RADY ERNEST S
Form 4
May 11, 2018

FORM 4

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

OMB APPROVAL

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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
RADY ERNEST S

(Last) (First) (Middle)

11455 EL CAMINO REAL, SUITE 200

(Street)

SAN DIEGO, CA 92130

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
American Assets Trust, Inc. [AAT]

3. Date of Earliest Transaction (Month/Day/Year)
05/10/2018

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director __X__ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Chairman, CEO & President

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock, par value $0.01	05/10/2018		P		200	A	$ 35.2	672,334	I	By ICW (1)
Common Stock, par value $0.01	05/11/2018		P		4,510	A	$ 35.17	676,844	I	By ICW (1)
Common Stock, par value $0.01								5,702,377	I	By ERT (2)
Common Stock, par								1,360,010	I	By AAI (3)

value $0.01			
Common Stock, par value $0.01	597,341	I	By RFF (4)
Common Stock, par value $0.01	200,000	I	By EIC (5)
Common Stock, par value $0.01	32,000	I	By ESRT (6)
Common Stock, par value $0.01	162,790	D (7)	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
RADY ERNEST S 11455 EL CAMINO REAL SUITE 200 SAN DIEGO, CA 92130	X	X	Chairman, CEO & President	

Signatures

/s/ Adam Wyll, Attorney-in-fact	05/11/2018
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Represents shares held by Insurance Company of the West ("ICW"), which is directly controlled by the Reporting Person. The Reporting Person disclaims beneficial ownership of such shares, except to the extent of his pecuniary interest therein.

(2) Represents shares held by Ernest Rady Trust U/D/T March 10, 1983 ("ERT"), for which the Reporting Person is the trustee. The Reporting Person disclaims beneficial ownership of such shares, except to the extent of his pecuniary interest therein.

(3) Represents shares held by American Assets, Inc. ("AAI"), which is directly controlled by the Reporting Person. The Reporting Person disclaims beneficial ownership of such shares, except to the extent of his pecuniary interest therein.

(4) Represents shares held by Rady Family Foundation dated August 2, 2002 ("RFF"), for which the Reporting Person is the trustee. The Reporting Person disclaims beneficial ownership of such shares, except to the extent of his pecuniary interest therein.

(5) Represents shares held by Explorer Insurance Company ("EIC"), which is directly controlled by the Reporting Person. The Reporting Person disclaims beneficial ownership of such shares, except to the extent of his pecuniary interest therein.

(6) Represents shares held by Evelyn Shirley Rady Trust U/D/T March 10, 1983 ("ESRT"), for which the Reporting Person is the trustee. The Reporting Person disclaims beneficial ownership of such shares, except to the extent of his pecuniary interest therein.

(7) Amount includes (a) 57,500 shares held by Ernest Rady IRA and (b) 105,290 shares of restricted common stock issued pursuant to the American Assets Trust, Inc. and American Assets Trust, L.P. 2011 Equity Incentive Award Plan.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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Energy Technology

45,168

Originated Within 6 Months

Origination Yield

11.64% - 17.29%

12.70%

88,836

Market Comparable Companies

Hypothetical Market Yield

13.25% - 27.39%

16.00%

Premium/(Discount)

(0.50%) - 2.50%

6,330

Liquidation[c]

Probability weighting of alternative outcomes

20.00% - 80.00%

Lower Middle Market

115,611

Market Comparable Companies

Adjusted SMi Leveraged Loan Indices

7.35% - 15.32%

13.35%

Premium/(Discount)

0.00% - 1.50%

7,380

Liquidation[c]

Probability weighting of alternative outcomes

50.00%

Explanation of Responses:

Debt Investments Where Fair Value Approximates Cost

30,687

Explanation of Responses:

Imminent Payoffs

14,974

Debt Investments Maturing in Less than One Year

$

898,030

Total Level Three Debt Investments

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

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

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

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

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

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

(c) The significant unobservable input used in the fair value measurement of impaired debt securities is the probability weighting of alternative outcomes. The probability weighting of alternative outcomes is the probability assigned to different possible outcomes for our investment.

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Investment Type - Level Three Debt Investments	Fair Value at December 31, 2013 (in thousands)	Valuation Techniques/ Methodologies	Unobservable Input [a]	Range	Weighted Average [c]
Pharmaceuticals	$ 25,811	Originated Within 6 Months	Origination Yield	12.56% - 14.53%	13.36%
	250,607	Market Comparable Companies	Hypothetical Market Yield	13.83% - 15.47%	14.13%
			Premium/(Discount)	(1.00%) - 0.00%	
Medical Devices	46,900	Originated Within 6 Months	Origination Yield	13.54% - 17.37%	14.87%
	34,723	Market Comparable Companies	Hypothetical Market Yield	14.32% - 17.37%	15.23%
			Premium/(Discount)	(1.00%) - 1.00%	
Technology	18,796	Originated Within 6 Months	Origination Yield	10.62% - 15.97%	14.26%
	98,290	Market Comparable Companies	Hypothetical Market Yield	14.72% - 21.08%	15.48%
			Premium/(Discount)	0.00% - 1.00%	
	1,643	Liquidation	Probability weighting of alternative outcomes	30.00% - 70.00%	
Energy Technology	32,597	Originated Within 6 Months	Origination Yield	14.68% - 15.87%	15.17%
	108,238	Market Comparable Companies	Hypothetical Market Yield	15.37%	15.37%
			Premium/(Discount)	(0.50%) - 1.50%	
Lower Middle Market	121,347	Market Comparable Companies	Hypothetical Market Yield Premium/(Discount)	14.83% - 19.73%	16.12%

	Broker Quote (b)	Price Quotes	0.00% - 1.00% 99.50% - 100.25% of par
31,818		Par Value	$2.0 - $22.5 million
12,576	Liquidation	Probability weighting of alternative outcomes	20.00% - 80.00%
	Debt Investments Where Fair Value Approximates Amortized Cost		
15,906	Imminent Payoffs		
22,236	Debt Investments Maturing in Less than One Year		
500	Convertible Debt at Par		
$ 821,988	Total Level Three Debt Investments		

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

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

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

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

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

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

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

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Investment Type - Level Three Equity and Warrant Investments	Fair Value at June 30, 2014 (in thousands)	Valuation Techniques/ Methodologies	Unobservable Input [a]	Range
Equity Investments	$ 11,079	Market Comparable Companies	EBITDA Multiple [b]	5.1x - 23.1x
			Revenue Multiple [b]	0.9x - 4.1x
			Discount for Lack of Marketability [c]	10.8% - 33.3%
			Average Industry Volatility [d]	43.5% - 100.8%
			Risk-Free Interest Rate	0.1% - 0.8%
			Estimated Time to Exit (in months)	12 - 36
	38,128	Market Adjusted OPM Backsolve	Average Industry Volatility [d]	40.2% - 84.3%
			Risk-Free Interest Rate	0.0% - 1.1%
			Estimated Time to Exit (in months)	2 - 45
Warrant Investments	10,135	Market Comparable Companies	EBITDA Multiple [b]	3.2x - 42.8x
			Revenue Multiple [b]	0.4x - 7.5x
			Discount for Lack of Marketability [c]	12.3% - 34.4%
			Average Industry Volatility [d]	39.6% - 118.3%
			Risk-Free Interest Rate	0.1% - 1.2%
			Estimated Time to Exit (in months)	12 - 48
	6,748	Market Adjusted OPM Backsolve	Average Industry Volatility [d]	29.9% - 95.4%
			Risk-Free Interest Rate	0.1% - 2.7%
			Estimated Time to Exit (in months)	9 - 48
Total Level Three Warrant and Equity Investments	$ 66,090			

(a) The significant unobservable inputs used in the fair value measurement of our warrant and equity-related securities are revenue and/or EBITDA multiples and discounts for lack of marketability. Additional inputs used in the Black

Scholes option pricing model include industry volatility, risk free interest rate and estimated time to exit. Significant increases (decreases) in the inputs in isolation would result in a significantly higher (lower) fair value measurement, depending on the materiality of the investment. For some investments, additional consideration may be given to data from the last round of financing or merger/acquisition events near the measurement date.

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

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

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

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

	8,913	Market Adjusted OPM Backsolve	Average Industry Volatility (d)	35.7% - 109.9%
			Risk-Free Interest Rate	0.1% - 2.7%
			Estimated Time to Exit (in months)	3 - 48
	9,595	Other	Average Industry Volatility (d)	44.0% - 56.9%
			Risk-Free Interest Rate	0.1% - 1.0%
			Estimated Time to Exit (in months)	12 - 48
Total Level Three Warrant and Equity Investments	$ 66,368			

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

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

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

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

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Debt Investments

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

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

We apply a procedure for debt investments that assumes a sale of investment in a hypothetical market to a hypothetical market participant where buyers and sellers are willing participants. The hypothetical market does not include scenarios where the underlying security was simply repaid or extinguished, but includes an exit concept. Under this process, we also evaluate the collateral for recoverability of the debt investments as well as apply all of its historical fair value analysis. We use pricing on recently issued comparable debt securities to determine the baseline hypothetical market yields as of the measurement date. We consider each portfolio company’s credit rating, security liens and other characteristics of the investment to adjust the baseline yield to derive a hypothetical yield for each investment as of the measurement date. The anticipated future cash flows from each investment are then discounted at the hypothetical yield to estimate each investment’s fair value as of the measurement date.

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

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

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

Equity-Related Securities and Warrants

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

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

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Income Recognition

We record interest income on the accrual basis and we recognize it as earned in accordance with the contractual terms of the loan agreement to the extent that such amounts are expected to be collected. Original Issue Discount ("OID") initially represents the value of detachable equity warrants obtained in conjunction with the acquisition of debt securities and is accreted into interest income over the term of the loan as a yield enhancement. When a loan becomes 90 days or more past due, or if management otherwise does not expect the portfolio company to be able to service its debt and other obligations, we will generally place the loan on non-accrual status and cease recognizing interest income on that loan until all principal has been paid. Any uncollected interest related to prior periods is reversed from income in the period that collection of the interest receivable is determined to be doubtful. However, we may make exceptions to this policy if the investment has sufficient collateral value and is in the process of collection. At June 30, 2014, we had three debt investments on non-accrual with a cumulative cost and approximate fair value of $23.6 million and $7.4 million, respectively, compared to two debt investments on non-accrual at December 31, 2013 a cumulative cost and approximate fair market value of $23.3 million and $12.6 million, respectively.

Paid-In-Kind and End of Term Income

Contractual paid-in-kind ("PIK") interest, which represents contractually deferred interest added to the loan balance that is generally due at the end of the loan term, is generally recorded on the accrual basis to the extent such amounts are expected to be collected. We will generally cease accruing PIK interest if there is insufficient value to support the accrual or we do not expect the portfolio company to be able to pay all principal and interest due. In addition, we may also be entitled to an end-of-term payment that we amortize into income over the life of the loan. To maintain our status as a RIC, PIK and end-of-term income must be paid out to stockholders in the form of dividends even though we have not yet collected the cash. Amounts necessary to pay these dividends may come from available cash or the liquidation of certain investments. We recorded approximately $872,000 and $1.7 million in PIK income in the three and six months ended June 30, 2014, respectively. We recorded approximately $983,000 and $1.8 million in PIK income in the three and six months ended June 30, 2013, respectively.

Fee Income

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

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

Equity Offering Expenses

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

Debt Issuance Costs

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

Stock-Based Compensation

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

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Income Taxes

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

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

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

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

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

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

Recent Accounting Pronouncements

In June 2013, the FASB issued ASU 2013-08, “Financial Services - Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements,” which amends the criteria that define an investment company and clarifies the measurement guidance and requires new disclosures for investment companies. Under ASU

2013-08, an entity already regulated under the 1940 Act is automatically an investment company under the new GAAP definition, so we have concluded that there is no impact from adopting this standard on our statement of assets and liabilities or results of operations. We have adopted this standard for our fiscal year ending December 31, 2014.

Subsequent Events

Dividend Declaration

On July 28, 2014 the Board of Directors declared a cash dividend of $0.31 per share to be paid on August 25, 2014 to shareholders of record as of August 18, 2014. This dividend represents our thirty-sixth consecutive dividend declaration since our initial public offering, bringing the total cumulative dividend declared to date to $9.68 per share.

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Appointment of Chief Operating Officer

Effective July 8, 2014, the Company's Board of Directors appointed Harry A. Feuerstein as the Company's Chief Operating Officer. Mr. Feuerstein, age 52, joined the Company in July 2014. Mr. Feuerstein previously served as president and as a board member of Merryck & Co., Americas, and also served as an Operating Executive of Morgan Joseph Tri Artisan and as a Managing Director of W2 GreenTech. Prior to such roles, Mr. Feuerstein held several executive-level positions at Siemens USA, including as CEO of Siemens Government Inc., with experience in energy, technology and healthcare matters. Mr. Feuerstein is also the former CEO of a subsidiary of Trizechahn Corporation and was a partner at National Capital Companies and its related broker dealer. Mr. Feuerstein received his BA from Washington and Lee University, and he received an MBA from Hofstra University.

Appointment of Director

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

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

Liquidity and Capital Resources

6.25% Notes Due 2024

On July 14, 2014, we and U.S. Bank, N.A. (the "Trustee"), entered into the Third Supplemental Indenture (the "Third Supplemental Indenture") to the Indenture (the "Indenture") between us and the Trustee, dated July 14, 2014, relating to our issuance, offer and sale of $100.0 million aggregate principal amount of 6.25% senior notes due 2024 (the "2024 Notes"). The sale of the 2024 Notes generated net proceeds of approximately $97.0 million.

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

The 2024 Notes will be our direct unsecured obligations and will rank: (i) pari passu with the our other outstanding and future senior unsecured indebtedness, including without limitation, the $73.1 million 6.00% Convertible Senior Notes due 2016 (the “Convertible Senior Notes”); the approximately $84.5 million 7.00% Senior Notes due April 30, 2019 (the “April 2019 Notes”); the approximately $85.9 million 7.00% Senior Notes due September 30, 2019 (the “September 2019 Notes” and together with the April 2019 Notes, the “2019 Notes”) and the approximately $46.5 million fixed-rate asset-backed notes (the “Asset-Backed Notes”); (ii) senior to any of our future indebtedness that expressly provides it is subordinated to the 2024 Notes; (iii) effectively subordinated to all our existing and future secured indebtedness (including indebtedness that is initially unsecured to which we subsequently grant security), to the extent of the value of the assets securing such indebtedness, including without limitation, borrowings under our credit facilities; (iv) structurally subordinated to all existing and future indebtedness and other obligations of any of our subsidiaries, including without limitation, the indebtedness of HT II and HT III and any borrowings under our revolving senior secured credit facility with Wells Fargo Capital Finance.

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

The 2024 Notes were sold pursuant to an underwriting agreement dated July 14, 2014 among us and Keefe, Bruyette & Woods, Inc., Jefferies LLC and RBC Capital Markets, LLC acting as representatives of the several underwriters named in the underwriting agreement. We granted the underwriters an option to purchase up to an additional $4.6 million in total aggregate principal amount of the 2024 Notes to cover over-allotments, if any. 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.

We expect to use the net proceeds from this offering to fund investments in debt and equity securities in accordance with our investment objective and for other general corporate purposes. We may also use the net proceeds from this offering to fund the conversion of any of our Convertible Senior Notes which holders may elect to convert. The transaction closed on July 14, 2014.

Convertible Senior Notes

In April 2011, we issued $75.0 million in aggregate principal amount of 6.00% convertible senior notes, or the Convertible Senior Notes, due 2016. As of June 30, 2014, the carrying value of the Convertible Senior Notes, comprised of the aggregate principal amount outstanding less the unaccreted discount initially recorded upon issuance of the Convertible Senior Notes, is approximately $73.1 million.

The Convertible Senior Notes are convertible into shares of our common stock beginning October 15, 2015, or, under certain circumstances, earlier. Upon conversion of the Convertible Notes, we have the choice to pay or deliver, as the case may be, at our election, cash, shares of our common stock or a combination of cash and shares of our common stock. The current conversion price of the Convertible Senior Notes is approximately $11.49 per share of common stock, in each case subject to adjustment in certain circumstances. Upon meeting the stock trading price conversion requirement during the three months ended June 30, 2014, the Convertible Senior Notes became convertible on July 1, 2014 and continue to be convertible through September 30, 2014.

On July 14, 2014 and July 15, 2014, approximately $33.9 million of the Convertible Senior Notes converted, and on August 5, 2014 and August 6, 2014 these Convertible Senior Notes were settled with a combination of cash equal to the outstanding principal amount of the converted notes and approximately 921,000 shares of the Company’s common stock. An additional approximately $8,000 of the Convertible Senior Notes converted on August 6, 2014 and will be settled in August 2014.

Amendment to Union Bank Facility

On July 8, 2014 we entered into an amendment to the Union Bank Facility which permitted us to issue additional senior notes relating to our offer and sale of $100.0 million aggregate principal amount of 6.25% senior notes due 2024 (the "2024 Notes"). Pursuant to the terms of the amendment, we are permitted to increase our unsecured indebtedness by an aggregate original principle amount not to exceed $275.0 million incurred after March 30, 2012 in one or more instances, provided certain conditions are satisfied for each issuance.

Closed and Pending Commitments

As of August 4, 2014, Hercules has:

a. Closed commitments of approximately $47.7 million to new and existing portfolio companies, and funded approximately $14.2 million since the close of the second quarter of 2014.

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b. Pending commitments (signed non-binding term sheets) of approximately $134.6 million. The table below summarizes our year-to-date closed and pending commitments as follows:

Closed Commitments and Pending Commitments (in millions)	
January 1 - June 30, 2014 Closed Commitments	$392.7
Q3-14 Closed Commitments (as of August 4, 2014)	$47.7
Total Year-to-date 2014 Closed Commitments [a]	$440.4
Pending Commitments (as of August 4, 2014)[b]	$134.6
Year to date 2014 Closed and Pending Commitments	$575.0

Notes:

a. Closed Commitments may include renewals of existing credit facilities. Not all Closed Commitments result in future cash requirements. Commitments generally fund over the two succeeding quarters from close.

b. Not all pending commitments (signed non-binding term sheets) are expected to close and do not necessarily represent any future cash requirements.

Portfolio Company Developments

As of June 30, 2014, we held warrants or equity positions in five companies that have filed registration statements on Form S-1 with the SEC in contemplation of potential initial public offerings, including Box, Inc., Dance Biopharm, Inc., Good Technology, Inc., Zosano, Inc., and one company which filed confidentially under the JOBS Act. In addition, subsequent to June 30, 2014 the following portfolio companies announced M&A transactions:

1. In July 2014, our portfolio company Transcept Pharmaceuticals, Inc. (Nasdaq: TSPT) and our portfolio company Paratek Pharmaceuticals, Inc. entered into a definitive merger agreement under which the stockholders of Paratek will become the majority owners of Transcept and the operations of Transcept and Paratek will be combined.
2. In August 2014, one Hercules portfolio company was acquired. This liquidity event represents a net gain of approximately $1.6 million, an internal rate of return of approximately 18.5 percent (excluding proceeds in escrow), and a gross multiple of approximately 3.0x on Hercules total investment in this portfolio company.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to financial market risks, including changes in interest rates. Interest rate risk is defined as the sensitivity of our current and future earnings to interest rate volatility, variability of spread relationships, the difference in re-pricing intervals between our assets and liabilities and the effect that interest rates may have on our cash flows. Changes in interest rates may affect both our cost of funding and our interest income from portfolio investments, cash and cash equivalents and idle funds investments. Our investment income will be affected by changes in various interest rates, including LIBOR and Prime rates, to the extent our debt investments include variable interest rates. As of June 30, 2014, approximately 98.1% of the loans in our portfolio had variable rates based on floating Prime or LIBOR rates, or variable 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 June 30, 2014, the following table shows the approximate annualized increase (decrease) in components of net assets resulting from operations of hypothetical base rate changes in interest rates, assuming no changes in our investments and borrowings.

(in thousands) Basis Point Change[(1)]	Interest Income	Interest Expense	Net Income
100	$5,987	$ —	$5,987
200	$12,145	$ —	$12,145
300	$21,482	$ —	$21,482
400	$30,680	$ —	$30,680
500	$39,132	$ —	$39,132

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

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

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

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

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

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

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

PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

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

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

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

	June 30, 2014	
(in thousands)	Fair Value	Percentage of Net Assets
Merrimack Pharmaceuticals, Inc.	$45,741	6.9%

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

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.

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

During the six month period ended June 30, 2014, we issued approximately 45,000 shares of common stock to shareholders in connection with the dividend reinvestment plan. These issuances were not subject to the registration requirements of the Securities Act of 1933, as amended. The aggregate value of the shares of our common stock issued under our dividend reinvestment plan was approximately $664,000.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable

ITEM 5. OTHER INFORMATION

Not Applicable

ITEM 6. EXHIBITS

Exhibit Number	Description
31.1	Chief Executive Officer Certification Pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Chief Financial Officer Certification Pursuant to Exchange Act Rule 13a-14 (a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Chief Executive Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
32.2	Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*

* Filed herewith.

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SIGNATURES

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

HERCULES TECHNOLOGY GROWTH CAPITAL, INC. (Registrant)

Dated: August 7, 2014 /S/ MANUEL A. HENRIQUEZ
Manuel A. Henriquez
Chairman, President, and Chief Executive Officer

Dated: August 7, 2014 /S/ JESSICA BARON
Jessica Baron
Vice President, Finance and Chief Financial Officer

EXHIBIT INDEX

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*Filed herewith.

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