosure requirements) at the time of the declaration of the dividend or distribution or the purchase and after deducting the amount of such dividend, distribution or purchase. See Supplementary Risk Factors Risks Related to our Business Structure Recently passed legislation may allow us to incur additional leverage , in this prospectus supplement.

If, at any time, we are not subject to the reporting requirements of Sections 13 or 15(d) of the Exchange Act to file any periodic reports with the SEC, we agree to furnish to holders of the Notes and the Trustee, for the period of time during which the Notes are outstanding, our audited annual consolidated financial statements, within 90 days of our fiscal year end, and unaudited interim consolidated financial statements, within 45 days of our fiscal quarter end (other than our fourth fiscal quarter). All such financial statements will be prepared, in all material respects, in accordance with applicable United States generally accepted accounting principles, as applicable.

Table of Contents

Index to Financial Statements

Modifications to events of default	<p>The following events of default, as described in the prospectus attached to this prospectus supplement:</p> <p>We do not pay the principal of, or any premium on, a debt security of the series on its due date, and do not cure this default within 5 days.</p> <p>On the last business day of each of 24 consecutive calendar months, we have an asset coverage of less than 100%.</p> <p>with respect to the Notes has been revised to read as follows:</p> <p>We do not pay the principal of, or any premium on, any Note on its due date.</p> <p>On the last business day of each of 24 consecutive calendar months, we have an asset coverage of less than 100%, giving effect to any exemptive relief granted to us by the SEC.</p>
Global Clearance and Settlement Procedures	<p>Interests in the Notes will trade in DTC's Same Day Funds Settlement System, and any permitted secondary market trading activity in such Notes will, therefore, be required by DTC to be settled in immediately available funds. None of the issuer, the Trustee or the paying agent will have any responsibility for the performance by DTC or its participants or indirect participants of their respective obligations under the rules and procedures governing their operations.</p>
Further issuances	<p>We have the ability to issue additional debt securities under the indenture with terms different from the Notes and, without the consent of the holders thereof, to reopen the Notes and issue additional Notes.</p>
Use of Proceeds	<p>We estimate that the net proceeds we receive from the sale of the \$75.0 million aggregate principal amount of Notes in this offering will be approximately \$72.7 million after deducting the underwriting discount of approximately \$2.0 million payable by us and estimated offering expenses of approximately \$250,000 payable by us. We expect to use the net proceeds from this offering (i) to fund investments in debt and equity securities in accordance with our investment objective, (ii) to make acquisitions, (iii) to retire certain debt obligations (which may include the 2024 Notes), and (iv) for other general corporate purposes.</p>
Governing Law	<p>The Notes and the indenture are governed by and construed in accordance with the laws of the State of New York.</p>

Table of Contents

Index to Financial Statements

FORWARD-LOOKING STATEMENTS

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

our current and future management structure;

our future operating results;

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

the impact of investments that we expect to make;

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

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

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

our ability to access debt markets and equity markets;

the ability of our portfolio companies to achieve their objectives;

our expected financings and investments;

our regulatory structure and tax status;

our ability to operate as a business development company, a SBIC and a RIC;

Edgar Filing: Hercules Capital, Inc. - Form 497

the adequacy of our cash resources and working capital;

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

the timing, form and amount of any distributions;

the impact of fluctuations in interest rates on our business;

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

our ability to recover unrealized losses.

For a discussion of factors that could cause our actual results to differ from forward-looking statements contained in this prospectus supplement and the accompanying prospectus, please see the discussion under **Supplementary Risk Factors** in this prospectus supplement and **Risk Factors** in the accompanying prospectus.

You should not place undue reliance on these forward-looking statements. The forward-looking statements made in this prospectus relate only to events as of the date on which the statements are made and are excluded from the safe harbor protection provided by Section 27A of the Securities Act of 1933, or the Securities Act. We undertake no obligation to update any forward-looking statement to reflect events or circumstances occurring after the date of this prospectus supplement.

S-12

Table of Contents

Index to Financial Statements

INDUSTRY AND MARKET DATA

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

S-13

Table of Contents

Index to Financial Statements

SUPPLEMENTARY RISK FACTORS

Investing in our securities involves a number of significant risks. Before you invest in our securities, you should be aware of various risks, including those described below and those set forth in the accompanying prospectus. You should carefully consider these risk factors, together with all of the other information included in this prospectus supplement and the accompanying prospectus, before you decide whether to make an investment in our securities. The risks set out below and in the accompanying prospectus are not the only risks we face. Additional risks and uncertainties not presently known to us or not presently deemed material by us may also impair our operations and performance. If any of the following events occur, our business, financial condition, results of operations and cash flows could be materially and adversely affected which could materially adversely affect our ability to repay principal and interest on the Notes. In addition, the market price of the Notes and our net asset value could decline, and you may lose all or part of your investment. The risk factors described below, together with those set forth in the accompanying prospectus, are the principal risk factors associated with an investment in our securities, including the Notes, as well as those factors generally associated with an investment company with investment objectives, investment policies, capital structure or trading markets similar to ours.

Risks Related to the Notes

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

The Notes will not be secured by any of our assets or any of the assets of our subsidiaries. As a result, the Notes are effectively subordinated to any secured indebtedness we or our subsidiaries have currently incurred and may incur in the future (or any indebtedness that is initially unsecured to which we subsequently grant security) to the extent of the value of the assets securing such indebtedness. In any liquidation, dissolution, bankruptcy or other similar proceeding, the holders of any of our existing or future secured indebtedness and the secured indebtedness of our subsidiaries may assert rights against the assets pledged to secure that indebtedness in order to receive full payment of their indebtedness before the assets may be used to pay other creditors, including the holders of the Notes. As of December 31, 2017, we had no outstanding borrowings under our Union Bank Facility, which is secured by debt investments in our portfolio companies and related assets, and no outstanding borrowings under our Wells Facility, which is secured by loans in the borrowing base for the Wells Facility.

The Notes will be structurally subordinated to the indebtedness and other liabilities of our subsidiaries.

The Notes are obligations exclusively of Hercules Capital, Inc. and not of any of our subsidiaries. None of our subsidiaries is a guarantor of the Notes and the Notes are not required to be guaranteed by any subsidiaries we may acquire or create in the future. A significant portion of the indebtedness required to be consolidated on our balance sheet is held through our SBIC subsidiaries. For example, at December 31, 2017, we have issued \$190.2 million in SBA-guaranteed debentures in our SBIC subsidiaries. The assets of such subsidiaries are not directly available to satisfy the claims of our creditors, including holders of the Notes. See Management's Discussion and Analysis of Financial Condition and Results of Operations Financial Condition, Liquidity and Capital Resources in this prospectus supplement for more detail on the SBA-guaranteed debentures.

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

Table of Contents

Index to Financial Statements

As of December 31, 2017, we had no outstanding borrowings under our Wells Facility, no outstanding borrowings under our Union Bank Facility, and approximately \$190.2 million of indebtedness outstanding incurred by our SBIC subsidiaries, HT II and HT III. All of such indebtedness would be structurally senior to the Notes. In addition, our subsidiaries may incur substantial additional indebtedness in the future, all of which would be structurally senior to the Notes.

The indenture under which the Notes will be issued contains limited protection for holders of the Notes.

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

issue securities or otherwise incur additional indebtedness or other obligations, including (1) any indebtedness or other obligations that would be equal in right of payment to the Notes, (2) any indebtedness or other obligations that would be secured and therefore rank effectively senior in right of payment to the Notes to the extent of the values of the assets securing such debt, (3) indebtedness of ours that is guaranteed by one or more of our subsidiaries and which therefore is structurally senior to the Notes and (4) securities, indebtedness or obligations issued or incurred by our subsidiaries that would be senior to our equity interests in our subsidiaries and therefore rank structurally senior to the Notes with respect to the assets of our subsidiaries, in each case other than an incurrence of indebtedness or other obligation that would cause a violation of Section 18(a)(1)(A) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions, whether or not we continue to be subject to such provisions of the 1940 Act, but giving effect to any exemptive relief granted to us by the SEC (currently, these provisions generally prohibit us from making additional borrowings, including through the issuance of additional debt or the sale of additional debt securities, unless our asset coverage, as defined in the 1940 Act, equals at least 200% (or 150%, subject to certain approval and disclosure requirements) after such borrowings);

pay distributions on, or purchase or redeem or make any payments in respect of, capital stock or other securities ranking junior in right of payment to the Notes, in each case other than dividends, purchases, redemptions or payments that would cause a violation of Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions, giving effect to (i) any exemptive relief granted to us by the SEC and (ii) no-action relief granted by the SEC to another BDC (or to us if we determine to seek such similar no-action or other relief) permitting the BDC to declare any cash dividend or distribution notwithstanding the prohibition contained in Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act in order to maintain the BDC's status as a regulated investment company under Subchapter M of the Code (currently, these provisions generally prohibit us from declaring any cash dividend or distribution upon any class of our capital stock, or purchasing any such capital stock if our asset coverage, as defined in the 1940 Act, is below 200% (or 150%, subject to certain approval and disclosure requirements) at the time of the declaration of the dividend or distribution or the purchase and after deducting the amount of such dividend, distribution or purchase);

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

enter into transactions with affiliates;

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

make investments; or

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

Table of Contents

Index to Financial Statements

In addition, the indenture will not require us to purchase the Notes in connection with a change of control or any other event.

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

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

Certain of our current debt instruments include more protections for their holders than the indenture and the Notes. See **Risk Factors** In addition to regulatory requirements that restrict our ability to raise capital, our 2022 Notes, 2024 Notes, 2022 Convertible Notes, and Credit Facilities contain various covenants which, if not complied with, could require accelerated repayment under the facility or require us to repurchase the 2022 Notes, 2024 Notes, 2022 Convertible Notes thereby materially and adversely affecting our liquidity, financial condition, results of operations and ability to pay distributions in the accompanying prospectus. In addition, other debt we issue or incur in the future could contain more protections for its holders than the indenture and the Notes, including additional covenants and events of default. The issuance or incurrence of any such debt with incremental protections could affect the market for, and trading levels and prices of, the Notes.

Our amount of debt outstanding may increase as a result of this offering. Our current indebtedness could adversely affect our business, financial condition and results of operations and our ability to meet our payment obligations under the Notes and our other debt.

The use of debt could have significant consequences on our future operations, including:

making it more difficult for us to meet our payment and other obligations under the Notes and our other outstanding debt;

resulting in an event of default if we fail to comply with the financial and other restrictive covenants contained in our financing arrangements, which event of default could result in substantially all of our debt becoming immediately due and payable;

reducing the availability of our cash flow to fund investments, acquisitions and other general corporate purposes, and limiting our ability to obtain additional financing for these purposes;

subjecting us to the risk of increased sensitivity to interest rate increases on our indebtedness with variable interest rates, including borrowings under our financing arrangements; and

limiting our flexibility in planning for, or reacting to, and increasing our vulnerability to, changes in our business, the industry in which we operate and the general economy.

Any of the above-listed factors could have an adverse effect on our business, financial condition and results of operations and our ability to meet our payment obligations under the Notes and our other debt.

Our ability to meet our payment and other obligations under our financing arrangements depends on our ability to generate significant cash flow in the future. This, to some extent, is subject to general economic, financial, competitive, legislative and regulatory factors as well as other factors that are beyond our control. We cannot assure you that our business will generate cash flow from operations, or that future borrowings will be available to us under our financing arrangements or otherwise, in an amount sufficient to enable us to meet our payment obligations under the Notes and our other debt and to fund other liquidity needs. If we are not able to generate sufficient cash flow to service our debt obligations, we may need to refinance or restructure our debt,

Table of Contents

Index to Financial Statements

including the Notes, sell assets, reduce or delay capital investments, or seek to raise additional capital. If we are unable to implement one or more of these alternatives, we may not be able to meet our payment obligations under the Notes and our other debt.

The optional redemption provision may materially adversely affect your return on the Notes.

The Notes will be redeemable in whole or in part upon certain conditions at any time, or from time to time, at our option on or after April 30, 2021. We may choose to redeem the Notes at times when prevailing interest rates are lower than the interest rate paid on the Notes. In this circumstance, you may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as the Notes being redeemed.

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

The Notes are a new issue of debt securities for which there currently is no trading market. We intend to apply to list the Notes on the NYSE within 30 days of the original issue date. Although we expect the Notes to be listed on the NYSE, we cannot provide any assurances that an active trading market will develop for the Notes or that you will be able to sell your Notes. If the Notes are traded after their initial issuance, they may trade at a discount from their initial offering price depending on prevailing interest rates, the market for similar securities, our credit ratings, general economic conditions, our financial condition, performance and prospects and other factors. The underwriters have advised us that they intend to make a market in the Notes, but they are not obligated to do so. The underwriters may discontinue any market-making in the Notes at any time at their sole discretion. Accordingly, we cannot assure you that an active trading market will develop for the Notes, that you will be able to sell your Notes at a particular time or that the price you receive when you sell will be favorable. To the extent an active trading market does not develop, the liquidity and trading price for the Notes may be harmed. Accordingly, you may be required to bear the financial risk of an investment in the Notes for an indefinite period of time.

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

Our credit ratings are an assessment by rating agencies of our ability to pay our debts when due. Consequently, real or anticipated changes in our credit ratings will generally affect the market value of the Notes. These credit ratings may not reflect the potential impact of risks relating to the structure or marketing of the Notes. Credit ratings are not a recommendation to buy, sell or hold any security, and may be revised or withdrawn at any time by the issuing organization in its sole discretion. Neither we nor any underwriter undertakes any obligation to maintain our credit ratings or to advise holders of Notes of any changes in our credit ratings. There can be no assurance that our credit ratings will remain for any given period of time or that such credit ratings will not be lowered or withdrawn entirely by the rating agencies if in their judgment future circumstances relating to the basis of the credit ratings, such as adverse changes in our company, so warrant. The conditions of the financial markets and prevailing interest rates have fluctuated in the past and are likely to fluctuate in the future, which could have an adverse effect on the market prices of the Notes.

If we Default on our obligations to pay our other indebtedness, we may not be able to make payments on the Notes.

Any default under the agreements governing our indebtedness, including a default under the Wells Facility, the Union Bank Facility, the 2022 Notes, the 2024 Notes, the 2022 Convertible Notes, and the 2021 Asset-Backed Notes or other indebtedness to which we may be a party, that is not waived by the required lenders or holders, and the remedies sought by the holders of such indebtedness, could make us unable to pay principal, premium, if any, and interest on the Notes and substantially decrease the market value of the Notes. If we are unable to generate sufficient cash flow and are otherwise unable to obtain funds necessary to meet required

Table of Contents**Index to Financial Statements**

payments of principal, premium, if any, and interest on our indebtedness, or if we otherwise fail to comply with the various covenants, including financial and operating covenants, in the instruments governing our indebtedness, we could be in default under the terms of the agreements governing such indebtedness. In the event of such default, the holders of such indebtedness could elect to declare all the funds borrowed thereunder to be due and payable, together with accrued and unpaid interest, the lenders under the Wells Facility and the Union Bank Facility or other debt we may incur in the future could elect to terminate their commitments, cease making further loans and institute foreclosure proceedings against our assets, and we could be forced into bankruptcy or liquidation. If our operating performance declines, we may in the future need to seek to obtain waivers from the required lenders under the Wells Facility or Union Bank Facility or the required holders of our 2022 Notes, our 2024 Notes, 2022 Convertible Notes, 2021 Asset-Backed Notes or other debt that we may incur in the future to avoid being in default. If we breach our covenants under the Wells Facility, Union Bank Facility, the 2022 Notes, the 2024 Notes, the 2022 Convertible Notes, the 2021 Asset-Backed Notes or other debt and seek a waiver, we may not be able to obtain a waiver from the required lenders or holders. If this occurs, we would be in default under the Wells Facility or Union Bank Facility, the 2022 Notes, the 2024 Notes, the 2022 Convertible Notes, the 2021 Asset-Backed Notes or other debt, as applicable, the lenders or holders could exercise their rights as described above, and we could be forced into bankruptcy or liquidation. If we are unable to repay debt, lenders having secured obligations, including the lenders under the Wells Facility and the Union Bank Facility, could proceed against the collateral securing the debt. Because the Wells Facility and the Union Bank Facility have, and any future credit facilities will likely have, customary cross-default provisions, if the indebtedness under the Notes, the Wells Facility, Union Bank Facility, the 2022 Notes, the 2024 Notes, the 2022 Convertible Notes or the 2021 Asset-Backed Notes or under any future credit facility is accelerated, we may be unable to repay or finance the amounts due. See *Specific Terms of the Notes and the Offering* in this prospectus supplement.

FATCA withholding may apply to payments to certain foreign entities.

Payments made under the Notes to a foreign financial institution or non-financial foreign entity (including such an institution or entity acting as an intermediary) may be subject to a U.S. withholding tax of 30% under U.S. Foreign Account Tax Compliance Act provisions of the Code (commonly referred to as *FATCA*). This U.S. withholding tax generally applies to payments of interest on the Notes as well as, after December 31, 2018, to any payments of gross proceeds (including principal payments) from the sale, redemption, retirement or other disposition of the Notes, unless the foreign financial institution or non-financial foreign entity complies with certain information reporting, withholding, identification, certification and related requirements imposed by FATCA. Depending upon the status of a holder and the status of an intermediary through which any Notes are held, the holder could be subject to this 30% U.S. withholding tax in respect of any interest paid on the Notes as well as any proceeds from the sale, redemption, retirement or other disposition of the Notes. Persons located in jurisdictions that have entered into an intergovernmental agreement with the United States to implement FATCA may be subject to different rules. You should consult your own tax advisors regarding FATCA and how it may affect your investment in the Notes. See *Certain United States Federal Income Tax Considerations Taxation of Note Holders FATCA* in this prospectus supplement for further information.

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

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

Additionally, as an internally managed business development company, our ability to offer more competitive and flexible compensation structures, such as offering both a profit sharing plan and an equity incentive plan, is subject to the limitations imposed by the 1940 Act, which limits our ability to attract and retain

Table of Contents

Index to Financial Statements

talented investment management professionals. As such, these limitations could inhibit our ability to grow, pursue our business plan and attract and retain professional talent, any or all of which may have a negative impact on our business, financial condition and results of operations.

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

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

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

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

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

Lenders have fixed dollar claims on our assets that are superior to the claims of stockholders, and we have granted, and may in the future grant, lenders a security interest in our assets in connection with borrowings. In the case of a liquidation event, those lenders would receive proceeds before our stockholders. In addition, borrowings, also known as leverage, magnify the potential for gain or loss on amounts invested and, therefore, increase the risks associated with investing in our securities. Leverage is generally considered a speculative investment technique. If the value of our assets increases, then leverage would cause the NAV attributable to our common stock to increase more than it otherwise would have had we not leveraged. Conversely, if the value of our assets decreases, leverage would cause the NAV attributable to our common stock to decline more than it otherwise would have had we not used leverage. Similarly, any increase in our revenue in excess of interest

Table of Contents

Index to Financial Statements

expense on our borrowed funds would cause our net income to increase more than it would without the leverage. Any decrease in our revenue would cause our net income to decline more than it would have had we not borrowed funds and could negatively affect our ability to make distributions on common stock. Our ability to service any debt that we incur will depend largely on our financial performance and will be subject to prevailing economic conditions and competitive pressures. We and, indirectly, our stockholders will bear the cost associated with our leverage activity. If we are not able to service our substantial indebtedness, our business could be harmed materially.

Our Credit Facilities, our 2022 Notes, our 2024 Notes, our 2021 Asset-Backed Notes, and our 2022 Convertible Notes contain financial and operating covenants that could restrict our business activities, including our ability to declare dividend distributions if we default under certain provisions.

As of December 31, 2017, we had no borrowings outstanding under the Wells Facility and the Union Bank Facility. In addition, as of December 31, 2017, we had approximately \$190.2 million of indebtedness outstanding incurred by our SBIC subsidiaries, approximately \$150.0 million in aggregate principal amount of 2022 Notes, approximately \$183.5 million in aggregate principal amount of 2024 Notes, approximately \$49.2 million in aggregate principal amount of 2021 Asset-Backed Notes in connection with our \$237.4 million debt securitization (the 2014 Debt Securitization) and approximately \$230.0 million in aggregate principal amount of 2022 Convertible Notes.

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

As a business development company, under the 1940 Act, generally, we are not permitted to incur indebtedness unless immediately after such borrowing we have an asset coverage for total borrowings of at least 200% (i.e., the amount of debt may not exceed 50% of the value of our assets). In addition, we may not be permitted to declare any cash distribution on our outstanding common shares, or purchase any such shares, unless, at the time of such declaration or purchase, we have asset coverage of at least 200% after deducting the amount of such distribution or purchase price. If this ratio declines below 200%, we may not be able to incur additional debt and may need to sell a portion of our investments to repay some debt when it is disadvantageous to do so, and we may not be able to make distributions. The Small Business Credit Availability Act, which was signed into law in March 2018, modifies this section of the 1940 Act and decreases this percentage from 200% to 150% (subject to either stockholder approval or approval of both a majority of the board of directors and a majority of directors who are not interested persons). As a result of this new law, we may be able to incur additional indebtedness subject to relevant approval and disclosure requirements and, therefore, your risk of an investment in us may increase. Rating agencies may also decide to review our credit ratings and those of other business development companies in light of this new law as well as any corresponding changes to asset coverage ratios and consider downgrading such ratings, including a downgrade from an investment grade rating to a non-investment grade rating. Such a downgrade in our credit ratings may adversely affect the Notes and our other securities. See [Supplementary Risk Factors](#) [Risks Related to the Notes](#) A downgrade, suspension or withdrawal of a credit rating assigned by a rating agency to us or our unsecured debt, if any, or change in the debt markets could cause the liquidity or market value of the Notes to decline significantly in this prospectus supplement.

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

Table of Contents**Index to Financial Statements**

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

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

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

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

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

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

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

Acquisitions involve numerous other risks, including:

diversion of management time and attention;

failures to identify material problems and liabilities of acquisition targets or to obtain sufficient indemnification rights to fully offset possible liabilities related to the acquired businesses;

difficulties integrating the operations, technologies and personnel of the acquired businesses;

inefficiencies and complexities that may arise due to unfamiliarity with new assets, businesses or markets;

disruptions to our ongoing business;

inaccurate estimates of fair value made in the accounting for acquisitions and amortization of acquired intangible assets which would reduce future reported earnings;

the inability to obtain required financing for the new acquisition or investment opportunities and our existing business;

the need or obligation to divest portions of an acquired business;

challenges associated with operating in new geographic regions;

difficulties in achieving anticipated cost savings, synergies, business opportunities and growth prospects;

S-21

Table of Contents

Index to Financial Statements

potential loss of our or the acquired business key employees, contractual relationships, suppliers or customers; and

inability to obtain required regulatory approvals.

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

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

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

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

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

Our business will require a substantial amount of capital. We may acquire additional capital from the issuance of senior securities, including borrowings, securitization transactions or other indebtedness, or the issuance of additional shares of our common stock. However, we may not be able to raise additional capital in the future on favorable terms or at all. We may issue debt securities, other evidences of indebtedness or preferred stock, and we may borrow money from banks or other financial institutions, which we refer to collectively as senior securities, up to the maximum amount permitted by the 1940 Act. Under the 1940 Act, we are not permitted to incur indebtedness unless immediately after such borrowing we have an asset coverage for total borrowings of at least 200% (i.e., the amount of debt may not exceed 50% of the value of our assets). In addition, we may not be permitted to declare any cash distribution on our outstanding common shares, or purchase any such shares, unless, at the time of such declaration or purchase, we have asset coverage of at least 200% after deducting the amount of such distribution or purchase price. Our ability to pay distributions or issue additional senior securities would be restricted if our asset coverage ratio were not at least 200%. The Small Business Credit Availability Act, which was signed into law in March 2018, modifies this section of the 1940 Act and decreases this percentage from 200% to 150% (subject to either stockholder approval or approval of both a majority of the board of directors and a majority of directors who are not interested persons). As a result of this new law, we may be able to incur additional indebtedness subject to relevant approval and disclosure requirements and, therefore, your risk of an investment in us may increase. Rating agencies may also decide to review our credit ratings and those of other business development companies in light of this new law as well as any corresponding changes to asset coverage ratios and consider downgrading such ratings, including a downgrade from an investment grade rating to a non-investment grade rating. Such a downgrade in our credit ratings may adversely affect the Notes and our other securities. See Supplementary Risk Factors Risks Related to the Notes A downgrade, suspension or withdrawal of a credit rating assigned by a rating agency to us or our unsecured debt, if any, or change in the debt markets could cause the liquidity or market value of the Notes to decline significantly in this prospectus supplement.

Table of Contents

Index to Financial Statements

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

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

Recently passed legislation may allow us to incur additional leverage.

Historically, as a business development company, under the 1940 Act generally we are not permitted to incur indebtedness unless immediately after such borrowing we have an asset coverage for total borrowings of at least 200% (i.e., the amount of debt may not exceed 50% of the value of our assets). The Small Business Credit Availability Act, which was signed into law in March 2018, modifies this section of the 1940 Act and decreases this percentage from 200% to 150% (subject to either stockholder approval or approval of both a majority of the board of directors and a majority of directors who are not interested persons). As a result of this new law, we may be able to incur additional indebtedness subject to relevant approval and disclosure requirements and, therefore, your risk of an investment in us may increase. Rating agencies may also decide to review our credit ratings and those of other business development companies in light of this new law as well as any corresponding changes to asset coverage ratios and consider downgrading such ratings, including a downgrade from an investment grade rating to a non-investment grade rating. Such a downgrade in our credit ratings may adversely affect the Notes and our other securities. See **Supplementary Risk Factors** **Risks Related to the Notes** A downgrade, suspension or withdrawal of a credit rating assigned by a rating agency to us or our unsecured debt, if any, or change in the debt markets could cause the liquidity or market value of the Notes to decline significantly in this prospectus supplement.

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

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

Table of Contents

Index to Financial Statements

Risks Related to Current Economic and Market Conditions

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

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

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

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

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

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

Table of Contents**Index to Financial Statements****Risks Related to Our Investments**

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

Our total investment in companies may be significant individually or in the aggregate. As a result, if a significant investment in one or more companies fails to perform as expected, our financial results could be more negatively affected and the magnitude of the loss could be more significant than if we had made smaller investments in more companies. The following table shows the fair value of the totals of investments held in portfolio companies at December 31, 2017 that represent greater than 5% of our net assets:

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

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

Paratek Pharmaceuticals, Inc. is a biopharmaceutical company focused on the development and commercialization of innovative therapies based upon its expertise in novel tetracycline chemistry

Insmed, Incorporated is a biopharmaceutical company that focuses on the development of inhaled pharmaceuticals for the site-specific treatment of serious lung diseases.

Axovant Sciences Ltd. is a clinical-stage biopharmaceutical company focused on acquiring, developing and commercializing novel therapeutics for the treatment of dementia.

Fuze, Inc. is a technology company that provides a cloud-based unified communications-as-a-service platform to server message block, mid-market, and small enterprise customers worldwide.

Emma, Inc. is a technology company that offers software to enable organizations to create, send and track email marketing campaigns and online surveys.

Snagajob.com, Inc. is a technology company that offers an array of services designed to simplify the hourly job recruiting process for both job seekers and employers.

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

Risks Related to Our Securities

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

If you are holding debt securities issued by the Company and such securities are redeemable at our option, we may choose to redeem your debt securities at times when prevailing interest rates are lower than the interest rate paid on your debt securities. In addition, if you are holding debt securities issued by the Company and such securities are subject to mandatory redemption, we may be required to redeem your debt securities at times when

S-25

Table of Contents

Index to Financial Statements

prevailing interest rates are lower than the interest rate paid on your debt securities. In this circumstance, you may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as your debt securities being redeemed.

On October 24, 2017, our Board of Directors approved a redemption of \$75.0 million of the outstanding aggregate principal amount of the 2024 Notes, which were redeemed on November 23, 2017. Further, on February 9, 2018, our Board of Directors approved a redemption of \$100.0 million of the remaining outstanding aggregate principal amount of the 2024 Notes, which were redeemed on April 2, 2018. We may redeem the remaining 2024 Notes at any time prior to maturity and the 2022 Notes after September 23, 2022 at a redemption price of 100% of the outstanding principal amount thereof plus accrued and unpaid interest payments. If we choose to redeem the 2022 Notes or 2024 Notes when the fair market value of the 2022 Notes or 2024 Notes is above par value, you would experience a loss of any potential premium.

Table of Contents

Index to Financial Statements

USE OF PROCEEDS

We estimate that the net proceeds we will receive from the sale of the \$75.0 million aggregate principal amount of Notes in this offering will be approximately \$72.7 million (or approximately \$83.6 million if the underwriters fully exercise their overallotment option) based on a public offering of 100% of par, after deducting the underwriting discount of approximately \$2.0 million (or approximately \$2.4 million if the underwriters fully exercise their overallotment option) payable by us and estimated offering expenses of approximately \$250,000 payable by us.

We expect to use the net proceeds from this offering (i) to fund investments in debt and equity securities in accordance with our investment objective, (ii) to make acquisitions, (iii) to retire certain debt obligations (which may include the 2024 Notes), and (iv) for other general corporate purposes.

As of December 31, 2017, the aggregate principal balance of the 2024 Notes was approximately \$183.5 million. On February 9, 2018, our Board of Directors approved a redemption of \$100.0 million of the remaining outstanding aggregate principal amount of the 2024 Notes, which were redeemed on April 2, 2018. The 2024 Notes bear interest at a rate of 6.25% per year, payable quarterly and mature, unless earlier repurchased or redeemed, on July 30, 2024.

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

The amount of net proceeds may be more or less than the amount described in this preliminary prospectus supplement depending on the amount of Notes we sell in the offering, which will be determined at pricing. To the extent that we receive more than the amount described in this preliminary prospectus supplement, we intend to use the net proceeds for investment in portfolio companies in accordance with our investment objective and strategies and for working capital and general corporate purposes. To the extent we receive less, the amount we have available for such purposes will be reduced.

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

The selected consolidated financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations, Senior Securities and the consolidated financial statements and related notes included elsewhere herein. The selected balance sheet data as of the end of fiscal year 2017, 2016, 2015, 2014, and 2013 and the financial statement of operations data for fiscal years 2017, 2016, 2015, 2014, and 2013 has been derived from our audited financial statements, which have been audited by PricewaterhouseCoopers LLP, our independent registered public accounting firm, but not all of which are presented in this prospectus supplement. The historical data are not necessarily indicative of results to be expected for any future period.

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

(in thousands, except per share amounts)	For the Year Ended December 31,				
	2017	2016	2015	2014	2013
Balance sheet data:					
Investments, at value	\$ 1,542,214	\$ 1,423,942	\$ 1,200,638	\$ 1,020,737	\$ 910,295
Cash and cash equivalents	91,309	13,044	95,196	227,116	268,368
Total assets	1,654,715	1,464,204	1,334,761	1,299,223	1,221,715
Total liabilities	813,748	676,260	617,627	640,359	571,708

Edgar Filing: Hercules Capital, Inc. - Form 497

Total net assets	840,967	787,944	717,134	658,864	650,007
Other Data:					
Total return ⁽³⁾	1.47%	26.87%	(9.70%)	(1.75%)	58.49%
Total debt investments, at value	1,415,984	1,328,803	1,110,209	923,906	821,988
Total warrant investments, at value	36,869	27,485	22,987	25,098	35,637
Total equity investments, at value	89,361	67,654	67,442	71,733	52,670
Unfunded Commitments ⁽²⁾	73,604	59,683	75,402	147,689	69,091
Net asset value per share ⁽¹⁾	\$ 9.96	\$ 9.90	\$ 9.94	\$ 10.18	\$ 10.51

(1) Based on common shares outstanding at period end.

S-28

Table of Contents**Index to Financial Statements**

- (2) Amount represents unfunded commitments, including undrawn revolving facilities, which are available at the request of the portfolio company. Amount excludes unfunded commitments which are unavailable due to the borrower having not met certain milestones.
- (3) The total return equals the change in the ending market value over the beginning of the period price per share plus distributions paid per share during the period, divided by the beginning price assuming the distribution is reinvested on the date of the issuance. The total return does not reflect any sales load that must be paid by investors.

The following tables set forth certain quarterly financial information for each of the eight quarters up to and ending December 31, 2017. This information was derived from the Company's unaudited consolidated financial statements. Results for any quarter are not necessarily indicative of results for the full year or for any future quarter.

(in thousands, except per share data)	Quarter Ended			
	March 31, 2017	June 30, 2017	September 30, 2017	December 31, 2017
Total investment income	\$ 46,365	\$ 48,452	\$ 45,865	\$ 50,198
Net investment income	22,678	25,275	23,973	24,518
Net increase (decrease) in net assets resulting from operations	(5,588)	33,149	33,072	18,365
Change in net assets resulting from operations per common share (basic)	\$ (0.07)	\$ 0.40	\$ 0.40	\$ 0.22

	Quarter Ended			
	March 31, 2016	June 30, 2016	September 30, 2016	December 31, 2016
Total investment income	\$ 38,939	\$ 43,538	\$ 45,102	\$ 47,472
Net investment income	20,097	23,354	23,776	33,117
Net increase in net assets resulting from operations	14,295	9,475	30,812	14,121
Change in net assets resulting from operations per common share (basic)	\$ 0.20	\$ 0.13	\$ 0.41	\$ 0.18

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

The following table sets forth (i) our actual capitalization as of December 31, 2017, and (ii) our capitalization as adjusted to give effect to the sale of \$75.0 million aggregate principal amount of Notes in this offering (assuming no exercise of the overallotment option), excluding accrued interest, after deducting the underwriting discounts and commissions of approximately \$2.0 million payable by us and estimated offering expenses of approximately \$250,000 payable by us. You should read this table together with the Use of Proceeds section and our statement of assets and liabilities included elsewhere in this prospectus supplement.

	As of December 31, 2017	
	Actual	As Adjusted ⁽²⁾
	(in thousands)	
Investments at fair value	\$ 1,542,214	\$ 1,542,214
Cash and cash equivalents	\$ 91,309	\$ 164,039
Debt ⁽¹⁾ :		
Accounts payable and accrued liabilities	\$ 26,896	\$ 26,896
Long-term SBA debentures	188,141	188,141
2022 Convertible Notes	223,488	223,488
2021 Asset-Backed Notes	48,650	48,650
2022 Notes	147,572	147,572
2024 Notes	179,001	79,001
Notes offered herein		72,730
Total debt	\$ 813,748	\$ 786,478
Stockholders' equity:		
Common stock, par value \$0.001 per share; 200,000,000 shares authorized; 84,423,669 shares issued and outstanding	\$ 85	\$ 85
Capital in excess of par value	908,501	908,501
Unrealized depreciation on investments	(79,760)	(79,760)
Accumulated realized gains (losses) on investments	(20,374)	(20,374)
Distributions in excess of investment income	32,515	32,515
Total stockholders' equity	\$ 840,967	\$ 840,967
Total capitalization	\$ 1,654,715	\$ 1,627,445

- (1) The above table reflects the principal amount of indebtedness outstanding net of the associated debt issuance costs as of December 31, 2017. As of April 19, 2018, indebtedness under the Wells Facility, the Union Bank Facility, the 2022 Notes, the 2022 Convertible Notes, the 2024 Notes, and the 2021 Asset-Backed Notes were \$50.0 million, \$0 million, \$150.0 million, \$230.0 million, \$83.5 million and \$32.9 million, respectively. The net proceeds from the sale of the Notes in this offering are expected to be used to fund investments in debt and equity securities in accordance with our investment objective, to make acquisitions, to retire certain debt obligations (which may include the 2024 Notes), and for other general corporate purposes. See Use of Proceeds.
- (2) The as adjusted amount reflects the April 2, 2018 redemption of \$100.0 million of our outstanding aggregate principal amount of the 2024 Notes.

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

Information about our senior securities is shown in the following table for the periods as of December 31, 2017, 2016, 2015, 2014, 2013, 2012, 2011, 2010, 2009, and 2008. The information as of December 31, 2017, 2016, 2015, 2014, 2013, 2012, 2011 and 2010 has been derived from our audited financial statements for these periods, which have been audited by PricewaterhouseCoopers LLP, our independent registered public accounting firm. The report of PricewaterhouseCoopers LLP on the senior securities table as of December 31, 2017 is attached as an exhibit to the registration statement of which this prospectus is a part. The indicates information that the SEC expressly does not require to be disclosed for certain types of senior securities.

Class and Year	Total Amount Outstanding Exclusive of Treasury Securities⁽¹⁾	Asset Coverage per Unit⁽²⁾	Average Market Value per Unit⁽³⁾
Securitized Credit Facility with Wells Fargo Capital Finance			
December 31, 2008	\$ 89,582,000	\$ 6,689	N/A
December 31, 2009 ⁽⁶⁾			N/A
December 31, 2010 ⁽⁶⁾			N/A
December 31, 2011	\$ 10,186,830	\$ 73,369	N/A
December 31, 2012 ⁽⁶⁾			N/A
December 31, 2013 ⁽⁶⁾			N/A
December 31, 2014 ⁽⁶⁾			N/A
December 31, 2015	\$ 50,000,000	\$ 26,352	N/A
December 31, 2016	\$ 5,015,620	\$ 290,234	N/A
December 31, 2017 ⁽⁶⁾			N/A
Securitized Credit Facility with Union Bank, NA			
December 31, 2009 ⁽⁶⁾			N/A
December 31, 2010 ⁽⁶⁾			N/A
December 31, 2011 ⁽⁶⁾			N/A
December 31, 2012 ⁽⁶⁾			N/A
December 31, 2013 ⁽⁶⁾			N/A
December 31, 2014 ⁽⁶⁾			N/A
December 31, 2015 ⁽⁶⁾			N/A
December 31, 2016 ⁽⁶⁾			N/A
December 31, 2017 ⁽⁶⁾			N/A
Small Business Administration Debentures (HT II)⁽⁴⁾			
December 31, 2008	\$ 127,200,000	\$ 4,711	N/A
December 31, 2009	\$ 130,600,000	\$ 3,806	N/A
December 31, 2010	\$ 150,000,000	\$ 3,942	N/A
December 31, 2011	\$ 125,000,000	\$ 5,979	N/A
December 31, 2012	\$ 76,000,000	\$ 14,786	N/A
December 31, 2013	\$ 76,000,000	\$ 16,075	N/A
December 31, 2014	\$ 41,200,000	\$ 31,535	N/A
December 31, 2015	\$ 41,200,000	\$ 31,981	N/A
December 31, 2016	\$ 41,200,000	\$ 35,333	N/A
December 31, 2017	\$ 41,200,000	\$ 39,814	N/A
Small Business Administration Debentures (HT III)⁽⁵⁾			
December 31, 2010	\$ 20,000,000	\$ 29,564	N/A
December 31, 2011	\$ 100,000,000	\$ 7,474	N/A
December 31, 2012	\$ 149,000,000	\$ 7,542	N/A
December 31, 2013	\$ 149,000,000	\$ 8,199	N/A
December 31, 2014	\$ 149,000,000	\$ 8,720	N/A

Table of Contents**Index to Financial Statements**

Class and Year	Total Amount Outstanding Exclusive of Treasury Securities ⁽¹⁾	Asset Coverage per Unit ⁽²⁾	Average Market Value per Unit ⁽³⁾
December 31, 2015	\$ 149,000,000	\$ 8,843	N/A
December 31, 2016	\$ 149,000,000	\$ 9,770	N/A
December 31, 2017	\$ 149,000,000	\$ 11,009	N/A
2016 Convertible Notes			
December 31, 2011	\$ 75,000,000	\$ 10,623	\$ 885
December 31, 2012	\$ 75,000,000	\$ 15,731	\$ 1,038
December 31, 2013	\$ 75,000,000	\$ 16,847	\$ 1,403
December 31, 2014	\$ 17,674,000	\$ 74,905	\$ 1,290
December 31, 2015	\$ 17,604,000	\$ 74,847	\$ 1,110
December 31, 2016			
April 2019 Notes			
December 31, 2012	\$ 84,489,500	\$ 13,300	\$ 986
December 31, 2013	\$ 84,489,500	\$ 14,460	\$ 1,021
December 31, 2014	\$ 84,489,500	\$ 15,377	\$ 1,023
December 31, 2015	\$ 64,489,500	\$ 20,431	\$ 1,017
December 31, 2016	\$ 64,489,500	\$ 22,573	\$ 1,022
December 31, 2017			
September 2019 Notes			
December 31, 2012	\$ 85,875,000	\$ 13,086	\$ 1,003
December 31, 2013	\$ 85,875,000	\$ 14,227	\$ 1,016
December 31, 2014	\$ 85,875,000	\$ 15,129	\$ 1,026
December 31, 2015	\$ 45,875,000	\$ 28,722	\$ 1,009
December 31, 2016	\$ 45,875,000	\$ 31,732	\$ 1,023
December 31, 2017			
2024 Notes			
December 31, 2014	\$ 103,000,000	\$ 12,614	\$ 1,010
December 31, 2015	\$ 103,000,000	\$ 12,792	\$ 1,014
December 31, 2016	\$ 252,873,175	\$ 5,757	\$ 1,016
December 31, 2017	\$ 183,509,600	\$ 8,939	\$ 1,025
2017 Asset-Backed Notes			
December 31, 2012	\$ 129,300,000	\$ 8,691	\$ 1,000
December 31, 2013	\$ 89,556,972	\$ 13,642	\$ 1,004
December 31, 2014	\$ 16,049,144	\$ 80,953	\$ 1,375
December 31, 2015			
2021 Asset-Backed Notes			
December 31, 2014	\$ 129,300,000	\$ 10,048	\$ 1,000
December 31, 2015	\$ 129,300,000	\$ 10,190	\$ 996
December 31, 2016	\$ 109,205,263	\$ 13,330	\$ 1,002
December 31, 2017	\$ 49,152,504	\$ 33,372	\$ 1,001
2022 Convertible Notes			
December 31, 2017	\$ 230,000,000	\$ 7,132	\$ 1,028
2022 Notes			
December 31, 2017	\$ 150,000,000	\$ 10,935	\$ 1,014
Total Senior Securities⁽⁷⁾			
December 31, 2008	\$ 216,782,000	\$ 2,764	N/A
December 31, 2009	\$ 130,600,000	\$ 3,806	N/A
December 31, 2010	\$ 170,000,000	\$ 3,478	N/A
December 31, 2011	\$ 310,186,830	\$ 2,409	N/A
December 31, 2012	\$ 599,664,500	\$ 1,874	N/A

Table of Contents**Index to Financial Statements**

Class and Year	Total Amount Outstanding Exclusive of Treasury Securities⁽¹⁾	Asset Coverage per Unit⁽²⁾	Average Market Value per Unit⁽³⁾
December 31, 2013	\$ 559,921,472	\$ 2,182	N/A
December 31, 2014	\$ 626,587,644	\$ 2,073	N/A
December 31, 2015	\$ 600,468,500	\$ 2,194	N/A
December 31, 2016	\$ 667,658,558	\$ 2,180	N/A
December 31, 2017	\$ 802,862,104	\$ 2,043	N/A

- (1) Total amount of each class of senior securities outstanding at the end of the period presented.
- (2) The asset coverage ratio for a class of senior securities representing indebtedness is calculated as our consolidated total assets, less all liabilities and indebtedness not represented by senior securities, including senior securities not subject to asset coverage requirements under the 1940 Act due to exemptive relief from the SEC, divided by senior securities representing indebtedness. This asset coverage ratio is multiplied by \$1,000 to determine the Asset Coverage per Unit.
- (3) Not applicable because senior securities are not registered for public trading.
- (4) Issued by HT II, one of our SBIC subsidiaries, to the SBA. These categories of senior securities were not subject to the asset coverage requirements of the 1940 Act as a result of exemptive relief granted to us by the SEC.
- (5) Issued by HT III, one of our SBIC subsidiaries, to the SBA. These categories of senior securities were not subject to the asset coverage requirements of the 1940 Act as a result of exemptive relief granted to us by the SEC.
- (6) The Company's Wells Facility and Union Bank Facility had no borrowings outstanding during the periods noted above.
- (7) The total senior securities and Asset Coverage per Unit shown for those securities do not represent the asset coverage ratio requirement under the 1940 Act because the presentation includes senior securities not subject to the asset coverage requirements of the 1940 Act as a result of exemptive relief granted to us by the SEC. As of December 31, 2017, our asset coverage ratio under our regulatory requirements as a business development company was 236.7% excluding our SBA debentures as a result of our exemptive order from the SEC which allows us to exclude all SBA leverage from our asset coverage ratio.

Table of Contents**Index to Financial Statements****RATIO OF EARNINGS TO FIXED CHARGES**

The following contains our ratio of earnings to fixed charges for the periods indicated, computed as set forth below. You should read these ratios of earnings to fixed charges in connection with our consolidated financial statements, including the notes to those statements, included in this prospectus supplement:

	For the year ended December 31, 2017	For the year ended December 31, 2016	For the year ended December 31, 2015	For the year ended December 31, 2014	For the year ended December 31, 2013	For the year ended December 31, 2012
Earnings to Fixed Charges ⁽¹⁾	2.70	2.85	2.16	3.10	3.83	2.97

For purposes of computing the ratios of earnings to fixed charges, earnings represent net increase in stockholders' equity resulting from operations plus fixed charges. Fixed charges include interest and credit facility fees expense and amortization of debt issuance costs.

(1) Earnings include net realized and unrealized gains or losses. Net realized and unrealized gains or losses can vary substantially from period to period.

Table of Contents

Index to Financial Statements

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

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

Overview

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

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

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

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

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

Table of Contents

Index to Financial Statements

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

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

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

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

Portfolio and Investment Activity

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

Portfolio Activity

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

Table of Contents**Index to Financial Statements**

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

Our portfolio activity for the years ended December 31, 2017 and 2016 was comprised of the following:

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

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

(2) Funded amounts include borrowings on revolving facilities.

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

We receive principal payments on our debt investment portfolio based on scheduled amortization of the outstanding balances. In addition, we receive principal repayments for some of our loans prior to their scheduled maturity date. The frequency or volume of these early principal repayments may fluctuate significantly from period to period. During the year ended December 31, 2017, we received approximately \$625.1 million in aggregate principal repayments. Of the approximately \$625.1 million of aggregate principal repayments, approximately \$119.5 million were scheduled principal payments, and approximately \$505.6 million were early principal repayments related to 47 portfolio companies. Of the approximately \$505.6 million early principal repayments, approximately \$74.2 million were early repayments due to merger and acquisition transactions for seven portfolio companies.

Table of Contents**Index to Financial Statements**

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

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

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

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

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

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

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

Edgar Filing: Hercules Capital, Inc. - Form 497

Total	\$ 1,542,214	100.0%	\$ 1,423,942	100.0%
--------------	--------------	--------	--------------	--------

S-38

Table of Contents

Index to Financial Statements

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

Changes in Portfolio

We generate revenue in the form of interest income, primarily from our investments in debt securities and commitment and facility fees. Interest income is recognized in accordance with the contractual terms of the loan agreement to the extent that such amounts are expected to be collected. Fees generated in connection with our debt investments are recognized over the life of the loan or, in some cases, recognized as earned. In addition, we generate revenue in the form of capital gains, if any, on warrants or other equity-related securities that we acquire from our portfolio companies. Our investments generally range from \$12.0 million to \$40.0 million, although we may make investments in amounts above or below that range. As of December 31, 2017, our debt investments have a term of between two and seven years and typically bear interest at a rate ranging from approximately 4.6% to approximately 13.0%. In addition to the cash yields received on our debt investments, in some instances, our debt investments may also include any of the following: exit fees, balloon payment fees, commitment fees, success fees, PIK provisions or prepayment fees which may be required to be included in income prior to receipt.

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

Loan origination and commitment fees received in full at the inception of a loan are deferred and amortized into fee income as an enhancement to the related loan's yield over the contractual life of the loan. We recognize nonrecurring fees amortized over the remaining term of the loan commencing in the quarter relating to specific loan modifications. We had approximately \$33.3 million of unamortized fees at December 31, 2017, of which approximately \$29.3 million was included as an offset to the cost basis of our current debt investments and approximately \$4.0 million was deferred contingent upon the occurrence of a funding or milestone. At December 31, 2016, we had approximately \$38.2 million of unamortized fees, of which approximately \$35.8 million was included as an offset to the cost basis of our current debt investments and approximately \$2.4 million was deferred contingent upon the occurrence of a funding or milestone.

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

We have debt investments in our portfolio that contain a PIK provision. The PIK interest, computed at the contractual rate specified in each loan agreement, is recorded as interest income and added to the principal balance of the loan on specified capitalization dates. To maintain our ability to be subject to tax as a RIC, this non-cash source of income must be distributed to stockholders with other sources of income in the form of dividend distributions even though we have not yet collected the cash. Amounts necessary to pay these distributions may come from available cash or the liquidation of certain investments. We recorded approximately \$10.0 million and \$7.8 million in PIK income in the years ended December 31, 2017 and December 31, 2016, respectively.

Table of Contents**Index to Financial Statements**

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

The total return for our investors was approximately 1.5% and 26.9% during the years ended December 31, 2017 and 2016, respectively. The total return equals the change in the ending market value over the beginning of the period price per share plus distributions paid per share during the period, divided by the beginning price assuming the distribution is reinvested on the date of the distribution. The total return does not reflect any sales load that must be paid by investors. See Note 9 Financial Highlights included in the notes to our consolidated financial statements appearing elsewhere in this prospectus supplement.

Portfolio Composition

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

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

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

(in thousands)	December 31, 2017		December 31, 2016	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
Drug Discovery & Development	\$ 369,173	23.9%	\$ 422,550	29.7%
Software	360,123	23.4%	219,559	15.4%
Internet Consumer & Business Services	154,909	10.0%	97,047	6.8%
Media/Content/Info	152,998	9.9%	137,567	9.7%
Sustainable and Renewable Technology	118,432	7.7%	154,406	10.9%
Medical Devices & Equipment	94,595	6.1%	107,695	7.6%
Drug Delivery	91,214	5.9%	109,834	7.7%
Healthcare Services, Other	72,337	4.7%	30,200	2.1%
Specialty Pharmaceuticals	37,501	2.4%	38,944	2.7%
Information Services	24,618	1.6%	6,091	0.4%
Consumer & Business Products	19,792	1.3%	42,713	3.0%

Table of Contents**Index to Financial Statements**

(in thousands)	December 31, 2017		December 31, 2016	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
Surgical Devices	13,161	0.9%	12,553	0.9%
Semiconductors	10,406	0.7%	11,326	0.8%
Electronics & Computer Hardware	9,982	0.6%	7,664	0.5%
Communications & Networking	6,649	0.4%	18,019	1.3%
Biotechnology Tools	5,604	0.4%	7,200	0.5%
Diagnostic	720	0.1%	574	0.0%
Total	\$ 1,542,214	100.0%	\$ 1,423,942	100.0%

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

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

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

As of December 31, 2017, 79.9% of our debt investments were in a senior secured first lien position, 19.8% were secured by a senior second priority security interest in all of the portfolio company's assets, other than intellectual property, and the remaining 0.3% were unsecured as a result of the terms of the acquisition of one of our portfolio companies during the period. In the majority of cases, we collateralize our investments by obtaining a first priority security interest in a portfolio company's assets, which may include its intellectual property. In other cases, we may obtain a negative pledge covering a company's intellectual property.

At December 31, 2017, of the approximately 79.9% of our debt investments in a senior secured first lien position, 45.1% were secured by a first priority security in all of the assets of the portfolio company, including its intellectual property and 34.8% were secured by a first priority security in all of the assets of the portfolio company and the portfolio company was prohibited from pledging or encumbering its intellectual property, or subject to a negative pledge. At December 31, 2017, we had no equipment only liens on material investments in our portfolio companies.

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

Table of Contents**Index to Financial Statements**

Our existing warrant holdings would require us to invest approximately \$87.6 million to exercise such warrants as of December 31, 2017. Warrants may appreciate or depreciate in value depending largely upon the underlying portfolio company's performance and overall market conditions. Of the warrants that we have monetized since inception, we have realized multiples in the range of approximately 1.02x to 29.06x based on the historical rate of return on our investments. However, our warrants may not appreciate in value and, in fact, may decline in value. Accordingly, we may experience losses from our warrant portfolio.

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

The following table summarizes our realized gain and loss and changes in our unrealized appreciation and depreciation on control and affiliate investments for the years ended December 31, 2017, 2016, and affiliate investments for the year ended December 2015. We did not hold any control investments at December 31, 2015.

(in thousands)

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

(in thousands)

Portfolio Company	Type	Fair Value at December 31, 2016	Investment Income	Year Ended December 31, 2016		
				Net Change in Unrealized Appreciation/ (Depreciation)	Reversal of Unrealized Appreciation/ (Depreciation) ⁽¹⁾	Realized Gain/ (Loss)
Control Investments						
SkyCross, Inc.	Control	\$	\$	\$ (3,421)	\$	\$
Achilles Technology Management Co II, Inc.	Control	4,700	84	(604)		
Total Control Investments		\$ 4,700	\$ 84	\$ (4,025)	\$	\$

Edgar Filing: Hercules Capital, Inc. - Form 497

Affiliate Investments										
Optiscan BioMedical, Corp.	Affiliate	\$	4,699	\$	12	\$	(3,409)	\$		\$
Stion Corporation	Affiliate		333		148		539		648	
Total Affiliate Investments		\$	5,032	\$	160	\$	(2,870)	\$	648	\$
Total Control & Affiliate Investments		\$	9,732	\$	244	\$	(6,895)	\$	648	\$

S-42

Table of Contents**Index to Financial Statements***(in thousands)*

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

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

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

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

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

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

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

In June 2016, our investments in SkyCross, Inc. became classified as a control investment as a result of obtaining more than 50% representation on the portfolio company's board. In September 2017, our investments were deemed wholly worthless and written off for a realized loss.

In June 2016, we also acquired 100% ownership of the equity of Achilles Technology Management Co II, Inc. and classified it as a control investment in accordance with the requirements of the 1940 Act. In June 2016, Achilles Technology Management Co II, Inc. acquired the assets of a global antenna company that produces radio frequency system solutions as part of an article 9 consensual foreclosure and public auction for total

Table of Contents**Index to Financial Statements**

consideration in the amount of \$4.0 million. In September and November 2016, we made a \$1.0 million and \$250,000 debt investment, respectively, in Achilles Technology Management II, Inc. to provide working capital under the terms of a loan servicing agreement

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

Portfolio Grading

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

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

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

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

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

Table of Contents**Index to Financial Statements****Results of Operations****Comparison of periods ended December 31, 2017 and 2016*****Investment Income******Interest Income***

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

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

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

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

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

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

Fee Income

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

Table of Contents

Index to Financial Statements

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

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

Operating Expenses

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

Interest and Fees on our Borrowings

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

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

General and Administrative Expenses

General and administrative expenses include legal fees, consulting fees, accounting fees, printer fees, insurance premiums, rent, expenses associated with the workout of underperforming investments and various other expenses. Our general and administrative expenses were \$16.1 million for both the years ended December 31, 2017 and 2016, respectively.

Employee Compensation

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

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

Table of Contents**Index to Financial Statements*****Net Investment Realized Gains and Losses and Net Unrealized Appreciation and Depreciation***

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

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

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

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

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

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

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

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

Table of Contents**Index to Financial Statements**

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

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

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

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

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

Table of Contents**Index to Financial Statements**

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

- (1) The unrealized appreciation (depreciation) attributable to collateral based impairments include all changes in estimated fair value on positions whose fair value remains impaired relative to cost as of the period end date. As such, this may include current period improvements in estimated fair value that do not represent reversals to prior period collateral based impairments.
- (2) Level 1 assets are generally equities listed in active markets and Level 2 assets are generally warrants held in a public company. Observable market prices are typically the primary input in valuing Level 1 and 2 assets. Level 3 asset valuations require inputs that are both significant and unobservable. Generally, Level 3 assets are debt investments and warrants and equities held in a private company. See Note 2 to the financial statements discussing ASC Topic 820 (Fair Value Measurements).

Income and Excise Taxes

We account for income taxes in accordance with the provisions of Topic 740 of the Financial Accounting Standards Board's (FASB) Accounting Standards Codification, as amended (ASC), Income Taxes, under which income taxes are provided for amounts currently payable and for amounts deferred based upon the estimated future tax effects of differences between the financial statements and tax basis of assets and liabilities given the provisions of the enacted tax law. Valuation allowances may be used to reduce deferred tax assets to the amount likely to be realized. Based upon our previous election and anticipated continued qualification to be subject to taxation as a RIC, we are typically not subject to a material level of federal income taxes. We intend to distribute 100% of our spillover earnings from ordinary income for our taxable year ended December 31, 2017 to our stockholders during 2018.

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

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

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

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

Comparison of periods ended December 31, 2016 and 2015***Investment Income******Interest Income***

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

Table of Contents**Index to Financial Statements**

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

Of the \$158.7 million in interest income for the year ended December 31, 2016, approximately \$152.1 million represents recurring income from the contractual servicing of our loan portfolio and approximately \$6.6 million represents income related to the acceleration of income due to early loan repayments and other one-time events during the period. Income from recurring interest and the acceleration of interest income due to early loan repayments represented \$130.4 million and \$9.9 million, respectively, of the \$140.3 million interest income for the year ended December 31, 2015.

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

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

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

Fee Income

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

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

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

Table of Contents

Index to Financial Statements

Operating Expenses

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

Interest and Fees on our Borrowings

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

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

General and Administrative Expenses

General and administrative expenses include legal fees, consulting fees, accounting fees, printer fees, insurance premiums, rent, expenses associated with the workout of underperforming investments and various other expenses. Our general and administrative expenses decreased to \$16.1 million from \$16.7 million for the years ended December 31, 2016 and 2015, respectively. This decrease was primarily attributable to a reduction in costs related to strategic hiring objectives and travel and entertainment, slightly offset by an increase in corporate legal and other expenses.

Employee Compensation

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

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

Other Income (Loss)

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

Litigation Settlement Proceeds

On December 19, 2016, we entered into a Confidential Settlement Agreement (the Settlement Agreement) with all defendants in connection with a litigation matter (the Action) filed in November 2014. In connection

Table of Contents**Index to Financial Statements**

with the Settlement Agreement, the Action was settled among the parties and we received a settlement payment in the amount of \$8.0 million. The Settlement Agreement also provides a mutual release by us and the defendants of any and all claims and cross-claims that were asserted in the Action, the circumstances and events underlying the Action and attorney's fees and costs related thereto. The Settlement Agreement does not constitute an admission of liability, fault, or wrongdoing by any party. The settlement payment was classified as a component of net investment income in our Consolidated Statement of Operations.

Loss on Extinguishment of Convertible Notes

Our 6.00% convertible notes due 2016 (the 2016 Convertible Notes) were fully settled on or before their contractual maturity date of April 15, 2016. Throughout their life, holders of approximately \$74.8 million of our 2016 Convertible Notes exercised their conversion rights. These 2016 Convertible Notes were settled with a combination of cash equal to the outstanding principal amount of the 2016 Convertible Notes and approximately 1.6 million shares of our common stock, or \$24.3 million.

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

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

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

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

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

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

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

Table of Contents**Index to Financial Statements**

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

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

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

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

Table of Contents**Index to Financial Statements**

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

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

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

- (1) The unrealized appreciation (depreciation) attributable to collateral based impairments include all changes in estimated fair value on positions whose fair value remains impaired relative to cost as of the period end date. As such, this may include current period improvements in estimated fair value that do not represent reversals to prior period collateral based impairments.
- (2) Level 1 assets are generally equities listed in active markets and Level 2 assets are generally warrants held in a public company. Observable market prices are typically the primary input in valuing Level 1 and 2 assets. Level 3 asset valuations require inputs that are both significant and unobservable. Generally, Level 3 assets are debt investments and warrants and equities held in a private company. See Note 2 to the financial statements discussing ASC Topic 820 (Fair Value Measurements).

Income and Excise Taxes

We account for income taxes in accordance with the provisions of ASC Topic 740, Income Taxes, under which income taxes are provided for amounts currently payable and for amounts deferred based upon the estimated future tax effects of differences between the financial statements and tax basis of assets and liabilities given the provisions of the enacted tax law. Valuation allowances may be used to reduce deferred tax assets to the amount likely to be realized. Based upon our previous election and anticipated continued qualification to be subject to taxation as a RIC, we are typically not subject to a material level of federal income taxes. We distributed 100% of our spillover earnings, which consisted of ordinary income and long-term capital gains, from our taxable year ended December 31, 2016 to our stockholders during 2017.

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

Edgar Filing: Hercules Capital, Inc. - Form 497

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

S-54

Table of Contents

Index to Financial Statements

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

For the purpose of calculating diluted earnings per share for year ended December 31, 2015, the dilutive effect of the 2016 Convertible Notes under the treasury stock method is included in this calculation as our share price was greater than the conversion price in effect (\$11.03 as of December 31, 2015) for the 2016 Convertible Notes for such period. The 2016 Convertible Notes were fully settled on or before their contractual maturity date of April 15, 2016, as such, there is no potential additional dilutive effect for the year ended December 31, 2016.

Financial Condition, Liquidity, and Capital Resources

Our liquidity and capital resources are derived from our SBA debentures, 2022 Notes, 2024 Notes, 2021 Asset-Backed Notes, 2022 Convertible Notes, Credit Facilities and cash flows from operations, including investment sales and repayments, and income earned. Our primary use of funds from operations includes investments in portfolio companies and payments of fees and other operating expenses we incur. We have used, and expect to continue to use, our borrowings and the proceeds from the turnover of our portfolio and from public and private offerings of securities to finance our investment objectives. We may also raise additional equity or debt capital through registered offerings off a shelf registration, ATM and private offerings of securities, by securitizing a portion of our investments, or by borrowing from the SBA through our SBIC subsidiaries.

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

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

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

On August 27, 2015, our Board of Directors authorized a stock repurchase plan permitting us to repurchase up to \$50.0 million of our common stock until August 23, 2016, after which the plan expired. In January 2016, we repurchased 449,588 shares of our common stock at an average price per share of \$10.64 per share and a total cost of approximately \$4.8 million. We did not repurchase additional shares in subsequent months during 2016. During the year ended December 31, 2015, we repurchased 437,006 shares of our common stock at an average price per share of \$10.61 per share and a total cost of approximately \$4.6 million.

Table of Contents

Index to Financial Statements

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

On May 2, 2016, we closed an underwritten public offering of an additional \$72.9 million in aggregate principal amount of our 2024 Notes. The \$72.9 million in aggregate principal amount includes \$65.4 million from the initial offering on April 21, 2016 and \$7.5 million as a result of underwriters exercising a portion of their option to purchase up to an additional \$9.8 million in aggregate principal to cover overallocments on April 29, 2016. On June 27, 2016, we closed an underwritten public offering of an additional \$60.0 million in aggregate principal amount of the 2024 Notes. On June 30, 2016, the underwriters exercised their option to purchase up to an additional \$9.0 million in aggregate principal to cover overallocments, resulting in total aggregate principal of \$69.0 million from the offering. The 2024 Notes rank equally in right of payment and form a single series of notes.

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

On October 11, 2016, we entered into a debt distribution agreement, pursuant to which we may offer for sale, from time to time, up to \$150.0 million in aggregate principal amount of 2024 Notes through FBR Capital Markets & Co. acting as our sales agent. Sales of the 2024 Notes, if any, may be made in negotiated transactions or transactions that are deemed to be at the market offerings as defined in Rule 415 under the Securities Act, including sales made directly on the NYSE, or similar securities exchange or sales made through a market maker other than on an exchange at prices related to prevailing market prices or at negotiated prices.

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

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

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

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

Table of Contents

Index to Financial Statements

On November 23, 2017, we redeemed \$75.0 million of the \$258.5 million issued and outstanding aggregate principal amount of our 2024 Notes. On February 9, 2018, our Board of Directors approved a redemption of \$100.0 million of the remaining outstanding aggregate principal amount of the 2024 Notes, which were redeemed on April 2, 2018.

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

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

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

At December 31, 2017, we had approximately \$3.7 million of restricted cash, which consists of collections of interest and principal payments on assets that are securitized. In accordance with the terms of the related securitized 2021 Asset-Backed Notes, based on current characteristics of the securitized debt investment portfolio, the restricted funds may be used to pay monthly interest and principal on the securitized debt and are not distributed to us or available for our general operations.

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

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

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

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

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

As required by the 1940 Act, our asset coverage must be at least 200% (or 150%, subject to certain approval and disclosure requirements) after each issuance of senior securities. As of December 31, 2017, our asset

Table of Contents

Index to Financial Statements

coverage ratio under our regulatory requirements as a business development company was 236.7%, excluding our SBA debentures as a result of our exemptive order from the SEC that allows us to exclude all SBA leverage from our asset coverage ratio.

As a result of the SEC exemptive order, our ratio of total assets on a consolidated basis to outstanding indebtedness may be less than 200% (or 150%, subject to certain approval and disclosure requirements), which while providing increased investment flexibility, also may increase our exposure to risks associated with leverage. Total asset coverage when including our SBA debentures was 204.3% at December 31, 2017.

Outstanding Borrowings

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

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

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

(2) At both December 31, 2017 and December 31, 2016, the total available borrowings under the SBA debentures were \$190.2 million, of which \$41.2 million was available in HT II and \$149.0 million was available in HT III.

(3) The 2019 Notes were redeemed in full on February 24, 2017.

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

Debt issuance costs are fees and other direct incremental costs we incur in obtaining debt financing and are recognized as prepaid expenses and amortized over the life of the related debt instrument using the effective yield method or the straight line method, which closely approximates the effective yield method. In accordance with ASC Subtopic 835-30 (Interest Imputation of Interest), debt issuance costs are presented as a reduction to the associated liability balance on the Consolidated Statement of Assets and Liabilities, except for debt issuance costs associated with line-of-credit arrangements. Debt issuance costs, net of accumulated amortization, as of December 31, 2017 and December 31, 2016 were as follows:

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

Edgar Filing: Hercules Capital, Inc. - Form 497

Total	\$	13,107	\$	14,229
--------------	----	--------	----	--------

S-58

Table of Contents**Index to Financial Statements**

- (1) 2019 Notes were redeemed in full on February 24, 2017.
- (2) As the Wells Facility and Union Bank Facility are line-of-credit arrangements, the debt issuance costs associated with these instruments are presented separately as an asset on the Consolidated Statement of Assets and Liabilities in accordance with ASC Subtopic 835-30.

Commitments

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

At December 31, 2017, we had approximately \$73.6 million of unfunded commitments, including undrawn revolving facilities, which were available at the request of the portfolio company and unencumbered by milestones. We intend to use cash flow from normal and early principal repayments, and proceeds from borrowings and notes to fund these commitments.

We also had approximately \$122.0 million of non-binding term sheets outstanding to five new companies, which generally convert to contractual commitments within approximately 90 days of signing. Non-binding outstanding term sheets are subject to completion of our due diligence and final investment committee approval process, as well as the negotiation of definitive documentation with the prospective portfolio companies. Not all non-binding term sheets are expected to close and do not necessarily represent future cash requirements.

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

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

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

Table of Contents**Index to Financial Statements**

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

Contractual Obligations

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

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

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

(2) Includes \$190.2 million principal outstanding under the SBA debentures, \$150.0 million of the 2022 Notes, \$183.5 million of the 2024 Notes, \$49.2 million of the 2021 Asset-Backed Notes and \$230.0 million of the Convertible Notes as of December 31, 2017. There are no outstanding borrowings on the Wells Facility or Union Facility as of December 31, 2017.

(3) Amounts represent future principal repayments and not the carrying value of each liability. See Outstanding Borrowings in this prospectus supplement.

(4) Facility leases.

(5) Reflects announced redemption of a portion of the 2024 Notes in April 2018. See Subsequent Events in this prospectus supplement.

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

Indemnification Agreements

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

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

Borrowings*Long-Term SBA Debentures*

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

Table of Contents

Index to Financial Statements

HT II in 34 companies with a fair value of approximately \$90.3 million, accounting for approximately 5.8% of our total investment portfolio. HT II held approximately \$111.8 million in assets and accounted for approximately 5.4% of our total assets prior to consolidation at December 31, 2017.

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

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

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

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

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

Table of Contents**Index to Financial Statements**

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

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

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

Cash paid for interest expense	\$ 6,942	\$ 6,961	\$ 6,942
--------------------------------	----------	----------	----------

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

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

(in thousands)

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

(1) Interest rate includes annual charge

2019 Notes

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

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

Table of Contents**Index to Financial Statements**

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

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

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

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

2022 Notes

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

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

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

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

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

(in thousands)	December 31, 2017
Principal amount of debt	\$ 150,000

Edgar Filing: Hercules Capital, Inc. - Form 497

Unamortized debt issuance cost	(1,633)
Original issue discount, net of accretion	(795)
Carrying value of 2022 Notes	\$ 147,572

S-63

Table of Contents**Index to Financial Statements**

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

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

2024 Notes

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

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

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

On October 11, 2016, we entered into a debt distribution agreement, pursuant to which it may offer for sale, from time to time, up to \$150.0 million in aggregate principal amount of 2024 Notes through FBR Capital Markets & Co. acting as its sales agent (the 2024 Notes Agent). Sales of the 2024 Notes may be made in negotiated transactions or transactions that are deemed to be at the market offerings as defined in Rule 415 under the Securities Act, including sales made directly on the NYSE, or similar securities exchange or sales made through a market maker other than on an exchange at prices related to prevailing market prices or at negotiated prices.

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

On February 9, 2018, our Board of Directors approved a redemption of \$100.0 million of the remaining outstanding aggregate principal amount of the 2024 Notes, which were redeemed on April 2, 2018. Following the redemption on April 2, 2018, the outstanding principal balance of the 2024 Notes was \$83,509,600.

The 2024 Notes Agent receives a commission from us equal to up to 2.00% of the gross sales of any 2024 Notes sold through the 2024 Notes Agent under the debt distribution agreement. The 2024 Notes Agent is not required to sell any specific principal amount of 2024 Notes, but will use its commercially reasonable efforts consistent with its sales and trading practices to sell the 2024 Notes. The 2024 Notes are expected to trade flat, which means that purchasers in the secondary market will not pay, and sellers will not receive, any accrued and unpaid interest on the 2024 Notes that is not reflected in the trading price.

Table of Contents**Index to Financial Statements**

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

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

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

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

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

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

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

Table of Contents**Index to Financial Statements**

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

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

2021 Asset-Backed Notes

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

As part of this transaction, we entered into a sale and contribution agreement with the 2014 Trust Depositor under which we have agreed to sell or have contributed to the 2014 Trust Depositor the 2014 Loans. We have made customary representations, warranties and covenants in the sale and contribution agreement with respect to the 2014 Loans as of the date of their transfer to the 2014 Trust Depositor.

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

The 2014 Loans are serviced by us pursuant to a sale and servicing agreement, which contains customary representations, warranties and covenants. We perform certain servicing and administrative functions with respect to the 2014 Loans. We are entitled to receive a monthly fee from the 2014 Securitization Issuer for servicing the 2014 Loans. This servicing fee is equal to the product of one-twelfth (or in the case of the first payment date, a fraction equal to the number of days from and including October 5, 2014 through and including December 5, 2014 over 360) of 2.00% and the aggregate outstanding principal balance of the 2014 Loans plus collections on deposit in the 2014 Securitization Issuer's collections account, as of the first day of the related

Table of Contents**Index to Financial Statements**

collection period (the period from the 5th day of the immediately preceding calendar month through the 4th day of the calendar month in which a payment date occurs, and for the first payment date, the period from and including October 5, 2014, to the close of business on December 5, 2014). We also serve as administrator to the 2014 Securitization Issuer under an administration agreement, which includes customary representations, warranties and covenants.

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

For the years ended December 31, 2017, 2016 and 2015, the components of interest expense and related fees and cash paid for interest expense for the 2021 Asset-Backed Notes are as follows:

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

Cash paid for interest expense	\$ 3,036	\$ 4,396	\$ 4,557
--------------------------------	----------	----------	----------

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

Convertible Notes***2016 Convertible Notes***

In April 2011, we issued \$75.0 million in aggregate principal amount of 2016 Convertible Notes. The 2016 Convertible Notes were fully settled on or before their contractual maturity date of April 15, 2016.

Prior to the close of business on October 14, 2015, holders were able to convert their 2016 Convertible Notes only under certain circumstances set forth in the indenture governing the 2016 Convertible Notes. On or after October 15, 2015 until the close of business on the scheduled trading day immediately preceding the maturity date, holders were able to convert their 2016 Convertible Notes at any time. Throughout the life of the 2016 Convertible Notes, holders of approximately \$74.8 million of the 2016 Convertible Notes exercised their conversion rights. These 2016 Convertible Notes were settled with a combination of cash equal to the outstanding principal amount of the 2016 Convertible Notes and approximately 1.6 million shares of our common stock, or \$24.3 million.

The 2016 Convertible Notes were accounted for in accordance with ASC Subtopic 470-20 (Debt Instruments with Conversion and Other Options). In accounting for the 2016 Convertible Notes, we estimated at the time of issuance that the values of the debt and the embedded conversion feature of the 2016 Convertible Notes were approximately 92.8% and 7.2%, respectively. The original issue discount of 7.2% attributable to the conversion feature of the 2016 Convertible Notes was recorded in capital in excess of par value in the Consolidated Statement of Assets and Liabilities. As a result, we recorded interest expense comprised of both stated interest expense as well as accretion of the original issue discount resulting in an estimated effective interest rate of approximately 8.1%.

Table of Contents**Index to Financial Statements**

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

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

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

2022 Convertible Notes

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

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

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

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

We may not redeem the 2022 Convertible Notes at our option prior to maturity. No sinking fund is provided for the 2022 Convertible Notes. In addition, if certain corporate events occur, holders of the 2022 Convertible

Table of Contents**Index to Financial Statements**

Notes may require us to repurchase for cash all or part of their 2022 Convertible Notes at a repurchase price equal to 100% of the principal amount of the 2022 Convertible Notes to be repurchased, plus accrued and unpaid interest through, but excluding, the required repurchase date.

The 2022 Convertible Notes Indenture contains certain covenants, including covenants requiring us to comply with Section 18(a)(1)(A) of the 1940 Act as modified by Section 61(a)(1) of the 1940 Act and to provide financial information to the holders of the 2022 Convertible Notes and the 2022 Convertible Notes Trustee if we cease to be subject to the reporting requirements of the Exchange Act. These covenants are subject to important limitations and exceptions that are described in the 2022 Convertible Notes Indenture. We offered and sold the 2022 Convertible Notes to the initial purchaser in reliance on the exemption from registration provided by Section 4(a)(2) of the Securities Act, for resale by the initial purchaser to qualified institutional buyers (as defined in the Securities Act) pursuant to the exemption from registration provided by Rule 144A under the Securities Act. We relied on these exemptions from registration based in part on representations made by the initial purchaser in connection with the sale of the 2022 Convertible Notes.

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

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

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

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

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

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

Table of Contents

Index to Financial Statements

Credit Facilities

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

Wells Facility

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

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

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

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

As of December 31, 2017, the minimum tangible net worth covenant has increased to \$737.0 million as a result of the March 2015 follow-on public offering of 7.6 million shares of common stock for total gross proceeds of approximately \$100.4 million, the issuance of 7.3 million shares of common stock issued under the Prior Equity Distribution Agreement for gross proceeds of \$95.0 million during the year ended December 31, 2016 and the issuance of 4.9 million shares of common stock issued under the Prior Equity Distribution Agreement and the Equity Distribution Agreement for gross proceeds of \$67.9 million during the year ended December 31, 2017. See Note 6 Stockholder s Equity included in the notes to our consolidated financial statements appearing elsewhere in this prospectus supplement.

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

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

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

Table of Contents**Index to Financial Statements**

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

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

Union Bank Facility

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

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

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

We paid a one-time \$562,500 structuring fee in connection with the Union Bank Facility. The Union Bank Facility requires payment of a non-use fee during the revolving credit availability period on a scale of 0.25% to 0.50% depending on the average monthly outstanding balance under the facility relative to the maximum amount of commitments at such time. Although we did not incur any non-use fees under the Union Bank Facility prior to May 5, 2016, for the years ended December 31, 2017 and 2016, we incurred non-use fees under the Union Bank Facility and Prior Union Bank Facility of approximately \$380,000 and \$356,000, respectively.

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

As of December 31, 2017, the minimum tangible net worth covenant increased to \$783.9 million as a result of the March 2015 follow-on public offering of 7.6 million shares of common stock for total net proceeds of approximately \$100.1 million, the issuance of 7.3 million shares of common stock issued under the Prior Equity

Table of Contents**Index to Financial Statements**

Distribution Agreement for net proceeds of \$92.8 million during the year ended December 31, 2016, and the issuance of 4.9 million shares of common stock issued under the Prior Equity Distribution Agreement and the Equity Distribution Agreement for net proceeds of \$66.9 million during the year ended December 31, 2017. See Note 6 Stockholder's Equity included in the notes to our consolidated financial statements appearing elsewhere in this prospectus supplement.

The Union Bank Facility provides for customary events of default, including with respect to payment defaults, breach of representations and covenants, servicer defaults, certain key person provisions, cross default provisions to certain other debt, lien and judgment limitations, and bankruptcy.

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

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

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

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

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

Distributions

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

Date Declared	Record Date	Payment Date	Amount Per Share
Cumulative distributions declared and paid prior to January 1, 2016			\$ 11.23
February 17, 2016	March 7, 2016	March 14, 2016	0.31
April 27, 2016	May 16, 2016	May 23, 2016	0.31
July 27, 2016	August 15, 2016	August 22, 2016	0.31
October 24, 2016	November 14, 2016	November 21, 2016	0.31
February 16, 2017	March 6, 2017	March 13, 2017	0.31
April 26, 2017	May 15, 2017	May 22, 2017	0.31
July 26, 2017	August 14, 2017	August 21, 2017	0.31
October 25, 2017	November 13, 2017	November 20, 2017	0.31
February 14, 2018	March 5, 2018	March 12, 2018	0.31
			\$ 14.02

S-72

Table of Contents

Index to Financial Statements

On February 14, 2018, the Board of Directors declared a cash distribution of \$0.31 per share, which was paid on March 12, 2018 to stockholders of record as of March 5, 2018. This distribution represented our fiftieth consecutive distribution since our IPO, bringing the total cumulative distribution to date to \$14.02 per share.

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

Distributions from our taxable income (including gains) to a stockholder generally will be treated as a dividend for U.S. federal income tax purposes to the extent of such stockholder's allocable share of our current or accumulated earnings and profits. Distributions in excess of our current and accumulated earnings and profits would generally be treated first as a return of capital to the extent of a stockholder's tax basis in our shares, and any remaining distributions would be treated as a capital gain. The determination of the tax attributes of our distributions is made annually as of the end of our taxable year based upon our taxable income for the full taxable year and distributions paid for the full taxable year. As a result, any determination of the tax attributes of our distributions made on a quarterly basis may not be representative of the actual tax attributes of the Company's distributions for a full taxable year. Of the distributions declared during the fiscal years ended December 31, 2017, 2016, and 2015, 100% were distributions derived from our current and accumulated earnings and profits. There can be no certainty to stockholders that this determination is representative of the tax attributes of our 2018 distributions to stockholders.

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

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

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

Table of Contents

Index to Financial Statements

As a RIC, we will be subject to a 4% nondeductible U.S. federal excise tax on certain undistributed income and gains unless we make distributions treated as dividends for U.S. federal income tax purposes in a timely manner to our stockholders in respect of each calendar year of an amount generally at least equal to the sum of (1) 98% of our ordinary income for each calendar year, (2) 98.2% of our capital gain net income for the 1-year period ending October 31 in that calendar year and (3) any income realized, but not distributed, in the preceding year (the Excise Tax Avoidance Requirement). We will not be subject to this excise tax on any amount on which we incurred U.S. federal corporate income tax (such as the tax imposed on a RIC's retained net capital gains).

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

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

We intend to distribute 100% of our spillover earnings from ordinary income for the year ended December 31, 2017 to our stockholders during 2018.

Critical Accounting Policies

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

Revision of Previously Issued Financial Statements

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

Table of Contents

Index to Financial Statements

Valuation of Investments

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

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

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

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

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

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

Table of Contents**Index to Financial Statements**

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

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

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

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

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

Investments measured at fair value on a recurring basis are categorized in the tables below based upon the lowest level of significant input to the valuations as of December 31, 2017 and as of December 31, 2016. We transfer investments in and out of Level 1, 2 and 3 as of the beginning balance sheet date, based on changes in the use of observable and unobservable inputs utilized to perform the valuation for the period. During the year ended December 31, 2017, there were no transfers between Levels 1 or 2.

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

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

Table of Contents**Index to Financial Statements**

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

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

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

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

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

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

(4) Transfers out of Level 3 during the year ended December 31, 2016 relate to the exercise of warrants in TPI Composites, Inc. and Touchcommerce, Inc. to common stock in an initial public offering, or IPO, and acquisition, respectively; the exercise of warrants in Ping Identity Corporation to preferred stock; the conversion of debt to equity in Optiscan Biomedical Corp and Achilles Technology Management Co II, Inc. and the conversion of our preferred shares to common shares in SCIEnergy, Inc. Transfers into Level 3 during the year ended December 31, 2016 relate to the acquisition of preferred stock as a result of the exercise of warrants in Ping Identity Corporation, the conversion of debt to equity in Optiscan Biomedical Corp and Achilles Technology Management Co II, Inc. and the conversion of our preferred shares to common shares in SCIEnergy, Inc.

(5) Amounts listed above are inclusive of loan origination fees received at the inception of the loan which are deferred and amortized into fee income as well as the accretion of existing loan discounts and fees during the period. Escrow receivable purchases may include additions due to proceeds held in escrow from the liquidation of level 3 investments.

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

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

Edgar Filing: Hercules Capital, Inc. - Form 497

For the year ended December 31, 2016, approximately \$9.1 million and \$1.4 million in net unrealized depreciation was recorded for preferred stock and common stock Level 3 investments, respectively, relating to assets still held at the reporting date. For the same period, approximately \$25.7 million in net unrealized depreciation and \$2.8 million in net unrealized appreciation was recorded for debt and warrant Level 3 investments, respectively, relating to assets still held at the reporting date.

S-77

Table of Contents**Index to Financial Statements**

The following tables provide quantitative information about our Level 3 fair value measurements as of December 31, 2017 and December 31, 2016. In addition to the techniques and inputs noted in the tables below, according to our valuation policy we may also use other valuation techniques and methodologies when determining our fair value measurements. The tables below are not intended to be all-inclusive, but rather provide information on the significant Level 3 inputs as they relate to our fair value measurements.

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

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

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

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

Edgar Filing: Hercules Capital, Inc. - Form 497

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

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

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

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

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

S-78

Table of Contents

Index to Financial Statements

- (3) The significant unobservable input used in the fair value measurement of impaired debt securities is the probability weighting of alternative outcomes.
 (4) Imminent payoffs represent debt investments that we expect to be fully repaid within the next three months, prior to their scheduled maturity date.

Investment Type - Level	Fair Value at December 31, 2016 (in thousands)	Valuation Techniques/ Methodologies	Unobservable Input⁽¹⁾	Range	Weighted Average⁽²⁾
Three Debt Investments					
Pharmaceuticals	\$ 102,412	Originated Within 6 Months	Origination Yield	12.24% - 14.59%	13.64%
	434,718	Market Comparable Companies	Hypothetical Market Yield Premium/(Discount)	9.07% - 15.62% (0.25%) - 0.75%	12.44%
	2,693	Liquidation ⁽³⁾	Probability weighting of alternative outcomes	25.00% - 100.00%	
Technology	93,674	Originated Within 6 Months	Origination Yield	7.29% - 16.53%	13.69%
	325,553	Market Comparable Companies	Hypothetical Market Yield Premium/(Discount)	10.14% - 21.66% (0.50%) - 0.50%	12.69%
	24,706	Liquidation ⁽³⁾	Probability weighting of alternative outcomes	20.00% - 100.00%	
Sustainable and Renewable	99,286	Market Comparable Companies	Hypothetical Market Yield	11.77% - 16.84%	13.45%
Technology			Premium/(Discount)	0.00% - 0.25%	
	44,626	Liquidation ⁽³⁾	Probability weighting of alternative outcomes	10.00% - 40.00%	
Medical Devices	88,983	Market Comparable Companies	Hypothetical Market Yield Premium/(Discount)	10.25% - 18.60% (0.25%) - 0.75%	14.01%
Lower Middle Market	25,017	Market Comparable Companies	Hypothetical Market Yield Premium/(Discount)	8.85% - 15.79% 0.00% - 0.25%	10.10%
	13,148	Liquidation ⁽³⁾	Probability weighting of alternative outcomes	100.00%	
		<u>Debt Investments Where Fair Value Approximates Cost</u>			
	25,000	Imminent Payoffs ⁽⁴⁾			
	44,162	Debt Investments Maturing in Less than One Year			
	\$ 1,323,978	Total Level Three Debt Investments			

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

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

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

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

Edgar Filing: Hercules Capital, Inc. - Form 497

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

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

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

S-79

Table of Contents**Index to Financial Statements****Investment Type - Level**

Three Equity and	Fair Value at December 31, 2017 (in thousands)	Valuation Techniques/ Methodologies	Unobservable Input ⁽¹⁾	Range	Weighted Average ⁽⁶⁾
Warrant Investments					
Equity Investments	\$ 7,684	Market Comparable Companies	EBITDA Multiple ⁽²⁾	5.1x - 40.2x	13.2x
			Revenue Multiple ⁽²⁾	0.5x - 6.2x	2.9x
			Discount for Lack of Marketability ⁽³⁾	7.49% - 12.97%	8.77%
			Average Industry Volatility ⁽⁴⁾	27.8% - 77.3%	53.35%
			Risk-Free Interest Rate	1.40% - 1.90%	1.47%
			Estimated Time to Exit (in months)	3 - 10	5
	19,323	Market Adjusted OPM Backsolve	Market Equity Adjustment ⁽⁵⁾	(16.43%) - 29.4%	11.79%
			Average Industry Volatility ⁽⁴⁾	33.17% - 78.77%	68.99%
			Risk-Free Interest Rate	0.84% - 1.51%	1.42%
			Estimated Time to Exit (in months)	5 - 26	13
	39,529	Other ⁽⁷⁾			
Warrant Investments	19,310	Market Comparable Companies	EBITDA Multiple ⁽²⁾	5x - 40.2x	14.6x
			Revenue Multiple ⁽²⁾	0.5x - 6.4x	2.6x
			Discount for Lack of Marketability ⁽³⁾	5.16% - 27.41%	13.57%
			Average Industry Volatility ⁽⁴⁾	27.8% - 102.77%	55.15%
			Risk-Free Interest Rate	1.31% - 2.09%	1.66%
			Estimated Time to Exit (in months)	2 - 48	13
	6,713	Market Adjusted OPM Backsolve	Market Equity Adjustment ⁽⁵⁾	(68.52%) - 154.5%	11.76%
			Average Industry Volatility ⁽⁴⁾	33.17% - 110.32%	66.97%
			Risk-Free Interest Rate	0.96% - 2.09%	1.59%
			Estimated Time to Exit (in months)	5 - 48	20
	5,182	Other ⁽⁷⁾			
Total Level Three Warrant and Equity Investments	\$ 97,741				

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

Table of Contents**Index to Financial Statements**

Investment Type - Level Three Equity and Warrant Investments	Fair Value at December 31, 2016 (in thousands)	Valuation Techniques/ Methodologies	Unobservable Input ⁽¹⁾		Weighted Average ⁽⁵⁾		
			Range				
Equity Investments	\$ 9,258	Market Comparable Companies	EBITDA Multiple ⁽²⁾	0.0x - 38.7x	12.3x		
			Revenue Multiple ⁽²⁾	0.9x - 8.7x	3.1x		
			Discount for Lack of Marketability ⁽³⁾	13.75% - 25.97%	16.73%		
			Average Industry Volatility ⁽⁴⁾	45.54% - 113.16%	61.06%		
			Risk-Free Interest Rate	0.79% - 1.50%	0.91%		
			Estimated Time to Exit (in months)	10 - 38	15		
			19,836	Market Adjusted OPM Backsolve	Average Industry Volatility ⁽⁴⁾	29.93% - 109.95%	73.49%
					Risk-Free Interest Rate	0.65% - 1.44%	0.92%
					Estimated Time to Exit (in months)	10 - 34	15
			21,289	Other ⁽⁶⁾			
Warrant Investments	8,959	Market Comparable Companies	EBITDA Multiple ⁽²⁾	2.6x - 51.4x	13.8x		
			Revenue Multiple ⁽²⁾	0.4x - 6.1x	2.5x		
			Discount for Lack of Marketability ⁽³⁾	11.74% - 27.25%	19.02%		
			Average Industry Volatility ⁽⁴⁾	38.58% - 111.15%	62.03%		
			Risk-Free Interest Rate	0.68% - 1.68%	1.04%		
			Estimated Time to Exit (in months)	7 - 47	20		
			9,713	Market Adjusted OPM Backsolve	Average Industry Volatility ⁽⁴⁾	29.93% - 116.29%	67.20%
					Risk-Free Interest Rate	0.45% - 1.84%	0.99%
					Estimated Time to Exit (in months)	3 - 47	20
			5,574	Other ⁽⁶⁾			
Total Level Three Warrant and Equity Investments	\$ 74,629						

(1) The significant unobservable inputs used in the fair value measurement of our warrant and equity-related securities are revenue and/or EBITDA multiples and discounts for lack of marketability. Additional inputs used in the Black Scholes OPM include industry volatility, risk free interest rate and estimated time to exit. Significant increases (decreases) in the inputs in isolation may result in a significantly higher (lower) fair value measurement, depending on the materiality of the investment. For some investments, additional consideration may be given to data from the last round of financing or merger/acquisition events near the measurement date.

(2) Represents amounts used when we have determined that market participants would use such multiples when pricing the investments.

(3) Represents amounts used when we have determined market participants would take into account these discounts when pricing the investments.

(4) Represents the range of industry volatility used by market participants when pricing the investment.

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

(6) The fair market value of these investments is derived based on recent private market and merger and acquisition transaction prices.

Cash and Cash Equivalents

Cash and cash equivalents consists solely of funds deposited with financial institutions and short-term liquid investments in money market deposit accounts. Cash and cash equivalents are carried at cost, which approximates fair value.

Other Assets

Other Assets generally consists of prepaid expenses, deferred financing costs net of accumulated amortization, fixed assets net of accumulated depreciation, deferred revenues and deposits and other assets, including escrow receivable. The escrow receivable balance as of December 31, 2017 and December 31, 2016 was approximately \$752,000 and \$1.4 million, respectively, and was fair valued and held in accordance with ASC Topic 820.

Income Recognition

Edgar Filing: Hercules Capital, Inc. - Form 497

We record interest income on an accrual basis and recognize it as earned in accordance with the contractual terms of the loan agreement, to the extent that such amounts are expected to be collected. OID initially represents the value of

S-81

Table of Contents

Index to Financial Statements

detachable equity warrants obtained in conjunction with the acquisition of debt securities and is accreted into interest income over the term of the loan as a yield enhancement. When a loan becomes 90 days or more past due, or if management otherwise does not expect that principal, interest and other obligations due will be collected in full, we will generally place the loan on non-accrual status and cease recognizing interest income on that loan until all principal and interest due has been paid or we believe the portfolio company has demonstrated the ability to repay our current and future contractual obligations. Any uncollected interest related to prior periods is reversed from income in the period that collection of the interest receivable is determined to be doubtful. However, we may make exceptions to this policy if the investment has sufficient collateral and is in the process of collection.

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

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

We recognize nonrecurring fees amortized over the remaining term of the loan commencing in the quarter relating to specific loan modifications. Certain fees may still be recognized as one-time fee income, including prepayment penalties, fees related to select covenant default waiver fees and acceleration of previously deferred loan fees and OID related to early loan pay-off or material modification of the specific debt outstanding. In addition, we may also be entitled to an exit fee that is amortized into income over the life of the loan. Loan exit fees to be paid at the termination of the loan are accreted into interest income over the contractual life of the loan.

We have debt investments in our portfolio that contain a PIK provision. Contractual PIK interest, which represents contractually deferred interest added to the loan balance that is generally due at the end of the loan term, is generally recorded on the accrual basis to the extent such amounts are expected to be collected. We will generally cease accruing PIK interest if there is insufficient value to support the accrual or management does not expect the portfolio company to be able to pay all principal and interest due. We recorded approximately \$10.0 million and \$7.8 million in PIK income in the years ended December 31, 2017 and 2016, respectively.

To maintain the Company's ability to be subject to tax as a RIC, PIK and exit fee income generally must be accrued and distributed to stockholders in the form of dividends for U.S. federal income tax purposes even though the cash has not yet been collected. Amounts necessary to pay these distributions may come from available cash or the liquidation of certain investments.

In certain investment transactions, we may provide advisory services. For services that are separately identifiable and external evidence exists to substantiate fair value, income is recognized as earned, which is generally when the investment transaction closes. We had no income from advisory services in the years ended December 31, 2017 and December 31, 2016.

Table of Contents

Index to Financial Statements

Other Income (Loss)

Other Income (loss) generally consists of income or losses generated from sources other than our investment portfolio. There was no Other Income (loss) for the year ended December 31, 2017. For the year ended December 31, 2016 it consisted of litigation settlement proceeds and for the year ended December 31, 2015, it consisted of loss on extinguishment of debt. Other income (loss) is classified as a component of net investment income in our Consolidated Statement of Operations.

Stock Based Compensation

We have issued and may, from time to time, issue stock options and restricted stock to employees under our 2004 Equity Incentive Plan and to Board members under our 2006 Equity Incentive Plan prior to its expiration on June 21, 2017. We follow the guidelines set forth under ASC Topic 718, (Compensation Stock Compensation) to account for stock options granted. Under ASC Topic 718, compensation expense associated with stock based compensation is measured at the grant date based on the fair value of the award and is recognized over the vesting period. Determining the appropriate fair value model and calculating the fair value of stock-based awards at the grant date requires judgment, including estimating stock price volatility, forfeiture rate and expected option life.

On December 29, 2016, our Board of Directors approved a further amendment and restatement of the 2004 Equity Incentive Plan. The amended plan provides, in addition to the preexisting types of awards available for grant thereunder and among other things, (1) for the grant of restricted stock units; (2) for the deferral of the receipt of the shares of our common stock underlying vested restricted stock units; (3) that grantees may receive up to 10% of the value of the tentative restricted stock unit grants proposed for any grantee in the form of an option to acquire shares of our common stock; (4) that awards of restricted stock units may include performance vesting conditions; (5) that awards may require that all or a portion of the shares of our common stock delivered in respect of any vested restricted stock unit award be subject to a specified post-delivery holding period; and (6) that restricted stock unit awards may accrue dividend equivalents in respect of our common stock underlying any restricted stock unit award payable in the form of cash or additional shares of our common stock to the extent, and in respect of, any vested restricted stock units. As of December 31, 2017, we issued 600,461 restricted stock units and 54,674 dividend equivalent units based on the December 2016 amended terms.

Income Taxes

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

As a RIC, we will be subject to a 4% nondeductible U.S. federal excise tax on certain undistributed income unless we make distributions treated as dividends for U.S. federal income tax purposes in a timely manner to our stockholders in respect of each calendar year of an amount at least equal to the Excise Tax Avoidance Requirement. We will not be subject to this excise tax on any amount on which we incurred U.S. federal corporate income tax (such as the tax imposed on a RIC's retained net capital gains).

Depending on the level of taxable income earned in a taxable year, we may choose to carry over taxable income in excess of current taxable year distributions treated as dividends for U.S. federal income tax purposes from such taxable income into the next taxable year and incur a 4% excise tax on such taxable income, as required. The maximum amount of excess taxable income that may be carried over for distribution in the next

Table of Contents

Index to Financial Statements

taxable year under the Code is the total amount of distributions treated as dividends for U.S. federal income tax purposes paid in the following taxable year, subject to certain declaration and payment guidelines. To the extent we choose to carry over taxable income into the next taxable year, distributions declared and paid by us in a taxable year may differ from taxable income for that taxable year as such distributions may include the distribution of current taxable year taxable income, the distribution of prior taxable year taxable income carried over into and distributed in the current taxable year, or returns of capital.

We intend to distribute 100% of our spillover earnings from ordinary income for the taxable year ended December 31, 2017 to our stockholders during 2018. We distributed 100% of our spillover earnings, which consisted of ordinary income and long-term capital gains, from our taxable year ended December 31, 2016 to our stockholders during 2017.

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

Recent Accounting Pronouncements

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which, among other things, requires that (i) all equity investments, other than equity-method investments, in unconsolidated entities generally be measured at fair value through earnings and (ii) an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. Additionally, the ASU changes the disclosure requirements for financial instruments. ASU 2016-01 is effective for annual reporting periods, and the interim periods within those periods, beginning after December 15, 2017. We do not believe that ASU 2016-01 will have a material impact on our consolidated financial statements and disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which, among other things, requires recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. Additionally, the ASU requires the classification of all cash payments on leases within operating activities in the Consolidated Statement of Cash Flows. ASU 2016-02 is effective for annual reporting periods, and the interim periods within those periods, beginning after December 15, 2018. Early adoption is permitted. We anticipate an increase in the recognition of right-of-use assets and lease liabilities, however, we do not believe that ASU 2016-02 will have a material impact on our consolidated financial statements and disclosures.

In March 2016, the FASB issued ASU 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, which, among other things, simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for annual reporting periods, and the interim periods within those periods, beginning after December 15, 2016. We have adopted this standard for the year ended December 31, 2017 and determined that the adoption did not have a material impact on our consolidated financial statements and disclosures.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which addresses eight specific cash flow issues including, among

Table of Contents

Index to Financial Statements

other things, the classification of debt prepayment or debt extinguishment costs. ASU 2016-15 is effective for annual reporting periods, and the interim periods within those periods, beginning after December 15, 2017. We do not believe that ASU 2016-15 will have a material impact on our consolidated financial statements and disclosures.

In October 2016, the SEC adopted new rules and forms and amended other rules to enhance the reporting and disclosure of information by registered investment companies. As part of these changes, the SEC amended Regulation S-X to standardize and enhance disclosures in investment company financial statements. Implementation of the new or amended rules is required for reporting periods ending after August 1, 2017. We have reviewed the requirements and adopted the amendments to Regulation S-X on our consolidated financial statements and related disclosures for the periods presented.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230), which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The new guidance is effective for interim and annual periods beginning after December 15, 2017. The amendment should be adopted retrospectively. We do not believe that ASU 2016-18 will have a material impact on our consolidated financial statements and disclosures.

Subsequent Events

Distribution Declaration

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

Restricted Stock Unit Grants

In January 2018, we granted 746,684 restricted stock units pursuant to the amended 2004 Plan.

ATM Equity Program Issuances

Subsequent to December 31, 2017 and as of April 19, 2018, we sold 1,112,600 shares of common stock for total accumulated net proceeds of approximately \$13.8 million, including \$125,700 of offering expenses, under the Equity Distribution Agreement. As of April 19, 2018 approximately 9.3 million shares remain available for issuance and sale under the Equity Distribution Agreement.

Redemption of 2024 Notes

On February 9, 2018, our Board of Directors approved a redemption of \$100.0 million of our outstanding aggregate principal amount of the 2024 Notes, which were redeemed on April 2, 2018.

Portfolio Company Developments

As of April 19, 2018, we held warrants or equity positions in four companies that have filed registration statements on Form S-1 with the SEC in contemplation of potential initial public offerings. Three companies filed confidentially under the JOBS Act and one company filed a Form S-1 Registration with the SEC. There can be no assurance that these companies will complete their initial public offerings in a timely manner or at all.

Table of Contents**Index to Financial Statements**

In addition, subsequent to December 31, 2017, our portfolio companies announced or completed the following liquidity events:

1. In September 2017, our portfolio company Inotek Pharmaceuticals Corporation announced they had entered into a definitive merger agreement with Rocket Pharmaceuticals Ltd. The deal was completed on January 4, 2018. The combined company will be named Rocket Pharmaceuticals, Inc. and is now listed on the NASDAQ Global Market under the symbol RCKT and began trading on January 5, 2018.
2. In October 2017, our portfolio company Neothetics, Inc. announced they have entered into a definitive agreement under which privately-held Evofem Biosciences will merge with a wholly-owned subsidiary of Neothetics in an all-stock transaction. In January 2018, Evofem Biosciences completed the reverse merger acquisition of Neothetics and its stock began trading on the NASDAQ Capital Market under the ticker symbol EVFM.
3. In March 2018, our portfolio company IntegenX Inc., the market leader of rapid human DNA identification technology for use in forensics and law enforcement applications, announced that they have been acquired by Thermo Fisher Scientific Inc., the world leader in serving science. Terms of the transaction were not disclosed.

Quantitative and Qualitative Disclosure About Market Risk

We are subject to financial market risks, including changes in interest rates. Interest rate risk is defined as the sensitivity of our current and future earnings to interest rate volatility, variability of spread relationships, the difference in re-pricing intervals between our assets and liabilities and the effect that interest rates may have on our cash flows. Changes in interest rates may affect both our cost of funding and our interest income from portfolio investments, cash and cash equivalents and idle fund investments. Our investment income will be affected by changes in various interest rates, including LIBOR and Prime rates, to the extent our debt investments include variable interest rates. As of December 31, 2017, approximately 96.4% of the loans in our portfolio had variable rates based on floating Prime or LIBOR rates with a floor. Changes in interest rates can also affect, among other things, our ability to acquire and originate loans and securities and the value of our investment portfolio.

Based on our Consolidated Statement of Assets and Liabilities as of December 31, 2017, the following table shows the approximate annualized increase (decrease) in components of net assets resulting from operations of hypothetical base rate changes in interest rates, assuming no changes in our investments and borrowings.

(in thousands)

Basis Point Change	Interest Income	Interest Expense	Net Income	EPS(1)
25	\$ 3,152	\$	\$ 3,152	\$ 0.04
50	\$ 6,368	\$	\$ 6,368	\$ 0.08
75	\$ 9,605	\$	\$ 9,605	\$ 0.11
100	\$ 12,937	\$	\$ 12,937	\$ 0.15
200	\$ 26,683	\$	\$ 26,683	\$ 0.32
300	\$ 40,322	\$	\$ 0.48	

(1) Earnings per share impact calculated based on basic weighted average shares outstanding of 82,519.

We do not currently engage in any hedging activities. However, we may, in the future, hedge against interest rate fluctuations (and foreign currency) by using standard hedging instruments such as futures, options, and forward contracts. While hedging activities may insulate us against changes in interest rates (and foreign currency), they may also limit our ability to participate in the benefits of lower interest rates with respect to our borrowed funds and higher interest rates with respect to our portfolio of investments. During the year ended December 31, 2017, we did not engage in interest rate (or foreign currency) hedging activities.

Table of Contents

Index to Financial Statements

Although we believe that the foregoing analysis is indicative of our sensitivity to interest rate changes, it does not adjust for potential changes in the credit market, credit quality, size and composition of the assets in our portfolio. It also does not adjust for other business developments, including borrowings under our SBA debentures, 2022 Notes, 2024 Notes, 2021 Asset-Backed Notes, 2022 Convertible Notes, and Credit Facilities, that could affect the net increase in net assets resulting from operations, or net income. It also does not assume any repayments from borrowers. Accordingly, no assurances can be given that actual results would not differ materially from the statement above.

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

For additional information regarding the interest rate associated with each of our SBA debentures, 2022 Notes, 2024 Notes, 2021 Asset-Backed Notes, 2022 Convertible Notes, and Credit Facilities, please refer to Management's Discussion and Analysis of Financial Condition and Results of Operations Financial Condition, Liquidity and Capital Resources Outstanding Borrowings in this prospectus supplement.

Disclosure Controls and Procedures

The Company's chief executive and chief financial officers, under the supervision and with the participation of the Company's management, conducted an evaluation of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. As of the end of the period covered by this prospectus supplement, the Company's chief executive and chief financial officers have concluded that the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in reports that the Company files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and that information required to be disclosed by the Company in the reports that the Company files or submits under the Exchange Act is accumulated and communicated to the Company's management, including the Company's chief executive and chief financial officers, as appropriate to allow timely decisions regarding required disclosure.

Internal Control Over Financial Reporting

Management's Annual Report on Internal Control over Financial Reporting

The Company is responsible for establishing and maintaining adequate internal control over financial reporting and for the assessment of the effectiveness of internal control over financial reporting. As defined by the SEC, internal control over financial reporting is a process designed under the supervision of the Company's principal executive and principal financial and accounting officer, approved and monitored by the Company's Board of Directors, and implemented by management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP.

The Company's internal control over financial reporting is supported by written policies and procedures, that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company's assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of the Company's management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Table of Contents

Index to Financial Statements

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management of the Company conducted an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2017 based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO Framework). Based on this assessment, management has concluded that the Company's internal control over financial reporting was effective as of December 31, 2017.

Report of the Independent Registered Public Accounting Firm

The effectiveness of the Company's internal control over financial reporting as of December 31, 2017 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm who also audited the Company's consolidated financial statements, as stated in their report, which is included in this prospectus supplement.

Changes in Internal Control over Financial Reporting in 2017

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

Table of Contents

Index to Financial Statements

MANAGEMENT

On October 25, 2017, the Board of Directors appointed Jorge Titinger and Brad Koenig as directors of the Company. Mr. Titinger's appointment became effective at the time of the 2017 Annual Meeting of Stockholders (the Annual Meeting) and he filled the position vacated by Susanne Lyons who stepped down at the Annual Meeting. His appointment was ratified at the Annual Meeting as a Class I director for a term expiring in 2020. At the time Mr. Titinger joined the Board of Directors, he was appointed to the Compensation Committee and serves as chairman of such committee. Mr. Koenig's Board appointment was effective immediately and he holds office as a Class II director for a term expiring in 2018. He serves on the Audit Committee and Nominating and Corporate Governance Committee. Each of Mr. Titinger, age 56, and Mr. Koenig, age 59, is an independent director within the meaning of Section 303.A2 of the NYSE Listed Company Manual and Section 2(a)(19) of the 1940 Act.

Mr. Koenig brings more than 20 years of technology investment banking experience. Currently, he serves as Founder and CEO of FoodyDirect.com, an online specialty food marketplace. From 2008 to 2011, he was an Advisor at Oak Hill Capital Management, a private equity firm. Previously, Mr. Koenig was at Goldman Sachs as the Head of Global Technology Investment Banking from 1990 to 2005, and the Co-Head of Global Technology, Media and Telecommunications from 2002 to 2005. He started at Goldman Sachs in 1984. Mr. Koenig currently serves as an Independent Director for Theragenics Corporation, a medical device company serving the surgical products and prostate cancer treatment markets, and for NGP/VAN Software, the leading technology provider to political campaigns and non-profit organizations.

Mr. Titinger brings more than 30 years of entrepreneurial and executive experience at privately held technology and semiconductor companies, and will serve on the Company's Compensation Committee as chairman. He currently serves as Principal and Founder of Titinger Consulting, a private consulting and advisory service provider focusing on strategy development and execution, board governance, operational transformations and culture changes. From 2012 to 2016, he was President and Chief Executive Officer of Silicon Graphics, a leader in high performance computing. Previously, Mr. Titinger was president and chief executive officer of Verigy, Inc., a provider of advanced automated test systems to the semiconductor industry. Mr. Titinger is a seasoned industry veteran having served in multiple senior executive roles at FormFactor, Inc., KLA-Tencor Corporation, Applied Materials, InSync Systems, Inc., NeTpower, Inc., MIPS Computer Systems/Silicon Graphics, Inc. and Hewlett-Packard Company. Mr. Titinger currently serves as an Independent Director for Xcerra, a provider of products and services to the semiconductor and electronics manufacturing industry, CalAmp, a pure-play pioneer in the connected vehicle and IoT marketplace and Transtech Glass Investment Ltd., a specialty glass company for the transportation market.

On October 27, 2017, the Company and Mark Harris mutually agreed that Mr. Harris would separate from the Company and end his tenure as Chief Financial Officer and Chief Accounting Officer effective November 2, 2017. Mr. Harris' separation did not result from any disagreements with the Company regarding its operations, policies, practices or any issues regarding financial disclosures, accounting or legal matters.

Effective October 31, 2017, the Board of Directors appointed David Lund, the Company's former Chief Financial Officer, as the Company's Interim Chief Financial Officer and Gerard R. Waldt, Jr., the Company's current Controller, as the Company's Interim Chief Accounting Officer.

Mr. Lund, age 64, has served as Chief Financial Officer and Consultant of White Oak Global Advisors LLC from 2011-2016 where he was Chairman of the Valuation Committee, responsible for financial and tax reporting for various partnerships, managed the audit process for multiple investment vehicles, and involved in fund structuring and operational initiatives. Since 2016, Mr. Lund has been a Partner at Ravix Group Inc., a provider of outsourced accounting, financial consulting, and financial management services.

Mr. Waldt, age 33, joined the Company in 2016 as Assistant Controller and in 2017 became Corporate Controller. He is responsible for the Company's financial and regulatory reporting, financial planning and

Table of Contents

Index to Financial Statements

analysis, and financial systems design and implementation. Prior to joining the Company, Mr. Waldt served as a Senior Manager in the Financial Services practice of Ernst & Young from 2009 2016 where he developed extensive experience providing audit and advisory services to both publicly-traded and private institutions.

Information Related to this Offering

Solely as a result of their ownership of common stock in one of the underwriters in this offering, two of our independent directors, Doreen Woo Ho and Robert P. Badavas, will each be considered an interested person of Hercules Capital, Inc. as defined in the 1940 Act until the completion of this offering.

S-90

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

We are offering the Notes described in this prospectus supplement and the accompanying prospectus through a number of underwriters. Keefe, Bruyette & Woods, Inc., Morgan Stanley & Co. LLC and Wells Fargo Securities, LLC are acting as representatives of the underwriters. We have entered into an underwriting agreement with the underwriters. Subject to the terms and conditions of the underwriting agreement, we have agreed to sell to the underwriters, and each underwriter has severally and not jointly agreed to purchase from us, the aggregate principal amount of Notes listed next to its name in the following table:

Underwriter	Principal Amount
Keefe, Bruyette & Woods, Inc.	\$ 20,000,000
Morgan Stanley & Co. LLC	\$ 20,000,000
Wells Fargo Securities, LLC	\$ 20,000,000
Janney Montgomery Scott LLC	\$ 7,500,000
B. Riley FBR, Inc.	\$ 2,500,000
Compass Point Research & Trading, LLC	\$ 2,500,000
MUFG Securities Americas Inc.	\$ 2,500,000
Total	\$ 75,000,000

Subject to the terms and conditions set forth in the underwriting agreement, the underwriters have agreed, severally and not jointly, to purchase all of the Notes sold under the underwriting agreement if any of these Notes are purchased. If an underwriter defaults, the underwriting agreement provides that the purchase commitments of the nondefaulting underwriters may be increased or the underwriting agreement may be terminated.

We have agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the underwriters may be required to make in respect of those liabilities.

The underwriters are offering the Notes, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, and other conditions contained in the underwriting agreement, such as the receipt by the underwriters of officer's certificates and legal opinions. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

Commissions and Discounts

An underwriting discount of 2.693% per Note will be paid by us. The underwriting discount will also apply to any Notes purchased pursuant to the overallotment option.

The following table shows the total underwriting discounts and commissions that we are to pay to the underwriters in connection with this offering. The information assumes either no exercise or full exercise by the underwriters of their overallotment option.

	Per Note	Without Option	With Option
Public offering price	\$ 25.0000	\$ 75,000,000	\$ 86,250,000
Underwriting discount ⁽¹⁾	\$ 0.6733	\$ 2,020,000	\$ 2,357,500
Proceeds, before expenses, to us ⁽²⁾	\$ 24.3267	\$ 72,980,000	\$ 83,892,500

(1) Reflects an underwriting discount of \$0.7500 per Note sold to retail investors and \$0.2500 per Note sold to institutional investors, for which the underwriters received a weighted average underwriting discount of \$0.6733 per Note.

(2) Before deducting expenses payable by us related to this offering, estimated at \$250,000.

Edgar Filing: Hercules Capital, Inc. - Form 497

The underwriters propose to offer some of the Notes to the public at the public offering price set forth on the cover page of this prospectus supplement and some of the Notes to certain other Financial Industry Regulatory

S-91

Table of Contents

Index to Financial Statements

Authority (FINRA) members at the public offering price less a concession not in excess of \$0.50 per Note sold to retail investors and \$0.15 per Note sold to institutional investors. The underwriters may allow, and the dealers may reallow, a discount not in excess of 1.20% of the aggregate principal amount of the Notes. After the initial offering of the Notes to the public, the public offering price and such concessions may be changed. No such change shall change the amount of proceeds to be received by us as set forth on the cover page of this prospectus supplement.

The expenses of the offering, including up to \$10,000 in reimbursement of underwriters' counsel fee, but not including the underwriting discount, are estimated at \$250,000 and are payable by us.

Over allotment Option

We have granted an option to the underwriters to purchase up to an additional \$11,250,000 aggregate principal amount of the Notes offered hereby at the public offering price within 30 days from the date of this prospectus supplement solely to cover any over allotments. If the underwriters exercise this option, each will be obligated, subject to conditions contained in the underwriting agreement, to purchase a number of additional Notes proportionate to that underwriter's initial principal amount reflected in the above table.

No Sales of Similar Securities

We have agreed not to directly or indirectly sell, offer to sell, enter into any agreement to sell, or otherwise dispose of, any debt securities issued by the Company which are substantially similar to the Notes or securities convertible into such debt securities which are substantially similar to the Notes for a period of 30 days after the date of this prospectus supplement without first obtaining the written consent of the representatives. This consent may be given at any time without public notice.

Listing

The Notes are a new issue of securities with no established trading market. We intend to apply to list the Notes on the NYSE. We expect trading in the Notes on the NYSE to begin within 30 days after the original issue date under the symbol HXCZ. Currently there is no public market for the Notes.

We have been advised by certain of the underwriters that certain of the underwriters presently intend to make a market in the Notes after completion of this offering as permitted by applicable laws and regulations. Such underwriters are not obligated, however, to make a market in the Notes and any such market-making may be discontinued at any time in the sole discretion of such underwriters without any notice. Accordingly, no assurance can be given that an active and liquid public trading market for the Notes will develop or be maintained. If an active public trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely affected.

Price Stabilization, Short Positions

In connection with the offering, the underwriters may purchase and sell Notes in the open market. These transactions may include covering transactions and stabilizing transactions. Over allotment involves sales of securities in excess of the aggregate principal amount of securities to be purchased by the underwriters in the offering, which creates a short position for the underwriters. Covering transactions involve purchases of the securities in the open market after the distribution has been completed in order to cover short positions. Stabilizing transactions consist of certain bids or purchases of securities made for the purpose of preventing or retarding a decline in the market price of the securities while the offering is in progress.

The underwriters also may impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased Notes sold by or for the account of such underwriter in stabilizing or short covering transactions.

Table of Contents

Index to Financial Statements

Any of these activities may cause the price of the Notes to be higher than the price that otherwise would exist in the open market in the absence of such transactions. These transactions may be affected in the over-the-counter market or otherwise and, if commenced, may be discontinued at any time without any notice relating thereto.

Electronic Offer, Sale and Distribution of Notes

The underwriters may make prospectuses available in electronic (PDF) format. A prospectus in electronic (PDF) format may be made available on a web site maintained by the underwriters, and the underwriters may distribute such prospectuses electronically. The underwriters may allocate a limited principal amount of the Notes for sale to their online brokerage customers.

Other Relationships

The underwriters and their affiliates have provided in the past and may provide from time to time in the future in the ordinary course of their business certain commercial banking, financial advisory, investment banking and other services to Hercules or our portfolio companies for which they have received or will be entitled to receive separate fees. In particular, the underwriters or their affiliates may execute transactions with Hercules or on behalf of Hercules or any of our portfolio companies.

The underwriters or their affiliates may also trade in our securities, securities of our portfolio companies or other financial instruments related thereto for their own accounts or for the account of others and may extend loans or financing directly or through derivative transactions to us or any of our portfolio companies.

We may purchase securities of third parties from the underwriters or their affiliates after the offering. However, we have not entered into any agreement or arrangement regarding the acquisition of any such securities, and we may not purchase any such securities. We would only purchase any such securities if among other things we identified securities that satisfied our investment needs and completed our due diligence review of such securities.

After the date of this prospectus supplement, the underwriters and their affiliates may from time to time obtain information regarding specific portfolio companies or us that may not be available to the general public. Any such information is obtained by the underwriters and their affiliates in the ordinary course of its business and not in connection with the offering of the Notes. In addition, after the offering period for the sale of the Notes, the underwriters or their affiliates may develop analyses or opinions related to Hercules or our portfolio companies and buy or sell interests in one or more of our portfolio companies on behalf of their proprietary or client accounts and may engage in competitive activities. There is no obligation on behalf of these parties to disclose their respective analyses, opinions or purchase and sale activities regarding any portfolio company or regarding us to our noteholders or any other persons.

In the ordinary course of their various business activities, the underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. Certain of the underwriters and their affiliates that have a lending relationship with us routinely hedge their credit exposure to us consistent with their customary risk management policies. Typically, such underwriters and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities, including potentially the Notes offered hereby. Any such short positions could adversely affect future trading prices of the Notes offered hereby. The underwriters and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Table of Contents

Index to Financial Statements

The principal business address of Keefe, Bruyette & Woods, Inc. is 787 7th Avenue, Fifth Floor, New York, New York 10019. The principal business address of Morgan Stanley & Co. LLC is 1585 Broadway, New York, New York 10036. The principal business address of Wells Fargo Securities, LLC is 550 South Tryon Street, Charlotte, North Carolina 28202.

Other Jurisdictions

Other than in the United States, no action has been taken by us or the underwriters that would permit a public offering of the Notes offered by this prospectus supplement in any jurisdiction where action for that purpose is required. The Notes offered by this prospectus supplement may not be offered or sold, directly or indirectly, nor may this prospectus supplement or any other offering material or advertisements in connection with the offer and sale of any such Notes be distributed or published in any jurisdiction, except under circumstances that will result in compliance with the applicable rules and regulations of that jurisdiction. Persons into whose possession this prospectus supplement comes are advised to inform themselves about and to observe any restriction relating to the offering and the distribution of this prospectus supplement. This prospectus supplement and the accompanying prospectus do not constitute an offer to sell or a solicitation of an offer to buy the Notes offered by this prospectus supplement and the accompanying prospectus in any jurisdiction in which such an offer or a solicitation is unlawful.

Alternative Settlement Cycle

We expect that delivery of the Notes will be made to investors on or about April 26, 2018, which will be the third business day following the date hereof. Under Rule 15c6-1 under the Exchange Act, trades in the secondary market are required to settle in two business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes prior to the delivery of the Notes hereunder will be required, by virtue of the fact that the Notes initially settle in T+3, to specify an alternate settlement arrangement at the time of any such trade to prevent a failed settlement. Purchasers of the Notes who wish to trade the Notes prior to their date of delivery should consult their advisors.

Table of Contents

Index to Financial Statements

CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

The following discussion is a general summary of the material U.S. federal income tax considerations (and, in the case of a non-U.S. holder (as defined below), the material U.S. federal estate tax consequences) applicable to an investment in the Notes. This summary deals only with Notes that are purchased for cash in this offering for a price equal to the issue price of the Notes (*i.e.*, the first price at which a substantial amount of the notes is sold for money to investors, other than to bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). This summary does not purport to be a complete description of the income and estate tax considerations applicable to such an investment. The discussion is based upon the Code, Treasury Regulations, and administrative and judicial interpretations, each as of the date of this prospectus supplement and all of which are subject to change, potentially with retroactive effect. No assurance can be given that the U.S. Internal Revenue Service (IRS) would not assert, or that a court would not sustain, a position contrary to any of the tax aspects set forth below. You should consult your own tax advisor with respect to tax considerations that pertain to your purchase of our Notes.

This discussion deals only with Notes held as capital assets within the meaning of Section 1221 of the Code (generally, property held for investment purposes) and does not purport to deal with persons in special tax situations, such as financial institutions, insurance companies, regulated investment companies, dealers in securities or currencies, traders in securities, former citizens of the United States, persons holding the Notes as a hedge against currency risks or as a position in a straddle, hedge, constructive sale transaction or conversion transaction for tax purposes, entities that are tax-exempt for U.S. federal income tax purposes, retirement plans, individual retirement accounts, tax-deferred accounts, persons subject to the alternative minimum tax, pass-through entities (including partnerships and entities and arrangements classified as partnerships for U.S. federal income tax purposes) and beneficial owners of pass-through entities, accrual method taxpayers for U.S. federal income tax purposes required to accelerate the recognition of any item of gross income with respect to the Notes as a result of such income being recognized on an applicable financial statement, or U.S. holders (as defined below) whose functional currency is not the U.S. dollar. In addition, this discussion does not deal with any tax consequences other than U.S. federal income tax consequences (and, in the case of a non-U.S. holder, U.S. federal estate tax consequences). If you are considering purchasing the Notes, you should consult your own tax advisor concerning the application of the U.S. federal income and estate tax laws to you in light of your particular situation, as well as any consequences to you of purchasing, owning and disposing of the Notes under the laws of any other taxing jurisdiction.

For purposes of this discussion, the term U.S. holder means a beneficial owner of a Note that is, for U.S. federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation or other entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States or of any state thereof or the District of Columbia, (iii) a trust (a) subject to the control of one or more U.S. persons and the primary supervision of a court in the United States, or (b) that existed on August 20, 1996 and has made a valid election (under applicable Treasury Regulations) to be treated as a domestic trust, or (iv) an estate the income of which is subject to U.S. federal income taxation regardless of its source. The term non-U.S. holder means a beneficial owner of a Note that is neither a U.S. holder nor a partnership (including an entity or arrangement treated as a partnership for U.S. federal income tax purposes).

If a partnership (including an entity or arrangement treated as a partnership for U.S. federal income tax purposes) holds any Notes, the U.S. federal income tax treatment of a partner of the partnership generally will depend upon the status of the partner, the activities of the partnership and certain determinations made at the partner level. Partnerships holding Notes, and the persons holding interests in such partnerships, should consult their own tax advisors as to the consequences of investing in the Notes in their individual circumstances.

Table of Contents**Index to Financial Statements****Taxation of Note Holders*****Taxation of U.S. Holders.***

Payments or accruals of interest on a Note generally will be taxable to a U.S. holder as ordinary interest income at the time they are received (actually or constructively) or accrued, in accordance with the U.S. holder's regular method of tax accounting.

Upon the sale, exchange, redemption, retirement or other taxable disposition of a Note, a U.S. holder generally will recognize capital gain or loss equal to the difference between the amount realized on the sale, exchange, redemption, retirement or other taxable disposition (excluding amounts representing accrued and unpaid interest, which are treated as ordinary income to the extent not previously included in income) and the U.S. holder's adjusted tax basis in the Note. A U.S. holder's adjusted tax basis in a Note generally will equal the U.S. holder's initial investment in the Note. Capital gain or loss generally will be long-term capital gain or loss if the U.S. holder's holding period in the Note was more than one year. Long-term capital gains generally are taxed at reduced rates for individuals and certain other non-corporate U.S. holders. The distinction between capital gain and loss and ordinary income and loss also is important for purposes of, among other things, the limitations imposed on a U.S. holder's ability to offset capital losses against ordinary income.

Under applicable Treasury Regulations, if a U.S. holder recognizes a loss with respect to the Notes or shares of our common stock of \$2 million or more for a non-corporate U.S. holder or \$10 million or more for a corporate U.S. holder in any single taxable year (or a greater loss over a combination of taxable years), the U.S. holder may be required to file with the IRS a disclosure statement on IRS Form 8886. Direct U.S. holders of portfolio securities are in many cases excepted from this reporting requirement, but, under current guidance, U.S. holders of a RIC are not excepted. Future guidance may extend the current exception from this reporting requirement to U.S. holders of most or all RICs. The fact that a loss is reportable under these regulations does not affect the legal determination of whether the taxpayer's treatment of the loss is proper. Significant monetary penalties apply to a failure to comply with this reporting requirement. States may also have a similar reporting requirement. U.S. holders of the Notes or our common stock should consult their own tax advisors to determine the applicability of these Treasury Regulations in light of their individual circumstances.

Taxation of Non-U.S. Holders. Except as provided below under **Information Reporting and Backup Withholding** and **FATCA**, a non-U.S. holder generally will not be subject to U.S. federal income or withholding taxes on payments of principal or interest on a Note provided that (i) income on the Note is not effectively connected with the conduct by the non-U.S. holder of a trade or business within the United States, (ii) the non-U.S. holder is not a controlled foreign corporation related to the Company through stock ownership, (iii) the non-U.S. holder is not a bank receiving interest described in Section 881(c)(3)(A) of the Code, (iv) the non-U.S. holder does not own (directly or indirectly, actually or constructively) 10% or more of the total combined voting power of all classes of stock of the Company, and (v) the non-U.S. holder provides a valid certification on an IRS Form W-8BEN, Form W-8BEN-E, or other applicable U.S. nonresident withholding tax certification form, certifying its non-U.S. holder status to (A) the applicable withholding agent, or (B) a securities clearing organization, bank, or other financial institution that holds customer securities in the ordinary course of its trade or business (i.e., a financial institution) and holds the Note on the non-U.S. holder's behalf and certifies to the applicable withholding agent (directly or through one or more similarly situated financial institutions) that it has received the required statement from the non-U.S. holder certifying that it is a non-U.S. person and furnishes the applicable withholding agent with a copy of the statement.

A non-U.S. holder that is not exempt from tax under these rules generally will be subject to U.S. federal income tax withholding on payments of interest on the Notes at a rate of 30% unless (i) the income is effectively connected with the conduct of a U.S. trade or business, so long as the non-U.S. holder has provided the applicable withholding agent with an IRS Form W-8ECI or substantially similar substitute U.S. nonresident withholding tax certification form stating that the interest on the Notes is effectively connected with the non-U.S. holder's conduct of a trade or business in the U.S. in which case the interest will be subject to U.S. federal income tax on a net income basis as applicable to U.S. holders generally (unless an applicable income tax treaty

Table of Contents

Index to Financial Statements

provides otherwise), or (ii) an applicable income tax treaty or provision in the Code provides for a lower rate of, or exemption from, withholding tax, so long as the non-U.S. holder has provided the applicable withhold agent with an IRS Form W-8BEN or Form W-8BEN-E (or other applicable U.S. nonresident withholding tax certification form) signed under penalties of perjury, claiming such lower rate of, or exemption from, withholding tax under such income tax treaty. To claim the benefit of an income tax treaty or to claim exemption from withholding because income is effectively connected with a U.S. trade or business, the non-U.S. holder must timely provide the appropriate, properly executed IRS forms. These forms may be required to be updated periodically. Additionally, a non-U.S. holder who is claiming the benefits of an income tax treaty may be required to obtain a U.S. taxpayer identification number and provide certain documentary evidence issued by a non-U.S. governmental authority in order to prove residence in a foreign country.

In the case of a non-U.S. holder that is a corporation and that receives income that is effectively connected with the conduct of a U.S. trade or business, such income may also be subject to a branch profits tax (which is generally imposed on a non-U.S. corporation on the actual or deemed repatriation from the United States of earnings and profits attributable to a U.S. trade or business) at a 30% rate. The branch profits tax may not apply (or may apply at a reduced rate) if the non-U.S. holder is a qualified resident of a country with which the United States has an income tax treaty. To claim an exemption from withholding because interest on the Notes is effectively connected with a United States trade or business, a non-U.S. holder must timely provide the appropriate, properly executed U.S. nonresident withholding tax certification form (currently on IRS Form W-8ECI) to the applicable withholding agent.

Generally, a non-U.S. holder will not be subject to U.S. federal income or withholding taxes on any amount that constitutes capital gain upon the sale, exchange, redemption, retirement or other taxable disposition of a Note, provided that the gain is not effectively connected with the conduct of a trade or business in the United States by the non-U.S. holder (and, if required by an applicable income tax treaty, is not attributable to a United States permanent establishment maintained by the non-U.S. holder). Non-U.S. holders should consult their own tax advisors with regard to whether taxes will be imposed on capital gain in their individual circumstances.

A Note that is held by an individual who, at the time of death, is not a citizen or resident of the United States (as specially defined for U.S. federal estate tax purposes) generally will not be subject to the U.S. federal estate tax, unless, at the time of death, (i) such individual directly or indirectly, actually or constructively, owns ten percent or more of the total combined voting power of all classes of our stock entitled to vote within the meaning of Section 871(h)(3) of the Code and the Treasury Regulations thereunder or (ii) such individual's interest in the Notes is effectively connected with the individual's conduct of a U.S. trade or business.

Information Reporting and Backup Withholding. A U.S. holder (other than an exempt recipient, including a corporation and certain other persons who, when required, demonstrate their exempt status) may be subject to backup withholding on, and to information reporting requirements with respect to, payments of principal and interest on, and proceeds from the sale, exchange, redemption or retirement of, the Notes. In general, if a non-corporate U.S. holder subject to information reporting fails to furnish a correct taxpayer identification number or otherwise fails to comply with applicable backup withholding requirements, backup withholding at the applicable rate (currently, 24%) may apply.

In addition, backup withholding tax and certain other information reporting requirements apply to payments of principal and interest on, and proceeds from the sale, exchange, redemption or retirement of, the Notes held by a non-U.S. holder, unless an exemption applies. Backup withholding and information reporting will not apply to payments we make to a non-U.S. holder if such non-U.S. holder has provided to the applicable withholding agent under penalties of perjury the required certification of their non-U.S. person status as discussed above (and the applicable withholding agent does not have actual knowledge or reason to know that they are a U.S. person) or if the non-U.S. holder is an exempt recipient.

If a non-U.S. holder sells or redeems a Note through a U.S. broker or the U.S. office of a foreign broker, the proceeds from such sale or redemption will be subject to information reporting and backup withholding unless

Table of Contents**Index to Financial Statements**

such non-U.S. holder provides a withholding certificate or other appropriate documentary evidence establishing that such non-U.S. holder is not a U.S. person to the broker and such broker does not have actual knowledge or reason to know that such non-U.S. holder is a U.S. person, or the non-U.S. holder is an exempt recipient eligible for an exemption from information reporting and backup withholding. If a non-U.S. holder sells or redeems a Note through the foreign office of a broker who is a U.S. person or has certain enumerated connections with the United States, the proceeds from such sale or redemption will be subject to information reporting unless the non-U.S. holder provides to such broker a withholding certificate or other appropriate documentary evidence establishing that the non-U.S. holder is not a U.S. person and such broker does not have actual knowledge or reason to know that such evidence is false, or the non-U.S. holder is an exempt recipient eligible for an exemption from information reporting. In circumstances where information reporting by the foreign office of such a broker is required, backup withholding will be required only if the broker has actual knowledge that the non-U.S. holder is a U.S. person.

You should consult your tax advisor regarding the qualification for an exemption from backup withholding and information reporting and the procedures for obtaining such an exemption, if applicable. Any amounts withheld under the backup withholding rules from a payment to a beneficial owner generally would be allowed as a refund or a credit against such beneficial owner's U.S. federal income tax provided the required information is timely furnished to the IRS.

Medicare Tax on Net Investment Income. A tax of 3.8% will be imposed on certain net investment income (or undistributed net investment income, in the case of estates and trusts) received by U.S. holders with modified adjusted gross income above certain threshold amounts. Net investment income as defined for U.S. federal Medicare contribution purposes generally includes interest payments and gain recognized from the sale or other disposition of the Notes. U.S. holders should consult their own tax advisors regarding the effect, if any, of this tax on their ownership and disposition of the Notes.

FATCA. Certain provisions of the Code, known as FATCA, generally impose a withholding tax of 30% on certain payments to certain foreign entities (including financial intermediaries) unless various U.S. information reporting and diligence requirements (that are in addition to, the requirement to deliver an applicable IRS Form W-8, as discussed above) and certain other requirements have been satisfied. FATCA withholding generally applies to payments of interest and, after December 31, 2018, payments of gross proceeds (including principal payments) from the sale, redemption, retirement or other disposition of debt securities that can produce U.S. source interest (such as Notes) (collectively, withholdable payments) to certain non-U.S. entities (including, in some circumstances, where such an entity is acting as an intermediary) that fail to comply with certain certification, identification, withholding and information reporting requirements imposed by FATCA. FATCA withholding taxes generally apply to all withholdable payments without regard to whether the beneficial owner of the payment would otherwise be entitled to an exemption from withholding taxes pursuant to an applicable income tax treaty with the U.S. or under U.S. domestic law. If FATCA withholding taxes are imposed with respect to any payments of interest or proceeds made under the Notes, holders that are otherwise eligible for an exemption from, or reduction of, U.S. federal withholding taxes with respect to such interest or proceeds will be required to seek a credit or refund from the IRS in order to obtain the benefit of such exemption or reduction, if any. Beneficial owners of or prospective beneficial owners of the Notes may be required to provide additional information to enable the applicable withholding agent to determine whether withholding is required. Persons located in jurisdictions that have entered into an intergovernmental agreement with the U.S. to implement FATCA may be subject to different rules. Non-U.S. holders, and U.S. holders that expect to hold their Notes through non-U.S. entities should consult their own tax advisors regarding the effect, if any, of these withholding and reporting provisions.

The preceding discussion of material U.S. federal income tax considerations is for general information only and is not tax advice. We urge you to consult your own tax advisor with respect to the particular tax consequences to you of an investment in the Notes, including the possible effect of any pending legislation or proposed regulations.

Table of Contents

Index to Financial Statements

LEGAL MATTERS

Certain legal matters in connection with the securities offered hereby will be passed upon for us by Dechert LLP, New York, NY. Certain legal matters in connection with the securities offered hereby will be passed upon for the underwriters by Fried, Frank, Harris, Shriver & Jacobson LLP, New York, NY.

EXPERTS

The consolidated financial statements as of December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017 and management's assessment of the effectiveness of internal control over financial reporting (which is included in Management's Report on Internal Control over Financial Reporting) as of December 31, 2017 included in this prospectus supplement have been so included in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

AVAILABLE INFORMATION

We have filed with the SEC a registration statement on Form N-2, together with all amendments and related exhibits, under the Securities Act, with respect to our securities offered by this prospectus supplement and the accompanying prospectus. The registration statement contains additional information about us and our securities being offered by this prospectus supplement and the accompanying prospectus.

We file annual, quarterly and current periodic reports, proxy statements and other information with the SEC under the Exchange Act. You may inspect and copy these reports, proxy statements and other information, as well as the registration statement of which this prospectus supplement and accompanying prospectus form a part and the related exhibits and schedules, at the Public Reference Room of the SEC at 100 F Street, N.E., Washington, D.C. 20549-0102. You may obtain information on the operation of the Public Reference Room by calling the SEC at 202-551-8090. The SEC maintains an Internet website that contains reports, proxy and information statements and other information filed electronically by us with the SEC which are available on the SEC's Internet website at <http://www.sec.gov>. Copies of these reports, proxy and information statements and other information may be obtained, after paying a duplicating fee, by electronic request at the following E-mail address: publicinfo@sec.gov, or by writing the SEC's Public Reference Section, Washington, D.C. 20549-0102.

Table of Contents

Index to Financial Statements

INDEX TO FINANCIAL STATEMENTS

AUDITED FINANCIAL STATEMENTS

<u>Reports of Independent Registered Public Accounting Firm</u>	S-101
<u>Consolidated Statements of Assets and Liabilities as of December 31, 2017 and 2016</u>	S-103
<u>Consolidated Statements of Operations for the three years ended December 31, 2017</u>	S-105
<u>Consolidated Statements of Changes in Net Assets for the three years ended December 31, 2017</u>	S-106
<u>Consolidated Statements of Cash Flows for the three years ended December 31, 2017</u>	S-107
<u>Consolidated Schedule of Investments as of December 31, 2017</u>	S-108
<u>Consolidated Schedule of Investments as of December 31, 2016</u>	S-127
<u>Notes to Consolidated Financial Statements</u>	S-144
<u>Consolidated Schedule of Investments In and Advances to Affiliates as of December 31, 2017</u>	S-190

S-100

Table of Contents

Index to Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Hercules Capital, Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated statements of assets and liabilities, including the consolidated schedules of investments, of Hercules Capital, Inc. and its subsidiaries as of December 31, 2017 and 2016, and the related consolidated statements of operations, changes in net assets and cash flows for each of the three years in the period ended December 31, 2017, including the related notes and financial statement schedule listed in the accompanying index (collectively referred to as the consolidated financial statements). We also have audited the Company's internal control over financial reporting as of December 31, 2017 based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of their operations, changes in their net assets and their cash flows for each of the three years in the period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our procedures included confirmation of securities owned as of December 31, 2017 and 2016 by correspondence with the custodians and portfolio company investees; when replies were not received, we performed other auditing procedures. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

S-101

Table of Contents

Index to Financial Statements

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

San Francisco, California

February 22, 2018

We have served as the Company's auditor since 2010.

S-102

Table of ContentsIndex to Financial Statements

HERCULES CAPITAL, INC.

CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES

(in thousands, except per share data)

	December 31, 2017	December 31, 2016
Assets		
Investments:		
Non-control/Non-affiliate investments (cost of \$1,506,454 and \$1,475,918, respectively)	\$ 1,491,458	\$ 1,414,210
Control investments (cost of \$25,419 and \$22,598, respectively)	19,461	4,700
Affiliate investments (cost of \$87,956 and \$13,010, respectively)	31,295	5,032
Total investments in securities, at value (cost of \$1,619,829 and \$1,511,526, respectively)	1,542,214	1,423,942
Cash and cash equivalents	91,309	13,044
Restricted cash	3,686	8,322
Interest receivable	12,262	11,614
Other assets	5,244	7,282
Total assets	\$ 1,654,715	\$ 1,464,204
Liabilities		
Accounts payable and accrued liabilities	\$ 26,896	\$ 21,463
Credit Facilities		5,016
2021 Asset-Backed Notes, net (principal of \$49,153 and \$109,205, respectively) ⁽¹⁾	48,650	107,972
Convertible Notes, net (principal of \$230,000 and \$0, respectively) ⁽¹⁾	223,488	
2019 Notes, net (principal of \$0 and \$110,364, respectively) ⁽¹⁾		108,818
2022 Notes, net (principal of \$150,000 and \$0, respectively) ⁽¹⁾	147,572	
2024 Notes, net (principal of \$183,510 and \$252,873, respectively) ⁽¹⁾	179,001	245,490
SBA Debentures, net (principal of \$190,200 and \$190,200, respectively) ⁽¹⁾	188,141	187,501
Total liabilities	\$ 813,748	\$ 676,260
Commitments and Contingencies (Note 10)		
Net assets consist of:		
Common stock, par value	85	80
Capital in excess of par value	908,501	839,657
Unrealized depreciation on investments ⁽²⁾	(79,760)	(89,025)
Accumulated undistributed realized gains (losses) on investments	(20,374)	14,314
Undistributed net investment income	32,515	22,918
Total net assets	\$ 840,967	\$ 787,944
Total liabilities and net assets	\$ 1,654,715	\$ 1,464,204
Shares of common stock outstanding (\$0.001 par value, 200,000,000 authorized)	84,424	79,555
Net asset value per share	\$ 9.96	\$ 9.90

(1) The Company's 2021 Asset-Backed Notes, Convertible Notes, 2019 Notes, 2022 Notes, 2024 Notes, and SBA debentures, as each term is defined herein, are presented net of the associated debt issuance costs for each instrument. See Note 4 Borrowings.

(2) Amounts includes \$2.1 million and \$1.4 million in net unrealized depreciation on other assets and accrued liabilities, including escrow receivables, and estimated taxes payable liabilities as of December 31, 2017 and 2016, respectively.

See notes to consolidated financial statements.

Table of Contents**Index to Financial Statements**

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

(Dollars in thousands)	December 31, 2017	December 31, 2016
Assets		
Restricted Cash	\$ 3,686	\$ 8,322
Total investments in securities, at value (cost of \$146,208 and \$244,695, respectively)	144,513	242,349
Total assets	\$ 148,199	\$ 250,671
Liabilities		
2021 Asset-Backed Notes, net (principal of \$49,153 and \$109,205, respectively) ⁽¹⁾	\$ 48,650	\$ 107,972
Total liabilities	\$ 48,650	\$ 107,972

(1) The Company's 2021 Asset-Backed Notes are presented net of the associated debt issuance costs. See Note 4 Borrowings.

See notes to consolidated financial statements.

Table of Contents**Index to Financial Statements****HERCULES CAPITAL, INC.****CONSOLIDATED STATEMENT OF OPERATIONS****(in thousands, except per share data)**

	For the Year Ended December 31,		
	2017	2016	2015
Investment income:			
Interest and PIK interest income			
Interest income:			
Non-control/Non-affiliate investments	\$ 160,131	\$ 150,705	\$ 135,261
Control investments	1,304	38	
Affiliate investments	801	160	347
Total interest income	162,236	150,903	135,608
PIK interest income:			
Non-control/Non-affiliate investments	9,293	7,784	4,658
Control investments	667	40	
Total PIK interest income	9,960	7,824	4,658
Total interest and PIK interest income	172,196	158,727	140,266
Fee income			
Non-control/Non-affiliate investments	18,630	16,318	16,865
Control investments	11	6	
Affiliate investments	43		1
Total fees	18,684	16,324	16,866
Total investment income	190,880	175,051	157,132
Operating expenses:			
Interest	37,857	32,016	30,834
Loan fees	8,728	5,042	6,055
General and administrative:			
Legal expenses	4,572	4,823	3,079
Other expenses	11,533	11,283	13,579
Total general and administrative	16,105	16,106	16,658
Employee compensation:			
Compensation and benefits	24,555	22,500	20,713
Stock-based compensation	7,191	7,043	9,370
Total employee compensation	31,746	29,543	30,083
Total operating expenses	94,436	82,707	83,630
Other income (loss)		8,000	(1)
Net investment income	96,444	100,344	73,501
Net realized gain (loss) on investments			
Non-control/Non-affiliate investments	(10,235)	4,576	5,147

Edgar Filing: Hercules Capital, Inc. - Form 497

Control investments	(16,476)		
Total net realized gain (loss) on investments	(26,711)	4,576	5,147
Net change in unrealized appreciation (depreciation) on investments			
Non-control/Non-affiliate investments	43,796	(29,970)	(36,839)
Control investments	14,152	(4,025)	
Affiliate investments	(48,683)	(2,222)	1,107
Total net unrealized appreciation (depreciation) on investments	9,265	(36,217)	(35,732)
Total net realized and unrealized loss	(17,446)	(31,641)	(30,585)
Net increase in net assets resulting from operations	\$ 78,998	\$ 68,703	\$ 42,916
Net investment income before investment gains and losses per common share:			
Basic	\$ 1.16	\$ 1.34	\$ 1.04
Change in net assets resulting from operations per common share:			
Basic	\$ 0.95	\$ 0.91	\$ 0.60
Diluted	\$ 0.95	\$ 0.91	\$ 0.59
Weighted average shares outstanding			
Basic	82,519	73,753	69,479
Diluted	82,640	73,775	69,663
Distributions declared per common share:			
Basic	\$ 1.24	\$ 1.24	\$ 1.24

See notes to consolidated financial statements.

Table of ContentsIndex to Financial Statements

HERCULES CAPITAL, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

(dollars and shares in thousands)

	Common Stock		Capital in excess of par value	Unrealized Appreciation (Depreciation) on Investments	Accumulated Undistributed Realized Gains (Losses) on Investments	Undistributed Net Investment Income	Provision for Income Taxes on Investment Gains	Net Assets
	Shares	Par Value						
Balance at December 31, 2014	64,715	\$ 65	\$ 657,233	\$ (17,076)	\$ 14,079	\$ 4,905	\$ (342)	\$ 658,864
Net increase (decrease) in net assets resulting from operations				(35,732)	5,147	73,501		42,916
Public offering, net of offering expenses	7,591	8	100,084					100,092
Acquisition of common stock under repurchase plan	(437)		(4,644)					(4,644)
Issuance of common stock due to stock option exercises	64		427					427
Retired shares from net issuance	(29)		(423)					(423)
Issuance of common stock under restricted stock plan	676	1	(1)					
Retired shares for restricted stock vesting	(662)	(1)	(4,566)					(4,567)
Distributions reinvested in common stock	200		2,446					2,446
Distributions					(15,327)	(72,111)		(87,438)
Stock-based compensation ⁽¹⁾			9,461					9,461
Tax reclassification of stockholders' equity in accordance with generally accepted accounting principles			(7,773)		8,767	(994)		
Balance at December 31, 2015	72,118	\$ 73	\$ 752,244	\$ (52,808)	\$ 12,666	\$ 5,301	\$ (342)	\$ 717,134
Net increase (decrease) in net assets resulting from operations		\$	\$	(36,217)	4,576	100,344		68,703
Public offering, net of offering expenses	7,428	7	92,820					92,827
Acquisition of common stock under repurchase plan	(450)	(1)	(4,789)					(4,790)
Issuance of common stock due to stock option exercises	55		654					654
Retired shares from net issuance	(17)		(235)					(235)
Issuance of common stock under restricted stock plan	556	1	(1)					
Retired shares for restricted stock vesting	(279)		(2,944)					(2,944)
Distributions reinvested in common stock	144		1,799					1,799
Distributions					(7,962)	(84,371)		(92,333)
Stock-based compensation ⁽¹⁾			7,129					7,129
Tax reclassification of stockholders' equity in accordance with generally accepted accounting principles			(7,020)		5,034	1,644	342	
Balance at December 31, 2016	79,555	\$ 80	\$ 839,657	\$ (89,025)	\$ 14,314	\$ 22,918	\$	\$ 787,944
Net increase (decrease) in net assets resulting from operations		\$	\$	9,265	(26,711)	96,444	\$	78,998
Public offering, net of offering expenses	4,919	5	66,930					66,935

Edgar Filing: Hercules Capital, Inc. - Form 497

Issuance of common stock due to stock option exercises	49	500	500
Retired shares from net issuance	(21)	(209)	(209)
Issuance of common stock under restricted stock plan	10		
Retired shares for restricted stock vesting	(252)	(2,976)	(2,976)
Distributions reinvested in common stock	164	2,202	2,202
Issuance of Convertible Notes		3,413	3,413
Distributions		(14,893)	(88,194)
Stock-based compensation ⁽¹⁾		7,247	7,247
Tax reclassification of stockholders' equity in accordance with generally accepted accounting principles		(8,263)	6,916
			1,347
Balance at December 31, 2017	84,424	\$ 85	\$ 908,501
		\$ (79,760)	\$ (20,374)
		\$ 32,515	\$ 840,967

(1) Stock-based compensation includes \$57, \$87 and \$90 of restricted stock and option expense related to director compensation for the years ended December 31, 2017, 2016 and 2015, respectively.

See notes to consolidated financial statements.

S-106

Table of Contents**Index to Financial Statements****HERCULES CAPITAL, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)**

	For the Year Ended December 31,		
	2017	2016	2015
Cash flows from operating activities:			
Net increase in net assets resulting from operations	\$ 78,998	\$ 68,703	\$ 42,916
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by (used in) operating activities:			
Purchase of investments	(764,795)	(680,971)	(712,701)
Principal and fee payments received on investments	641,016	444,758	509,593
Proceeds from the sale of investments	23,881	18,998	17,892
Net unrealized depreciation (appreciation) on investments	(9,265)	36,217	35,732
Net realized loss (gain) on investments	26,711	(4,576)	(5,147)
Accretion of paid-in-kind principal	(9,686)	(7,319)	(4,037)
Accretion of loan discounts	(6,711)	(7,163)	(8,049)
Accretion of loan discount on convertible notes	615	82	246
Loss on debt extinguishment (convertible notes)			1
Payment of loan discount on convertible notes			(5)
Accretion of loan exit fees	(19,098)	(22,614)	(14,947)
Change in deferred loan origination revenue	962	347	1,904
Unearned fees related to unfunded commitments	1,048	(758)	(2,064)
Amortization of debt fees and issuance costs	7,492	3,773	5,161
Depreciation	201	202	193
Stock-based compensation and amortization of restricted stock grants ⁽¹⁾	7,247	7,129	9,461
Change in operating assets and liabilities:			
Interest and fees receivable	(648)	(2,375)	213
Prepaid expenses and other assets	(1,097)	3,234	4,826
Accounts payable	(10)	56	(639)
Accrued liabilities	4,739	3,892	5,090
Net cash used in operating activities	(18,400)	(138,385)	(114,361)
Cash flows from investing activities:			
Purchases of capital equipment	(274)	(252)	(187)
Reduction of restricted cash	4,636	869	3,469
Net cash provided by investing activities	4,362	617	3,282
Cash flows from financing activities:			
Issuance of common stock, net	66,935	92,827	100,092
Repurchase of common stock, net		(4,790)	(4,645)
Retirement of employee shares	(2,685)	(2,525)	(4,562)
Distributions paid	(100,885)	(90,534)	(84,992)
Issuance of Convertible Notes	230,000		
Issuance of 2022 Notes	150,000		
Issuance of 2024 Notes	5,636	149,873	
Repayments of 2017 Asset-Backed Notes			(16,049)
Repayments of 2019 Notes	(110,364)		(60,000)
Repayments of 2021 Asset-Backed Notes	(60,053)	(20,095)	
Repayments of 2024 Notes	(75,000)		
Borrowings of credit facilities	8,497	285,891	138,689
Repayments of credit facilities	(13,513)	(330,877)	(88,689)
Cash paid for debt issuance costs	(6,342)	(5,289)	
Cash paid for redemption of convertible notes		(17,604)	(65)
Fees paid for credit facilities and debentures	77	(1,261)	(620)

Edgar Filing: Hercules Capital, Inc. - Form 497

Net cash provided by (used in) financing activities	92,303	55,616	(20,841)
Net increase (decrease) in cash and cash equivalents	78,265	(82,152)	(131,920)
Cash and cash equivalents at beginning of period	13,044	95,196	227,116
Cash and cash equivalents at end of period	\$ 91,309	\$ 13,044	\$ 95,196
Supplemental non-cash investing and financing activities:			
Interest paid	\$ 33,579	\$ 31,011	\$ 30,527
Income taxes paid	\$ 1,076	\$ 184	\$ 973
Distributions reinvested	\$ 2,202	\$ 1,799	\$ 2,446

- (1) Stock-based compensation includes \$57, \$87 and \$90 of restricted stock and option expense related to director compensation for the years ended December 31, 2017, 2016 and 2015, respectively.

See notes to consolidated financial statements.

S-107

Table of Contents**Index to Financial Statements****HERCULES CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS****December 31, 2017****(dollars in thousands)**

Portfolio Company	Sub-Industry	Type of Investment⁽¹⁾	Maturity Date	Interest Rate and Floor⁽²⁾	Principal Amount	Cost⁽³⁾	Value⁽⁴⁾
Debt Investments							
Biotechnology Tools							
1-5 Years Maturity							
Exicure, Inc. ⁽¹²⁾	Biotechnology Tools	Senior Secured	September 2019	Interest rate PRIME + 6.45% or Floor rate of 9.95%, 3.85% Exit Fee	\$ 4,999	\$ 5,115	\$ 5,146
Subtotal: 1-5 Years Maturity						5,115	5,146
Subtotal: Biotechnology Tools (0.61%)*						5,115	5,146
Communications & Networking							
Under 1 Year Maturity							
OpenPeak, Inc. ⁽⁸⁾	Communications & Networking	Senior Secured	April 2018	Interest rate PRIME + 8.75% or Floor rate of 12.00%	\$ 11,464	8,228	
Subtotal: Under 1 Year Maturity						8,228	
Subtotal: Communications & Networking (0.00%)*						8,228	
Consumer & Business Products							
Under 1 Year Maturity							
Antenna79 (p.k.a. Pong Research Corporation) ⁽¹⁵⁾	Consumer & Business Products	Senior Secured	December 2018	Interest rate PRIME + 6.00% or Floor rate of 9.50%	\$ 1,000	1,000	1,000
Subtotal: Under 1 Year Maturity						1,000	1,000
1-5 Years Maturity							
Antenna79 (p.k.a. Pong Research Corporation) ⁽¹⁵⁾	Consumer & Business Products	Senior Secured	December 2019	Interest rate PRIME + 7.45% or Floor rate of 10.95%, 2.95% Exit Fee	\$ 18,440	18,580	18,571
Second Time Around (Simplify Holdings, LLC) ⁽⁷⁾⁽⁸⁾⁽¹⁵⁾	Consumer & Business Products	Senior Secured	February 2019	Interest rate PRIME + 7.25% or Floor rate of 10.75%, 4.75% Exit Fee	\$ 1,746	1,781	
Subtotal: 1-5 Years Maturity						20,361	18,571

Edgar Filing: Hercules Capital, Inc. - Form 497

Subtotal: Consumer & Business Products (2.33%)* 21,361 19,571

Drug Delivery

Under 1 Year Maturity

Agile Therapeutics, Inc. ⁽¹¹⁾	Drug Delivery	Senior Secured	December 2018	Interest rate PRIME + 4.75%			
				or Floor rate of 9.00%, 3.70%			
				Exit Fee	\$ 10,888	11,292	11,292
Pulmatrix Inc. ⁽⁹⁾⁽¹¹⁾	Drug Delivery	Senior Secured	July 2018	Interest rate PRIME + 6.25%			
				or Floor rate of 9.50%, 3.50%			
				Exit Fee	\$ 3,259	3,455	3,455
ZP Opco, Inc (p.k.a. Zosano Pharma) ⁽¹¹⁾	Drug Delivery	Senior Secured	December 2018	Interest rate PRIME + 2.70%			
				or Floor rate of 7.95%, 2.87%			
				Exit Fee	\$ 6,316	6,609	6,609

Subtotal: Under 1 Year Maturity 21,356 21,356

1-5 Years Maturity

AcelRx Pharmaceuticals, Inc. ⁽¹⁰⁾⁽¹¹⁾⁽¹⁵⁾	Drug Delivery	Senior Secured	March 2020	Interest rate PRIME + 6.05%			
				or Floor rate of 9.55%, 11.69% Exit Fee	\$ 18,653	18,925	18,875
Antares Pharma Inc. ⁽¹⁰⁾⁽¹⁵⁾	Drug Delivery	Senior Secured	July 2022	Interest rate PRIME + 4.50%			
				or Floor rate of 9.00%, 4.25% Exit Fee	\$ 25,000	25,006	24,958

See notes to consolidated financial statements.

S-108

Table of ContentsIndex to Financial Statements

HERCULES CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2017

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment ⁽¹⁾	Maturity Date	Interest Rate and Floor ⁽²⁾	Principal Amount	Cost ⁽³⁾	Value ⁽⁴⁾
Edge Therapeutics, Inc. ⁽¹²⁾	Drug Delivery	Senior Secured	February 2020	Interest rate PRIME + 4.65%			
				or Floor rate of 9.15%, 4.95% Exit Fee	\$ 20,000	\$ 20,377	\$ 20,331
Subtotal: 1-5 Years Maturity						64,308	64,164
Subtotal: Drug Delivery (10.17%)*						85,664	85,520
Drug Discovery & Development							
Under 1 Year Maturity							
CytRx Corporation ⁽¹¹⁾⁽¹⁵⁾	Drug Discovery & Development	Senior Secured	August 2018	Interest rate PRIME + 6.00%			
				or Floor rate of 9.50%, 7.09% Exit Fee	\$ 9,986	11,172	11,172
Epirus Biopharmaceuticals, Inc. ⁽⁸⁾	Drug Discovery & Development	Senior Secured	April 2018	Interest rate PRIME + 4.70%			
				or Floor rate of 7.95%, 3.00% Exit Fee	\$ 3,027	3,310	340
Subtotal: Under 1 Year Maturity						14,482	11,512
1-5 Years Maturity							
Auris Medical Holding, AG ⁽⁵⁾⁽¹⁰⁾	Drug Discovery & Development	Senior Secured	January 2020	Interest rate PRIME + 6.05%			
				or Floor rate of 9.55%, 5.75% Exit Fee	\$ 10,341	10,610	10,563
Aveo Pharmaceuticals, Inc. ⁽¹⁰⁾⁽¹³⁾	Drug Discovery & Development	Senior Secured	July 2021	Interest rate PRIME + 4.70%			
				or Floor rate of 9.45%, 5.40% Exit Fee	\$ 10,000	10,345	10,344
	Drug Discovery & Development	Senior Secured	July 2021	Interest rate PRIME + 4.70%			
				or Floor rate of 9.45%, 3.00% Exit Fee	\$ 10,000	9,918	9,915
Total Aveo Pharmaceuticals, Inc.					\$ 20,000	20,263	20,259
Axovant Sciences Ltd. ⁽⁵⁾⁽¹⁰⁾	Drug Discovery & Development	Senior Secured	March 2021	Interest rate PRIME + 6.80%			
				or Floor rate of 10.55%	\$ 55,000	53,631	53,448
Brickell Biotech, Inc. ⁽¹²⁾	Drug Discovery & Development	Senior Secured	September 2019	Interest rate PRIME + 5.70%			
				or Floor rate of 9.20%, 6.75% Exit Fee	\$ 6,090	6,380	6,361
Chemocentryx, Inc. ⁽¹⁰⁾⁽¹⁵⁾⁽¹⁷⁾	Drug Discovery & Development	Senior Secured	December 2021	Interest rate PRIME + 3.30%			
				or Floor rate of 8.05%, 6.25% Exit Fee	\$ 5,000	4,947	4,947
	Drug Discovery & Development	Senior Secured	January 2019	Interest rate PRIME + 2.25%	\$ 13,851	14,482	14,385

Edgar Filing: Hercules Capital, Inc. - Form 497

Genocea Biosciences, Inc. ⁽¹¹⁾				or Floor rate of 7.25%, 4.95% Exit Fee			
Insmed, Incorporated ⁽¹¹⁾	Drug Discovery & Development	Senior Secured	October 2020	Interest rate PRIME + 4.75%			
				or Floor rate of 9.25%, 4.86% Exit Fee	\$ 55,000	55,425	54,963
Metuchen Pharmaceuticals LLC ⁽¹²⁾⁽¹⁴⁾	Drug Discovery & Development	Senior Secured	October 2020	Interest rate PRIME + 7.25%			
				or Floor rate of 10.75%,			
				PIK Interest 1.35%, 2.25% Exit Fee	\$ 25,561	25,721	25,643
Motif BioSciences Inc. ⁽¹⁵⁾	Drug Discovery & Development	Senior Secured	September 2021	Interest rate PRIME + 5.50%			
				or Floor rate of 10.00%, 2.15% Exit Fee	\$ 15,000	14,651	14,651
Myovant Sciences, Ltd. ⁽⁵⁾⁽¹⁰⁾⁽¹³⁾⁽¹⁷⁾	Drug Discovery & Development	Senior Secured	May 2021	Interest rate PRIME + 4.00%			
				or Floor rate of 8.25%, 6.55% Exit Fee	\$ 25,000	24,704	24,704
Paratek Pharmaceuticals, Inc. (p.k.a. Transcept Pharmaceuticals, Inc.) ⁽¹⁵⁾	Drug Discovery & Development	Senior Secured	September 2020	Interest rate PRIME + 2.75%			
				or Floor rate of 8.50%, 4.50% Exit Fee	\$ 40,000	40,144	39,829
	Drug Discovery & Development	Senior Secured	September 2020	Interest rate PRIME + 2.75%			
				or Floor rate of 8.50%, 4.50% Exit Fee	\$ 10,000	10,040	9,958

See notes to consolidated financial statements.

S-109

Table of ContentsIndex to Financial Statements

HERCULES CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2017

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment ⁽¹⁾	Maturity Date	Interest Rate and Floor ⁽²⁾	Principal Amount	Cost ⁽³⁾	Value ⁽⁴⁾
	Drug Discovery & Development	Senior Secured	September 2020	Interest rate PRIME + 2.75% or Floor rate of 8.50%, 2.25% Exit Fee	\$ 10,000	\$ 9,964	\$ 9,895
Total Paratek Pharmaceuticals, Inc. (p.k.a. Transcept Pharmaceuticals, Inc.)					\$ 60,000	60,148	59,682
PhaseRx, Inc. ⁽¹⁵⁾	Drug Discovery & Development	Senior Secured	December 2019	Interest rate PRIME + 5.75% or Floor rate of 9.25%, 5.85% Exit Fee	\$ 4,694	4,842	1,917
Stealth Bio Therapeutics Corp. ⁽⁵⁾⁽¹⁰⁾⁽¹²⁾	Drug Discovery & Development	Senior Secured	January 2021	Interest rate PRIME + 5.50% or Floor rate of 9.50%, 5.00% Exit Fee	\$ 15,000	14,898	14,847
uniQure B.V. ⁽⁵⁾⁽¹⁰⁾⁽¹¹⁾	Drug Discovery & Development	Senior Secured	May 2020	Interest rate PRIME + 3.00% or Floor rate of 8.25%, 5.48% Exit Fee	\$ 20,000	20,579	20,543
Verastem, Inc. ⁽¹²⁾⁽¹⁷⁾	Drug Discovery & Development	Senior Secured	December 2020	Interest rate PRIME + 6.00% or Floor rate of 10.50%, 4.50% Exit Fee	\$ 5,000	4,957	4,910
	Drug Discovery & Development	Senior Secured	December 2020	Interest rate PRIME + 6.00% or Floor rate of 10.50%, 4.50% Exit Fee	\$ 5,000	4,996	4,949
	Drug Discovery & Development	Senior Secured	December 2020	Interest rate PRIME + 6.00% or Floor rate of 10.50%, 4.50% Exit Fee	\$ 5,000	4,953	4,907
Total Verastem, Inc.					\$ 15,000	14,906	14,766
Subtotal: 1-5 Years Maturity						346,187	341,679
Subtotal: Drug Discovery & Development (42.00%)*						360,669	353,191
Electronics & Computer Hardware							
1-5 Years Maturity							
908 DEVICES INC. ⁽¹⁵⁾	Electronics & Computer Hardware	Senior Secured	September 2020	Interest rate PRIME + 4.00% or Floor rate of 8.25%, 4.25% Exit Fee	\$ 10,000	10,014	9,887
Subtotal: 1-5 Years Maturity						10,014	9,887
Subtotal: Electronics & Computer Hardware (1.18%)*						10,014	9,887
Healthcare Services, Other							
1-5 Years Maturity							

Edgar Filing: Hercules Capital, Inc. - Form 497

Medsphere Systems Corporation ⁽¹⁴⁾⁽¹⁵⁾	Healthcare Services, Other	Senior Secured	February 2021	Interest rate PRIME + 4.75%			
				or Floor rate of 9.00%,			
				PIK Interest 1.75%	\$ 17,607	17,437	17,437
	Healthcare Services, Other	Senior Secured	February 2021	Interest rate PRIME + 4.75%			
				or Floor rate of 9.00%,			
				PIK Interest 1.75%	\$ 5,009	4,963	4,963
Total Medsphere Systems Corporation					\$ 22,616	22,400	22,400
Oak Street Health ⁽¹²⁾	Healthcare Services, Other	Senior Secured	September 2021	Interest rate PRIME + 5.00%			
				or Floor rate of 9.75%, 5.95% Exit Fee	\$ 20,000	19,965	19,965
PH Group Holdings ⁽¹³⁾	Healthcare Services, Other	Senior Secured	September 2020	Interest rate PRIME + 7.45%			
				or Floor rate of 10.95%	\$ 20,000	19,878	19,803
	Healthcare Services, Other	Senior Secured	September 2020	Interest rate PRIME + 7.45%			
				or Floor rate of 10.95%	\$ 10,000	9,922	9,840
Total PH Group Holdings					\$ 30,000	29,800	29,643
Subtotal: 1-5 Years Maturity							
Subtotal: Healthcare Services, Other (8.56%)*						72,165	72,008

See notes to consolidated financial statements.

Table of ContentsIndex to Financial Statements

HERCULES CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2017

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment ⁽¹⁾	Maturity Date	Interest Rate and Floor ⁽²⁾	Principal Amount	Cost ⁽³⁾	Value ⁽⁴⁾
Information Services							
1-5 Years Maturity							
MDX Medical, Inc. ⁽¹⁴⁾⁽¹⁵⁾⁽¹⁷⁾	Information Services	Senior Secured	December 2020	Interest rate PRIME + 4.25% or Floor rate of 8.25%, PIK Interest 1.70%	\$ 7,568	\$ 7,369	\$ 7,327
Netbase Solutions, Inc. ⁽¹³⁾⁽¹⁴⁾	Information Services	Senior Secured	August 2020	Interest rate PRIME + 6.00% or Floor rate of 10.00%, PIK Interest 2.00%, 3.00% Exit Fee	\$ 9,051	8,730	8,730
Subtotal: 1-5 Years Maturity						16,099	16,057
Subtotal: Information Services (1.91%)*						16,099	16,057
Internet Consumer & Business Services							
1-5 Years Maturity							
AppDirect, Inc.	Internet Consumer & Business Services	Senior Secured	January 2022	Interest rate PRIME + 5.70% or Floor rate of 9.95%, 3.45% Exit Fee	\$ 10,000	9,885	9,885
Aria Systems, Inc. ⁽¹¹⁾⁽¹⁴⁾	Internet Consumer & Business Services	Senior Secured	June 2019	Interest rate PRIME + 3.20% or Floor rate of 6.95%, PIK Interest 1.95%, 1.50% Exit Fee	\$ 2,103	2,104	1,803
	Internet Consumer & Business Services	Senior Secured	June 2019	Interest rate PRIME + 5.20% or Floor rate of 8.95%, PIK Interest 1.95%, 1.50% Exit Fee	\$ 18,832	18,839	16,144
Total Aria Systems, Inc.					\$ 20,935	20,943	17,947
Greenphire Inc.	Internet Consumer & Business Services	Senior Secured	January 2021	Interest rate 3-month LIBOR + 8.00% or Floor rate of 9.00%	\$ 3,883	3,883	3,883
	Internet Consumer & Business Services	Senior Secured	January 2021	Interest rate PRIME + 3.75% or Floor rate of 7.00%	\$ 1,000	1,000	1,000

Edgar Filing: Hercules Capital, Inc. - Form 497

Total Greenphire Inc.					\$ 4,883	4,883	4,883
Intent Media, Inc. ⁽¹⁴⁾⁽¹⁵⁾	Internet Consumer & Business Services	Senior Secured	May 2019	Interest rate PRIME + 5.25% or Floor rate of 8.75%, PIK Interest 1.00%, 2.00% Exit Fee	\$ 5,050	5,011	5,027
	Internet Consumer & Business Services	Senior Secured	May 2019	Interest rate PRIME + 5.50% or Floor rate of 9.00%, PIK Interest 2.35%, 2.00% Exit Fee	\$ 2,020	1,987	1,991
	Internet Consumer & Business Services	Senior Secured	May 2019	Interest rate PRIME + 5.50% or Floor rate of 9.00%, PIK Interest 2.50%, 2.00% Exit Fee	\$ 2,022	1,988	1,992
Total Intent Media, Inc.					\$ 9,092	8,986	9,010
Interactions Corporation	Internet Consumer & Business Services	Senior Secured	March 2021	Interest rate 3-month LIBOR + 8.60% or Floor rate of 9.85%, 1.75% Exit Fee	\$ 25,000	25,013	25,013
LogicSource ⁽¹⁵⁾	Internet Consumer & Business Services	Senior Secured	October 2019	Interest rate PRIME + 6.25% or Floor rate of 9.75%, 5.00% Exit Fee	\$ 6,452	6,701	6,726
Snagajob.com, Inc. ⁽¹³⁾⁽¹⁴⁾	Internet Consumer & Business Services	Senior Secured	July 2020	Interest rate PRIME + 5.15% or Floor rate of 9.15%, PIK Interest 1.95%, 2.55% Exit Fee	\$ 41,023	40,633	41,036

See notes to consolidated financial statements.

Table of ContentsIndex to Financial Statements

HERCULES CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2017

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment ⁽¹⁾	Maturity Date	Interest Rate and Floor ⁽²⁾	Principal Amount	Cost ⁽³⁾	Value ⁽⁴⁾
Tectura Corporation ⁽⁷⁾⁽⁸⁾⁽⁹⁾⁽¹⁴⁾	Internet Consumer & Business Services	Senior Secured	June 2021	Interest rate FIXED 6.00%, PIK Interest 3.00%	\$ 20,298	\$ 20,298	\$ 19,219
	Internet Consumer & Business Services	Senior Secured	June 2021	PIK Interest 8.00%	\$ 11,015	240	
Total Tectura Corporation					\$ 31,313	20,538	19,219
The Faction Group	Internet Consumer & Business Services	Senior Secured	January 2021	Interest rate 3-month LIBOR + 9.25% or Floor rate of 10.25%	\$ 8,000	8,000	8,000
	Internet Consumer & Business Services	Senior Secured	January 2019	Interest rate PRIME + 4.75% or Floor rate of 8.25%	\$ 2,000	2,000	2,000
Total The Faction Group					\$ 10,000	10,000	10,000
Subtotal: 1-5 Years Maturity						147,582	143,719
Subtotal: Internet Consumer & Business Services (17.09%)*						147,582	143,719
Media/Content/Info							
Under 1 Year Maturity							
Machine Zone, Inc. ⁽¹⁴⁾⁽¹⁶⁾	Media/Content/Info	Senior Secured	May 2018	Interest rate PRIME + 2.50% or Floor rate of 6.75%, PIK Interest 3.00%	\$ 106,986	106,641	106,641
Subtotal: Under 1 Year Maturity						106,641	106,641
1-5 Years Maturity							
Bustle ⁽¹⁴⁾⁽¹⁵⁾	Media/Content/Info	Senior Secured	June 2021	Interest rate PRIME + 4.10% or Floor rate of 8.35%, PIK Interest 1.95%, 1.95% Exit Fee	\$ 15,016	14,935	14,935
FanDuel, Inc. ⁽⁹⁾⁽¹²⁾⁽¹⁴⁾	Media/Content/Info	Senior Secured	November 2019	Interest rate PRIME + 7.25% or Floor rate of 10.75%, 10.41% Exit Fee	\$ 19,354	19,762	19,695
	Media/Content/Info	Convertible Debt	September 2020	PIK Interest 25.00%	\$ 1,000	1,000	1,000

Edgar Filing: Hercules Capital, Inc. - Form 497

Total FanDuel, Inc.					\$ 20,354	20,762	20,695
Subtotal: 1-5 Years Maturity						35,697	35,630
Subtotal: Media/Content/Info (16.92%)*						142,338	142,271
Medical Devices & Equipment							
Under 1 Year Maturity							
Amedica Corporation ⁽⁹⁾⁽¹⁵⁾	Medical Devices & Equipment	Senior Secured	January 2018	Interest rate PRIME + 7.70%			
				or Floor rate of 10.95%, 8.25% Exit Fee	\$ 605	2,255	2,255
Aspire Bariatrics, Inc. ⁽¹⁵⁾	Medical Devices & Equipment	Senior Secured	October 2018	Interest rate PRIME + 4.00%			
				or Floor rate of 9.25%, 5.42% Exit Fee	\$ 2,527	2,848	2,848
Subtotal: Under 1 Year Maturity						5,103	5,103
1-5 Years Maturity							
IntegenX, Inc. ⁽¹⁵⁾	Medical Devices & Equipment	Senior Secured	June 2019	Interest rate PRIME + 6.05%			
				or Floor rate of 10.05%, 6.75% Exit Fee	\$ 12,500	13,042	12,991
	Medical Devices & Equipment	Senior Secured	June 2019	Interest rate PRIME + 6.05%			
				or Floor rate of 10.05%, 6.75% Exit Fee	\$ 2,500	2,599	2,598

See notes to consolidated financial statements.

S-112

Table of ContentsIndex to Financial Statements

HERCULES CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2017

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment ⁽¹⁾	Maturity Date	Interest Rate and Floor ⁽²⁾	Principal Amount	Cost ⁽³⁾	Value ⁽⁴⁾	
	Medical Devices & Equipment	Senior Secured	June 2019	Interest rate PRIME + 6.05%				
				or Floor rate of 10.05%, 9.75% Exit Fee	\$ 2,500	\$ 2,618	\$ 2,601	
Total IntegenX, Inc.					\$ 17,500	18,259	18,190	
Intuity Medical, Inc. ⁽¹⁵⁾	Medical Devices & Equipment	Senior Secured	June 2021	Interest rate PRIME + 5.00%				
				or Floor rate of 9.25%, 4.95% Exit Fee	\$ 17,500	17,013	17,013	
Micell Technologies, Inc. ⁽¹²⁾	Medical Devices & Equipment	Senior Secured	August 2019	Interest rate PRIME + 7.25%				
				or Floor rate of 10.50%, 5.00% Exit Fee	\$ 5,469	5,744	5,708	
Quanta Fluid Solutions ⁽⁵⁾⁽¹⁰⁾⁽¹¹⁾	Medical Devices & Equipment	Senior Secured	April 2020	Interest rate PRIME + 8.05%				
				or Floor rate of 11.55%, 5.00% Exit Fee	\$ 10,117	10,432	10,386	
Quanterix Corporation ⁽¹¹⁾	Medical Devices & Equipment	Senior Secured	March 2019	Interest rate PRIME + 2.75%				
				or Floor rate of 8.00%, 4.00% Exit Fee	\$ 9,043	9,477	9,477	
Sebacia, Inc. ⁽¹⁵⁾	Medical Devices & Equipment	Senior Secured	July 2020	Interest rate PRIME + 4.35%				
				or Floor rate of 8.85%, 6.05% Exit Fee	\$ 8,000	7,927	7,919	
Tela Bio, Inc. ⁽¹⁵⁾	Medical Devices & Equipment	Senior Secured	December 2020	Interest rate PRIME + 4.95%				
				or Floor rate of 9.45%, 3.15% Exit Fee	\$ 5,000	4,991	4,973	
Subtotal: 1-5 Years Maturity						73,843	73,666	
Subtotal: Medical Devices & Equipment (9.37%)*						78,946	78,769	
Semiconductors								
1-5 Years Maturity								
Achronix Semiconductor Corporation ⁽¹⁵⁾⁽¹⁷⁾	Semiconductors	Senior Secured	August 2020	Interest rate PRIME + 7.00%				
				or Floor rate of 11.00%, 12.50% Exit Fee	\$ 5,000	5,084	5,100	
	Semiconductors	Senior Secured	February 2019	Interest rate PRIME + 6.00%				
				or Floor rate of 10.00%	\$ 4,274	4,274	4,273	
Total Achronix Semiconductor Corporation						\$ 9,274	9,358	9,373
Subtotal: 1-5 Years Maturity						9,358	9,373	

Edgar Filing: Hercules Capital, Inc. - Form 497

Subtotal: Semiconductors (1.11%)* 9,358 9,373

Software

Under 1 Year

Maturity

Clickfox, Inc. ⁽¹³⁾	Software	Senior Secured	May 2018	Interest rate PRIME + 8.00%			
				or Floor rate of 11.50%, 12.01% Exit Fee	\$ 6,378	7,671	7,671
Digital Train Limited (p.k.a. Jumpstart Games, Inc.) ⁽¹⁵⁾	Software	Senior Secured	July 2018	Interest rate 12-month LIBOR + 2.50%	\$ 5,671	5,671	4,073

Subtotal: Under 1 Year Maturity 13,342 11,744

1-5 Years Maturity

Clarabridge, Inc. ⁽¹²⁾⁽¹⁴⁾	Software	Senior Secured	April 2021	Interest rate PRIME + 4.80%			
				or Floor rate of 8.55%,			
				PIK Interest 3.25%	\$ 40,893	40,870	41,063
Emma, Inc.	Software	Senior Secured	September 2022	Interest rate daily LIBOR + 7.75%			
				or Floor rate of 8.75%	\$ 50,000	48,565	48,565
Evernote Corporation ⁽¹⁴⁾⁽¹⁵⁾⁽¹⁷⁾	Software	Senior Secured	October 2020	Interest rate PRIME + 5.45%			
				or Floor rate of 8.95%	\$ 6,000	5,974	6,100

See notes to consolidated financial statements.

Table of ContentsIndex to Financial Statements

HERCULES CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2017

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment ⁽¹⁾	Maturity Date	Interest Rate and Floor ⁽²⁾	Principal Amount	Cost ⁽³⁾	Value ⁽⁴⁾
	Software	Senior Secured	July 2021	Interest rate PRIME + 6.00% or Floor rate of 9.50%, PIK Interest 1.25%	\$ 4,023	\$ 3,999	\$ 3,992
Total Evernote Corporation Fuze, Inc. ⁽¹³⁾⁽¹⁴⁾⁽¹⁵⁾	Software	Senior Secured	July 2021	Interest rate PRIME + 3.70% or Floor rate of 7.95%, PIK Interest 1.55%, 3.55% Exit Fee	\$ 10,023	9,973	10,092
Impact Radius Holdings, Inc. ⁽¹⁴⁾⁽¹⁷⁾	Software	Senior Secured	December 2020	Interest rate PRIME + 4.25% or Floor rate of 8.75%, PIK Interest 1.55%, 1.75% Exit Fee	\$ 7,544	7,552	7,498
Lithium Technologies, Inc. ⁽¹⁷⁾	Software	Senior Secured	October 2022	Interest rate 1-month LIBOR + 8.00% or Floor rate of 9.00%	\$ 12,000	11,740	11,740
Microsystems Holding Company, LLC	Software	Senior Secured	July 2022	Interest rate 3-month LIBOR + 8.25% or Floor rate of 9.25%	\$ 12,000	11,821	11,821
OneLogin, Inc. ⁽¹⁴⁾⁽¹⁵⁾	Software	Senior Secured	August 2019	Interest rate PRIME + 6.45% or Floor rate of 9.95%, PIK Interest 3.25%	\$ 15,883	15,811	16,071
PerfectServe, Inc.	Software	Senior Secured	April 2021	Interest rate 3-month LIBOR + 9.00% or Floor rate of 10.00%, 2.50% Exit Fee	\$ 16,000	16,023	16,023
	Software	Senior Secured	April 2021	Interest rate 3-month LIBOR + 9.00% or Floor rate of 10.00%, 2.50% Exit Fee	\$ 4,000	4,005	4,005

Edgar Filing: Hercules Capital, Inc. - Form 497

Total PerfectServe, Inc. Pollen, Inc. ⁽¹⁵⁾	Software	Senior Secured	April 2019	Interest rate PRIME + 4.25% or Floor rate of 8.50%, 4.00% Exit Fee	\$ 20,000	20,028	20,028
Poplicus, Inc. ⁽⁸⁾⁽¹⁴⁾	Software	Senior Secured	May 2022	Interest rate FIXED 6.00%, PIK Interest 3.00%	\$ 7,000	6,964	6,964
Quid, Inc. ⁽¹⁴⁾⁽¹⁵⁾	Software	Senior Secured	October 2019	Interest rate PRIME + 4.75% or Floor rate of 8.25%, PIK Interest 2.25%, 3.00% Exit Fee	\$ 8,303	8,397	8,430
RapidMiner, Inc. ⁽¹⁴⁾	Software	Senior Secured	December 2020	Interest rate PRIME + 5.50% or Floor rate of 9.75%, PIK Interest 1.65%	\$ 7,001	6,971	6,971
Regent Education ⁽¹⁴⁾	Software	Senior Secured	January 2021	Interest rate FIXED 10.00%, PIK Interest 2.00%, 6.35% Exit Fee	\$ 3,285	3,291	3,291
Signpost, Inc. ⁽¹⁴⁾	Software	Senior Secured	February 2020	Interest rate PRIME + 4.15% or Floor rate of 8.15%, PIK Interest 1.75%, 3.75% Exit Fee	\$ 15,510	15,603	15,685
Vela Trading Technologies	Software	Senior Secured	July 2022	Interest rate daily LIBOR + 9.50% or Floor rate of 10.50%	\$ 20,000	19,495	19,557
Wrike, Inc. ⁽¹⁴⁾⁽¹⁷⁾	Software	Senior Secured	February 2021	Interest rate PRIME + 6.00% or Floor rate of 9.50%, PIK Interest 2.00%, 3.00% Exit Fee	\$ 10,165	9,971	10,007

See notes to consolidated financial statements.

S-114

Table of ContentsIndex to Financial Statements

HERCULES CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2017

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment ⁽¹⁾	Maturity Date	Interest Rate and Floor ⁽²⁾	Principal Amount	Cost ⁽³⁾	Value ⁽⁴⁾
ZocDoc	Software	Senior Secured	April 2021	Interest rate 3-month LIBOR + 9.50%			
				or Floor rate of 10.50%, 1.00% Exit Fee	\$ 20,000	\$ 20,011	\$ 20,011
	Software	Senior Secured	November 2021	Interest rate 3-month LIBOR + 9.50%			
				or Floor rate of 10.50%, 1.00% Exit Fee	\$ 10,000	10,005	10,005
Total ZocDoc					\$ 30,000	30,016	30,016
Subtotal: 1-5 Years Maturity						318,782	318,219
Subtotal: Software (39.24%)*						332,124	329,963
Specialty Pharmaceuticals							
Under 1 Year Maturity							
Jaguar Animal Health, Inc. ⁽¹¹⁾	Specialty Pharmaceuticals	Senior Secured	August 2018	Interest rate PRIME + 5.65%			
				or Floor rate of 9.90%, 7.00% Exit Fee	\$ 1,089	1,496	1,496
Subtotal: Under 1 Year Maturity						1,496	1,496
1-5 Years Maturity							
Alimera Sciences, Inc. ⁽¹¹⁾⁽¹⁴⁾	Specialty Pharmaceuticals	Senior Secured	November 2020	Interest rate PRIME + 7.50%			
				or Floor rate of 11.00%, PIK Interest 1.00%, 4.00% Exit Fee	\$ 35,398	35,517	35,517
Subtotal: 1-5 Years Maturity						35,517	35,517
Subtotal: Specialty Pharmaceuticals (4.40%)*						37,013	37,013
Surgical Devices							
1-5 Years Maturity							
Transmedics, Inc. ⁽¹³⁾	Surgical Devices	Senior Secured	February 2020	Interest rate PRIME + 5.30%	\$ 8,500	8,756	8,757

Edgar Filing: Hercules Capital, Inc. - Form 497

or Floor rate of 9.55%, 6.70%
Exit Fee

Subtotal: 1-5 Years Maturity 8,756 8,757

Subtotal: Surgical Devices (1.04%)* 8,756 8,757

Sustainable and Renewable Technology

Under 1 Year Maturity

FuelCell Energy, Inc. ⁽¹²⁾	Sustainable and Renewable Technology	Senior Secured	October 2018	Interest rate PRIME + 5.50% or Floor rate of 9.50%, 8.50% Exit Fee	\$ 16,806	18,190	18,190
Kinestral Technologies Inc.	Sustainable and Renewable Technology	Senior Secured	October 2018	Interest rate 3-month LIBOR + 7.75% or Floor rate of 8.75%, 3.23% Exit Fee	\$ 3,867	3,882	3,882

Subtotal: Under 1 Year Maturity 22,072 22,072

1-5 Years Maturity

ChargePoint Inc.	Sustainable and Renewable Technology	Senior Secured	August 2020	Interest rate 3-month LIBOR + 8.75% or Floor rate of 9.75%, 2.00% Exit Fee	\$ 19,394	19,416	19,416
------------------	--------------------------------------	----------------	-------------	--	-----------	--------	--------

See notes to consolidated financial statements.

S-115

Table of ContentsIndex to Financial Statements

HERCULES CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2017

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment ⁽¹⁾	Maturity Date	Interest Rate and Floor ⁽²⁾	Principal Amount	Cost ⁽³⁾	Value ⁽⁴⁾
Solar Spectrum Holdings LLC (p.k.a. Sungevity, Inc.) ⁽⁶⁾	Sustainable and Renewable Technology	Senior Secured	August 2019	Interest rate PRIME + 8.70% or Floor rate of 12.95%, 4.50% Exit Fee	\$ 14,000	\$ 13,604	\$ 13,604
Proterra, Inc. ⁽¹¹⁾⁽¹⁴⁾⁽¹⁷⁾	Sustainable and Renewable Technology	Senior Secured	November 2020	Interest rate PRIME + 3.70% or Floor rate of 7.95%, PIK Interest 1.75%, 5.95% Exit Fee	\$ 25,036	25,997	26,097
	Sustainable and Renewable Technology	Senior Secured	November 2020	Interest rate PRIME + 3.70% or Floor rate of 7.95%, PIK Interest 1.75%, 7.00% Exit Fee	\$ 5,007	5,173	5,190
Total Proterra, Inc.					\$ 30,043	31,170	31,287
Rive Technology, Inc. ⁽¹⁵⁾	Sustainable and Renewable Technology	Senior Secured	January 2019	Interest rate PRIME + 6.20% or Floor rate of 9.45%, 4.00% Exit Fee	\$ 4,258	4,498	4,515
Tendril Networks ⁽¹²⁾	Sustainable and Renewable Technology	Senior Secured	June 2019	Interest rate FIXED 9.25%, 8.50% Exit Fee	\$ 13,156	13,863	13,845
Subtotal: 1-5 Years Maturity						82,551	82,667
Subtotal: Sustainable and Renewable Technology (12.45%)*						104,623	104,739
Total: Debt Investments (168.38%)*						1,440,055	1,415,984

See notes to consolidated financial statements.

Table of ContentsIndex to Financial Statements

HERCULES CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2017

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment ⁽¹⁾	Series	Shares	Cost ⁽³⁾	Value ⁽⁴⁾
Equity Investments						
Biotechnology Tools						
NuGEN Technologies, Inc. ⁽¹⁵⁾	Biotechnology Tools	Equity	Common Stock	55,780	\$ 500	\$
Subtotal: Biotechnology Tools (0.00%)*					500	
Communications & Networking						
Achilles Technology Management Co II, Inc. ⁽⁷⁾⁽¹⁵⁾	Communications & Networking	Equity	Common Stock	100	3,100	242
GlowPoint, Inc. ⁽⁴⁾	Communications & Networking	Equity	Common Stock	114,192	102	41
Peerless Network Holdings, Inc.	Communications & Networking	Equity	Preferred Series A	1,000,000	1,000	5,865
Subtotal: Communications & Networking (0.73%)*					4,202	6,148
Diagnostic						
Singulex, Inc.	Diagnostic	Equity	Common Stock	937,998	750	720
Subtotal: Diagnostic (0.09%)*					750	720
Drug Delivery						
AcelRx Pharmaceuticals, Inc. ⁽⁴⁾⁽¹⁰⁾	Drug Delivery	Equity	Common Stock	54,240	108	109
BioQ Pharma Incorporated ⁽¹⁵⁾	Drug Delivery	Equity	Preferred Series D	165,000	500	826
Edge Therapeutics, Inc. ⁽⁴⁾	Drug Delivery	Equity	Common Stock	49,965	309	468
Neos Therapeutics, Inc. ⁽⁴⁾⁽¹⁵⁾	Drug Delivery	Equity	Common Stock	125,000	1,500	1,275
Subtotal: Drug Delivery (0.32%)*					2,417	2,678
Drug Discovery & Development						
Aveo Pharmaceuticals, Inc. ⁽⁴⁾⁽¹⁰⁾⁽¹⁵⁾	Drug Discovery & Development	Equity	Common Stock	1,901,791	1,715	5,315
Axovant Sciences Ltd. ⁽⁴⁾⁽⁵⁾⁽¹⁰⁾	Drug Discovery & Development	Equity	Common Stock	129,827	1,270	707
Cerecor, Inc. ⁽⁴⁾	Drug Discovery & Development	Equity	Common Stock	119,087	1,000	381
Dare Biosciences, Inc. (p.k.a. Cerulean Pharma, Inc.) ⁽⁴⁾	Drug Discovery & Development	Equity	Common Stock	13,550	1,000	29
Dicerna Pharmaceuticals, Inc. ⁽⁴⁾⁽¹⁵⁾	Drug Discovery & Development	Equity	Common Stock	142,858	1,000	1,290
Dynavax Technologies ⁽⁴⁾⁽¹⁰⁾	Drug Discovery & Development	Equity	Common Stock	20,000	550	374
Epirus Biopharmaceuticals, Inc. ⁽⁴⁾	Drug Discovery & Development	Equity	Common Stock	200,000	1,000	
Genocea Biosciences, Inc. ⁽⁴⁾		Equity	Common Stock	223,463	2,000	259

Edgar Filing: Hercules Capital, Inc. - Form 497

	Drug Discovery & Development					
Inotek Pharmaceuticals Corporation ⁽⁴⁾	Drug Discovery & Development	Equity	Common Stock	3,778	1,500	10
Insmmed, Incorporated ⁽⁴⁾	Drug Discovery & Development	Equity	Common Stock	70,771	1,000	2,154
Melinta Therapeutics ⁽⁴⁾	Drug Discovery & Development	Equity	Common Stock	43,840	2,000	693
Paratek Pharmaceuticals, Inc. (p.k.a. Transcept Pharmaceuticals, Inc.) ⁽⁴⁾	Drug Discovery & Development	Equity	Common Stock	76,362	2,743	1,367
Subtotal: Drug Discovery & Development (1.50%)*				16,778	12,579	

See notes to consolidated financial statements.

S-117

Table of Contents**Index to Financial Statements****HERCULES CAPITAL, INC.****CONSOLIDATED SCHEDULE OF INVESTMENTS****December 31, 2017****(dollars in thousands)**

Portfolio Company	Sub-Industry	Type of Investment⁽¹⁾	Series	Shares	Cost⁽³⁾	Value⁽⁴⁾
Electronics & Computer Hardware						
Identiv, Inc. ⁽⁴⁾	Electronics & Computer Hardware	Equity	Common Stock	6,700	\$ 34	\$ 22
Subtotal: Electronics & Computer Hardware (0.00%)*					34	22
Information Services						
DocuSign, Inc.	Information Services	Equity	Common Stock	385,000	6,081	8,011
Subtotal: Information Services (0.95%)*					6,081	8,011
Internet Consumer & Business Services						
Blurb, Inc. ⁽¹⁵⁾	Internet Consumer & Business Services	Equity	Preferred Series B	220,653	175	46
Brigade Group, Inc. (p.k.a. Philotic, Inc.)	Internet Consumer & Business Services	Equity	Common Stock	9,023	93	
Lightspeed POS, Inc. ⁽⁵⁾⁽¹⁰⁾	Internet Consumer & Business Services	Equity	Preferred Series C	230,030	250	233
	Internet Consumer & Business Services	Equity	Preferred Series D	198,677	250	213
Total Lightspeed POS, Inc.				428,707	500	446
OfferUp, Inc.	Internet Consumer & Business Services	Equity	Preferred Series A	286,080	1,663	2,236
	Internet Consumer & Business Services	Equity	Preferred Series A-1	108,710	632	850
Total OfferUp, Inc.				394,790	2,295	3,086
Oportun (p.k.a. Progress Financial)	Internet Consumer & Business Services	Equity	Preferred Series G	218,351	250	451
	Internet Consumer & Business Services	Equity	Preferred Series H	87,802	250	255
Total Oportun (p.k.a. Progress Financial)				306,153	500	706
RazorGator Interactive Group, Inc.	Internet Consumer & Business Services	Equity	Preferred Series AA	34,783	15	49
Tectura Corporation ⁽⁷⁾	Internet Consumer & Business Services	Equity	Preferred Series BB	1,000,000		
Subtotal: Internet Consumer & Business Services (0.52%)*					3,578	4,333
Media/Content/Info						
Pinterest, Inc.	Media/Content/Info	Equity	Preferred Series Seed	620,000	4,085	5,055
Subtotal: Media/Content/Info (0.60%)*					4,085	5,055

Edgar Filing: Hercules Capital, Inc. - Form 497

Medical Devices & Equipment						
AtriCure, Inc. ⁽⁴⁾⁽¹⁵⁾	Medical Devices & Equipment	Equity	Common Stock	7,536	266	138
Flowonix Medical Incorporated	Medical Devices & Equipment	Equity	Preferred Series AA	221,893	1,500	
Gelesis, Inc. ⁽¹⁵⁾	Medical Devices & Equipment	Equity	Common Stock	198,202		879
	Medical Devices & Equipment	Equity	Preferred Series A-1	191,210	425	939
	Medical Devices & Equipment	Equity	Preferred Series A-2	191,626	500	894
Total Gelesis, Inc.				581,038	925	2,712
Medrobotics Corporation ⁽¹⁵⁾	Medical Devices & Equipment	Equity	Preferred Series E	136,798	250	302
	Medical Devices & Equipment	Equity	Preferred Series F	73,971	155	