HERCULES TECHNOLOGY GROWTH CAPITAL INC
Form 497
September 20, 2012
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Filed Pursuant to Rule 497
Registration Statement No. 333-179431

PROSPECTUS SUPPLEMENT

(To prospectus dated March 29, 2012)

$75,000,000

7.00% Senior Notes due 2019

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

We are offering $75,000,000 in aggregate principal amount of 7.00% senior notes due 2019, or the Notes. The Notes will mature on September 30, 2019. We will pay interest on the Notes on March 30, June 30, September 30 and December 30 of each year, beginning on December 30, 2012. We may redeem the Notes in whole or in part at any time or from time to time on or after September 30, 2015, 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 senior unsecured obligations and rank *pari passu* with all outstanding and future unsecured unsubordinated indebtedness issued by Hercules Technology Growth Capital, Inc.

We intend 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 HTGY. 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-17 in this prospectus supplement and the Risk Factors section beginning on page 16 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.herculestech.com. The SEC also maintains a website at www.sec.gov that contains such information. The information on the websites referred to herein is not incorporated by reference into this prospectus supplement or the accompanying prospectus.

	Per Note	Total
Public offering price	100.00%	$ 75,000,000
Sales load (underwriting discounts and commissions)	3.00%	$ 2,250,000
Proceeds to us (before expenses)(1)	97.00%	$ 72,750,000

(1) Before deducting expenses payable by us related to this offering, estimated at $475,000.

The underwriters may also purchase up to an additional $11,250,000 total aggregate principal amount of Notes offered hereby, to cover overallotments, 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 $2,587,500, and total proceeds, before expenses will be $83,662,500.

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 September 24, 2012.

Joint Book-Running Managers

Stifel Nicolaus Weisel **Credit Suisse** **Goldman, Sachs & Co.** **RBC Capital Markets**

Co-Managers

BB&T Capital Markets **Janney Montgomery Scott** **JMP Securities** **Sterne Agee** **Stephens Inc.** **Wunderlich Securities**

The date of this prospectus supplement is September 19, 2012.

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.

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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.

Issuer	Hercules Technology Growth Capital, Inc.
Title of the securities	7.00% Senior Notes due 2019
Initial 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	100.00% 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 Paying Agent, Registrar and Transfer Agent for the Notes or at such other office in The City of New York as we may designate.
Type of Note	Fixed rate note
Listing	We intend to list the Notes on the New York Stock Exchange within 30 days of the original issue date under the symbol HTGY.
Interest rate	7.00% per year
Day count basis	360-day year of twelve 30-day months
Original issue date	September 24, 2012
Stated maturity date	September 30, 2019
Date interest starts accruing	September 24, 2012
Interest payment dates	Each March 30, June 30, September 30, and December 30, commencing December 30, 2012. 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.
Interest periods	The initial interest period will be the period from and including September 30, 2012, 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 March 15, June 15, September 15 and December 15.

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Specified currency	U.S. Dollars
Place of payment	New York City
Ranking of Notes	The Notes will be our direct unsecured obligations and will rank: *pari passu* with our other outstanding and future senior unsecured indebtedness, including without limitation, the $75 million 6.00% Convertible Senior Notes due 2016 (the Convertible Senior Notes) and the approximately $84.5 million 7.00% Senior Notes due 2019 (the 7.00% Notes); senior to any of our future indebtedness that expressly provides it is subordinated to the Notes; 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. structurally subordinated to all existing and future indebtedness and other obligations of any of our subsidiaries, including without limitation, the indebtedness of Hercules Technology II, L.P. and Hercules Technology III, L.P. and borrowings under our revolving senior secured credit facility with Wells Fargo Capital Finance (the Wells Facility).
Denominations	We will issue the Notes in denominations of $25 and integral multiples of $25 in excess thereof.
Business day	Each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which banking institutions in New York City are authorized or required by law or executive order to close.
Optional redemption	The Notes may be redeemed in whole or in part at any time or from time to time at our option on or after September 30, 2015, upon not less than 30 days nor more than 60 days written notice by mail prior to the date fixed for redemption thereof, at a redemption price of 100% of the outstanding principal amount thereof plus accrued and unpaid interest payments otherwise payable for the then-current quarterly interest period accrued to but not including the date fixed for redemption. 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.

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	Any exercise of our option to redeem the Notes will be done in compliance with the Investment Company Act of 1940, as amended, and the rules, regulations and interpretations promulgated thereunder, which we collectively refer to as the 1940 Act, to the extent applicable. If we redeem only some of the Notes, the Trustee or DTC, as applicable, will determine the method for selection of the particular Notes to be redeemed, in accordance with their standard operating procedures in accordance with the 1940 Act, to the extent applicable and in accordance with the rules of any national securities exchange or quotation system on which the Notes are listed. 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. Under our credit facility with Union Bank, N.A. and Royal Bank of Canada (the Union Bank Facility), we currently would not be permitted to exercise our optional redemption right without the consent of the lenders.
Sinking fund	The Notes will not be subject to any sinking fund.
Repayment at option of Holders	Holders will not have the option to have the Notes repaid prior to the stated maturity date.
Defeasance and covenant defeasance	The Notes are subject to defeasance by us. The Notes are subject to covenant defeasance by us. Under the Union Bank Facility, we currently would be prohibited from defeasing the Notes or effecting covenant defeasance under the Notes without the consent of the lenders.
Form of Notes	The Notes will be represented by global securities that will be deposited and registered in the name of The Depository Trust Company, or 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.
Trustee, Paying Agent, Registrar and Transfer Agent	U.S. Bank National Association
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, in either case, to any exemptive relief granted to us by the

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	U.S. Securities and Exchange Commission (the SEC). 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% after such borrowings. 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 any exemptive relief granted to us by the SEC. These provisions generally prohibit us from declaring any cash dividend or distribution upon any class of our capital stock, or purchasing any such capital stock if our asset coverage, as defined in the 1940 Act, is below 200% at the time of the declaration of the dividend or distribution or the purchase and after deducting the amount of such dividend, distribution or purchase. If, at any time, we are not subject to the reporting requirements of Sections 13 or 15(d) of the Securities Exchange Act of 1934 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.
Modifications to events of default	The following event of default, as described in the prospectus attached to this prospectus supplement: 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. with respect to the Notes has been revised to read as follows: We do not pay the principal of, or any premium on, any Note on its due date.
Global Clearance and Settlement Procedures	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.

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Use of Proceeds	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 $72.3 million (or approximately $83.2 million if the underwriters fully exercise their overallotment option), in each case at a public offering price of 100% par, after deducting the underwriting discount of approximately $2.3 million (or approximately $2.6 million if the underwriters fully exercise their overallotment option) payable by us and estimated offering expenses of approximately $475,000 payable by us. 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.

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FORWARD-LOOKING STATEMENTS

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

- our future operating results;
- our business prospects and the prospects of our prospective portfolio companies;
- the impact of investments that we expect to make;
- the impact of a protracted decline in the liquidity of credit markets on our business;
- our informal relationships with third parties including in the venture capital industry;
- the expected market for venture capital investments and our addressable market;
- the dependence of our future success on the general economy and its impact on the industries in which we invest;
- our ability to access debt markets and equity markets;
- the ability of our portfolio companies to achieve their objectives;
- our expected financings and investments;
- our regulatory structure and tax status;
- our ability to operate as a business development company, a small business investment company and a regulated investment company, or RIC;

- the adequacy of our cash resources and working capital;
- the timing of cash flows, if any, from the operations of our portfolio companies;
- the timing, form and amount of any dividend distributions;
- the impact of fluctuations in interest rates on our business;
- the valuation of any investments in portfolio companies, particularly those having no liquid trading market; and
- our ability to recover unrealized losses.

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

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Industry and Market Data

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

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

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PROSPECTUS SUPPLEMENT SUMMARY

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

Our Company

We are a specialty finance company focused on providing senior secured loans to entrepreneurial venture capital and private equity-back companies in technology-related markets at all stages of development, including technology, biotechnology, life science, healthcare services and cleantech industries. Our investment objective is to maximize our portfolio total return by generating current income from our debt investments and capital appreciation from our equity-related investments. We are an internally-managed, non-diversified closed-end investment company that has elected to be treated as a business development company under the Investment Company Act of 1940, or the 1940 Act.

As of June 30, 2012, our total assets were approximately $802.0 million, of which, our investments comprised $722.8 million at fair value and $743.7 million at cost. Our investments at fair value were comprised of our debt investments, warrant portfolio and equity investments valued at approximately $647.1 million, $28.1 million and $47.6 million, respectively, or 89.5%, 3.9% and 6.6% of total investments, respectively. At June 30, 2012, total investments at fair value in foreign companies were approximately $11.6 million or 1.6% of total assets. During the six month period ended June 30, 2012 we made debt and equity commitments to new and existing portfolio companies, including restructured loans, totaling $240.3 million. Debt commitments for the six month period ended June 30, 2012 included commitments of approximately $134.7 million to seventeen new portfolio companies and $88.7 million to eleven existing companies. Equity commitments for the six month period ended June 30, 2012 included commitments of approximately $14.6 million to two new portfolio companies and $2.3 million to two existing portfolio companies. Since inception through June 30, 2012, we have made debt and equity commitments of approximately $2.9 billion to our portfolio companies.

We also make investments in qualifying small businesses through two wholly-owned, small business investment company (SBIC) subsidiaries, Hercules Technology II, L.P. (HT II) and Hercules Technology III, L.P. (HT III). As SBICs, HT II and HT III are subject to a variety of regulations concerning, among other things, the size and nature of the companies in which they may invest and the structure of those investments. As of June 30, 2012, we held investments in HT II in 52 companies with a fair value of approximately $179.7 million. HT II s portfolio companies accounted for approximately 24.9% of our total portfolio at June 30, 2012. As of June 30, 2012, we held investments in HT III in 27 companies with a fair value of approximately $140.3 million. HT III s portfolio accounted for approximately 19.4% of our total portfolio at June 30, 2012.

We primarily finance privately-held companies backed by leading venture capital and private equity firms and also may finance certain select publicly-traded companies that lack access to public capital or are sensitive to equity ownership dilution. As of June 30, 2012, our proprietary structured query language (SQL)-based database system included over 29,000 technology-related companies and approximately 7,500 venture capital, private equity sponsors/investors, as well as various other industry contacts. Our principal executive office is located in Silicon Valley, and we have additional offices in Boston, MA, Boulder, CO and McLean, VA. Our goal is to be the leading structured debt financing provider of choice for venture capital and private equity backed

technology-related companies requiring sophisticated and customized financing solutions. Our strategy is to evaluate and invest in a broad range of technology-related companies including, technology, biotechnology, life science, healthcare services and cleantech companies and to offer a full suite of growth capital products up and down the capital structure. We invest primarily in structured debt with warrants and, to a lesser extent, in senior debt and equity investments. We use the term structured debt with warrants to refer to any debt investment, such as a senior or subordinated secured loan, that is coupled with an equity component, including warrants, options or rights to purchase common or preferred stock. Our structured debt with warrants investments will typically be secured by select or all of the assets of the portfolio company.

We focus our investments in companies active in technology industry sub-sectors characterized by products or services that require advanced technologies, including, but not limited to, computer software and hardware, networking systems, semiconductors, semiconductor capital equipment, information technology infrastructure or services, Internet consumer and business services, telecommunications, telecommunications equipment, renewable or alternative energy, media and life science. Within the life science sub-sector, we generally focus on medical devices, bio-pharmaceutical, drug discovery, drug delivery, health care services and information systems companies. Within the clean technology sub-sector, we focus on sustainable and renewable energy technologies and energy efficiency and monitoring technologies. We refer to all of these companies as technology-related companies and intend, under normal circumstances, to invest at least 80% of the value of our assets in such businesses.

Our investment objective is to maximize our portfolio total return by generating current income from our debt investments and capital appreciation from our equity-related investments. Our primary business objectives are to increase our net income, net operating income and net asset value by investing in structured debt with warrants and equity of venture capital and private equity backed technology-related companies with attractive current yields and the potential for equity appreciation and realized gains. Our structured debt investments typically include warrants or other equity interests, giving us the potential to realize equity-like returns on a portion of our investments. Our equity ownership in our portfolio companies may represent a controlling interest. In some cases, we receive the right to make additional equity investments in our portfolio companies including the right to convert some portion of our debt into equity in connection with future equity financing rounds. Capital that we provide directly to venture capital and private equity backed technology-related companies is generally used for growth and general working capital purposes as well as in select cases for acquisitions or recapitalizations.

Our portfolio is comprised of, and we anticipate that our portfolio will continue to be comprised of, investments in technology-related companies at various stages of development. Consistent with regulatory requirements, we invest primarily in United States based companies and to a lesser extent in foreign companies. See Regulation Qualifying Assets in the accompanying prospectus. Our investing emphasis has been primarily on private companies following or in connection with a subsequent institutional round of equity financing, which we refer to as expansion-stage companies and private companies in their later rounds of financing and certain public companies, which we refer to as established stage companies and lower middle market companies. We have also historically focused our investment activities in private companies following or in connection with the first institutional round of financing, which we refer to as emerging-growth companies.

As of June 30, 2012, our investment professionals, including Manuel A. Henriquez, our co-founder, Chairman, President and Chief Executive Officer, are currently comprised of 28 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.

Our Market Opportunity

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

- Technology-related companies have generally been underserved by traditional lending sources;
- Unfulfilled demand exists for structured debt financing to technology-related companies as the number of lenders has declined due to the recent financial market turmoil; and
- Structured debt with warrants products are less dilutive and complement equity financing from venture capital and private equity funds.

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

The unique cash flow characteristics of many technology-related companies 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 emerging-growth and expansion-stage companies often include a disproportionately large amount of intellectual property assets, which can be difficult to value. Finally, the speed of innovation in technology and rapid shifts in consumer demand and market share add to the difficulty in evaluating technology-related companies.

Due to the difficulties described above, we believe traditional lenders are generally refraining from entering the structured mezzanine 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. In the first six months of 2012, venture capital-backed companies received, in approximately 1,595 transactions, equity financing in an aggregate amount of approximately $15.3 billion, as reported by Dow Jones VentureSource. In addition, overall, the median round size during the six month period ended June 30, 2012 was approximately $5.0 million. We believe the number of venture-backed companies receiving financing provides us an opportunity to provide debt financing to these companies. Overall, seed- and first-round deals made up 46% of the deal flow in the six months ended June 30, 2012 and later-stage deals made up roughly 54% of the deal activity in the quarter.

We believe that demand for structured debt financing is currently underserved, in part because of the credit market collapse in 2008 and the resulting exit of debt capital providers to technology-related companies. The

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

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

Our Business Strategy

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

Leverage the Experience and Industry Relationships of Our Management Team and Investment Professionals. We have assembled a team of experienced investment professionals with extensive experience as venture capitalists, commercial lenders, and originators of structured debt and equity investments in technology-related companies. Our investment professionals have, on average, more than 15 years of experience as equity investors in, and/or lenders to, technology-related companies.

Mitigate Risk of Principal Loss and Build a Portfolio of Equity-Related Securities. We expect that our investments have the potential to produce attractive risk adjusted returns through current income, in the form of interest and fee income, as well as capital appreciation from equity-related securities. We believe that we can mitigate the risk of loss on our debt investments through the combination of loan principal amortization, cash interest payments, relatively short maturities, security interests in the assets of our portfolio companies, and, on select investments, covenants requiring prospective portfolio companies to have certain amounts of available cash 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. Unlike many of our competitors that only invest in companies that fit a specific set of investment parameters, we have the flexibility to structure our investments to suit the particular needs of our portfolio companies. We offer customized financing solutions ranging from senior debt to equity capital, with a focus on structured debt with warrants.

Invest at Various Stages of Development. We provide growth capital to technology-related companies at all stages of development, from emerging-growth companies, to expansion-stage companies, including select publicly listed companies and select lower middle market companies 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 mezzanine and investment funds, which typically have a limited life. In addition, because of our access to the equity markets, we believe that we may benefit from a lower cost of capital than that available to private investment funds.

Deal Sourcing Through Our Proprietary Database. We have developed a proprietary and comprehensive SQL-based database system to track various aspects of our investment process including sourcing, originations, transaction monitoring and post-investment performance. As of June 30, 2012, our proprietary SQL-based database system included over 29,000 technology-related companies and over 7,500 venture capital, private equity sponsors/investors, as well as various other industry contacts. This proprietary SQL system allows us to maintain, cultivate and grow our industry relationships while providing us with comprehensive details on companies in the technology-related industries and their financial sponsors.

Recent Developments

New Investments Since June 30, 2012

As of September 10, 2012, we have originated commitments of approximately $93.0 million to new and existing portfolio companies, including approximately $24.5 million in commitments to existing portfolio companies. See Management s Discussion and Analysis of Financial Condition and Results of Operations in this prospectus supplement for more information relating to our commitments. Our new investments included:

$10.5 million commitment to Oraya Therapeutics, Inc., a company that develops innovative and non-invasive therapies.

$8.0 million commitment to Clickfox, Inc., a company that delivers Customer Behavior Intelligence software to large and mid-sized businesses.

$5.3 million commitment to SCIenergy, Inc., a leading provider of energy efficiency and system optimization solutions for the $5 billion commercial building market.

$500,000 commitment to Box.net, Inc., an online storage and sharing service that gives users access to their files from anywhere.

$71,000 commitment to Gynesonics, Inc., a medical device company committed to improving women s health.

$22,000 commitment to Novasys Medical, Inc., dedicated to the development of innovative therapies in women s health.

$30.5 million commitment to EducationDynamics, LLC, higher education s leading marketing information and technology services company dedicated to helping institutions find, enroll and retain students.

$20.0 million commitment to Fulcrum BioEnergy, Inc., a leader in the development of next-generation ethanol production in the United States.

$15.0 million commitment to Coronado Biosciences, Inc., (Nasdaq: CND) a company focused on the development of novel immunotherapy agents for the treatment of autoimmune diseases and cancer.

$3.0 million commitment to EndPlay, Inc., a leading provider of SaaS content management, engagement and monetization solutions delivered in the cloud.

$100,000 commitment to Loku, Inc., a company that enables users to tap into the local scene.

Principal Repayments

As of September 10, 2012, we received approximately $40.0 million in principal repayments, of which approximately $5.6 million were unscheduled early repayments. In addition, in July 2012 we received a payment of $2.0 million for our total debt investments in MaxVision Holding, L.L.C. As of June 30, 2012, we valued these debt investments, which had a total cost basis of approximately $7.1 million, at a fair value of approximately $169,000. These investments were accounted for on a non-accrual basis. In the third quarter of

2012, we will record a realized loss of $5.1 million and a reversal of previously recorded unrealized depreciation of $6.9 million for the MaxVision debt investments.

Unfunded Commitments

As of September 10, 2012, we had unfunded debt commitments of approximately $69.8 million. Since these commitments may expire without being drawn upon, unfunded commitments do not necessarily represent future cash requirements or future earning assets. Approximately $35.0 million of these unfunded commitments are dependent upon the portfolio company reaching certain milestones before our debt commitment would become available.

Signed Term Sheets

As of September 10, 2012, we had approximately $141.5 million of signed non-binding term sheets subject to completion of definitive documentation with prospective portfolio companies, which generally convert to contractual commitments within approximately 45 to 60 days. Non-binding term sheets are subject to completion of our due diligence, investment committee approval, legal review, and negotiation of definitive documentation. Not all signed non-binding term sheets are expected to close and do not necessarily represent any future cash requirements.

Filed IPOs

As of September 10, 2012, we had warrants or equity positions in three portfolio companies which had filed Form S-1 Registration Statements with the SEC in contemplation of a potential IPO. There can be no assurances that these companies will complete their respective IPOs in a timely manner or at all.

Portfolio Company Developments

In August 2012, we received a milestone payment of approximately $825,000 from Covidien PLC s acquisition of our portfolio company, BÂRRX Medical, Inc. in the first quarter of 2012, which will result in the recognition of approximately $825,000 of realized gains in the third quarter of 2012. Under the terms of the acquisition agreement, additional milestone payments may be received within sixty days of the eighteen month and second anniversaries of the closing. These milestone payments are subject to performance factors and, therefore, their future receipt cannot be reasonably assured at this time.

New BDC Legislation

On June 8, 2012, legislation was introduced in the U.S. House of Representatives intended to revise certain regulations applicable to business development companies, or BDCs. The legislation provides for (i) increasing the amount of funds BDCs may borrow by reducing asset to debt limitations from 2:1 to 3:2, (ii) permitting BDCs to file registration statements with the U.S. Securities and Exchange Commission that incorporate information from already-filed reports by reference, (iii) utilizing other streamlined registration processes afforded to operating companies, and (iv) allowing BDCs to own investment adviser subsidiaries.

There are no assurances as to when the legislation will be enacted by Congress, if at all, or, if enacted, what final form the legislation would take.

Liquidity and Capital Resources

7.00% Senior Notes Due 2019

On July 6, 2012 we re-opened our 7.00% Senior Notes due 2019 (the 7.00% Notes) and issued approximately $38.8 million in aggregate principal amount of the 7.00% Notes pursuant to an underwriting agreement among us and Stifel, Nicolaus & Company, Incorporated, as representative of the several underwriters named therein, relating to the issuance, offer and sale of the additional 7.00% Notes. We granted the underwriters an option to purchase up to an additional $5.8 million in aggregate principal amount of the 7.00% Notes to cover overallotments, if any. Pursuant to this option, approximately $2.7 million in aggregate principal amount of the additional 7.00% Notes were issued and sold on July 12, 2012. The sale of the additional 7.00% Notes generated net proceeds to us, before expenses and excluding accrued interest, of approximately $40.2 million.

The 7.00% Notes are a further issuance of, rank equally in right of payment with, and form a single series for all purposes under the Indenture (as defined below) including, without limitation, waivers, amendments, consents, redemptions and other offers to purchase and voting, with the $43.0 million aggregate principal amount of the 7.00% Notes initially issued by us on April 17, 2012.

On April 17, 2012, we and U.S. Bank National Association, as Trustee (the Trustee) entered into the First Supplemental Indenture (the First Supplemental Indenture) to the Indenture (the Base Indenture, and together with the First Supplemental Indenture, the Indenture), between us and U.S. Bank National Association, as Trustee (the Trustee), dated March 6, 2012, relating to the issuance, offer and sale of the 7.00% Notes. The additional 7.00% Notes were offered under the same Indenture.

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

The 7.00% Notes will be our direct unsecured obligations and will rank: (i) *pari passu* with our other outstanding and future senior unsecured indebtedness, including without limitation, the $75.0 million of Convertible Senior Notes and the Notes offered hereby; (ii) senior to any of our future indebtedness that expressly provides that it is subordinated to the 7.00% Notes; (iii) effectively subordinated to all of our existing and future secured indebtedness (including indebtedness that is initially unsecured to which we subsequently grant security), to the extent of the value of the assets securing such indebtedness, including without limitation, borrowings under our credit facilities; (iv) structurally subordinated to all existing and future indebtedness and other obligations of any of our subsidiaries, including without limitation, the indebtedness of Hercules Technology II, L.P. and Hercules Technology III, L.P. and borrowings under the Wells Facility.

The Indenture, as supplemented by the First Supplemental Indenture, contains certain covenants including covenants that requires 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 Investment Company Act of 1940, as amended, 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 Investment Company Act of 1940, as amended, and to provide financial information to the holders of the 7.00% Notes and the Trustee if we should no longer be subject to the reporting requirements under the Securities Exchange Act of 1934, as amended. These covenants are subject to important limitations and exceptions that are described in the Indenture, as supplemented by the First Supplemental Indenture. 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 7.00% Notes in a series may declare such 7.00% Notes immediately due and payable upon the occurrence of any event of default after expiration of any applicable grace period.

Wells Facility

In August 2012, we amended the Wells Facility with Wells Fargo Capital Finance, LLC (WFCF) under which WFCF has committed $75.0 million in initial credit capacity under a $300.0 million accordion credit facility. We can increase the credit line up to an aggregate of $300.0 million, funded by additional lenders who may join the facility and with the agreement of WFCF and subject to other customary conditions. There can be no assurances that additional lenders will join the Wells Facility.

The Wells Facility has an advance rate equal to 50% of eligible loans placed in the collateral pool. The Wells Facility generally requires payment of interest on a monthly basis. We paid an amendment fee of $375,000.

Borrowings under the Wells Facility will continue to be at an interest rate per annum equal to LIBOR plus 3.50%, consistent with prior facilities while the floor has been lowered from 5.00% to 4.25%, a 75 basis point reduction. Additionally, an amortization period of 12 months was added to pay down the principal balance as of the maturity date, the maturity date was extended by one year to August 2015, and the unused line fee was reduced. The amendment also increased the minimum tangible net worth when added to outstanding subordinated indebtedness from in excess of $314.0 million plus 90% of the cumulative amount of equity raised after March 31, 2011 to in excess of $362.0 million plus 90% of the cumulative amount of equity raised after June 30, 2012. The amendment was effective as of August 1, 2012.

The Wells Facility provides for customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, bankruptcy events and change of control. The Wells Facility also includes various financial and operating covenants applicable to us and our subsidiaries. The covenants require, among other things, that we maintain certain financial ratios and a minimum tangible net worth.

Union Bank Facility

On September 17, 2012, we entered into an amendment to the Union Bank Facility. Pursuant to the terms of the amendment, the Company is permitted to increase its unsecured indebtedness by an aggregate original principal amount not to exceed $200.0 million incurred after March 30, 2012 in one or more issuances, provided certain conditions are satisfied for each issuance.

Dividend Declaration

On July 30, 2012, our Board of Directors declared a cash dividend of $0.24 per share that will be payable on August 24, 2012 to shareholders of record as of August 17, 2012. This dividend represents our twenty-eighth consecutive dividend declaration since our initial public offering, bringing the total cumulative dividend declared to date to $7.40 per share.

Renewal of Stock Repurchase Plan

On July 25, 2012, we approved the extension of the stock repurchase plan as previously approved under the same terms and conditions that allows us to repurchase up to $35.0 million of our common stock. Unless renewed, the stock repurchase plan will expire on February 26, 2013.

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Chief Financial Officer

Effective March 27, 2012, our board of directors appointed Jessica T. Baron as our permanent Chief Financial Officer. In connection with such appointment, Ms. Baron will receive an annual base salary of $235,000 subject to review and adjustment at least annually by our Board of Directors or compensation committee. Ms. Baron also will be awarded 25,000 shares of restricted common stock, $0.001 par value per share (the Common Stock), under our 2004 Equity Incentive Plan pursuant to which such restricted stock awards vest subject to continued employment one-fourth on the one year anniversary of the date of grant and ratably over the succeeding 36 months.

Ms. Baron, age 37, joined the Company in October 2006 as Corporate Controller and was promoted to Vice President of Finance in October 2010. Effective June 1, 2011, the Board of Directors appointed Ms. Baron as Vice President of Finance and Interim Chief Financial Officer. See Management Directors, Executive Officers and Key Employees Non-director executive officers in the accompanying prospectus for additional information regarding Ms. Baron.

Chief Compliance Officer and Secretary

Effective August 20, 2012, H. Scott Harvey s employment as our Chief Legal Officer, Chief Compliance Officer and Secretary ended, and K. Nicholas Martitsch was appointed as our Associate General Counsel, Chief Compliance Officer and Secretary.

Re-Election of Director

On May 30, 2012, at the Company s 2012 Annual Meeting of Stockholders, Allyn C. Woodward Jr. was re-elected to serve as a member of the Company s Board of Directors until the 2015 Annual Meeting of Stockholders.

General Information

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

We file annual, quarterly and current periodic reports, proxy statements and other information with the SEC under the Securities Exchange Act of 1934, which we refer to as 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.

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.

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 September 10, 2012, we had no borrowings outstanding under our Union Bank Facility, which is secured by debt investments in our portfolio companies and related assets or 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 Technology Growth 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, as of June 30, 2012, HT II had issued $100.7 million of SBA-guaranteed debentures and HT III had issued $100.0 million of SBA-guaranteed debentures. 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 and in the accompanying prospectus 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) and holders of preferred stock, if any, of our subsidiaries will have priority over our equity interests in such subsidiaries (and therefore the claims of our creditors, including holders of the 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. As of September 10, 2012, we had no borrowings outstanding under our Wells Facility and $200.7 million of

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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 will contain 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, in either case, to any exemptive relief granted to us by the SEC (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% after such borrowings);

- pay dividends on, or purchase or redeem or make any payments in respect of, capital stock or other securities ranking junior in right of payment to the Notes, in each case other than dividends, purchases, redemptions or payments that would cause a violation of Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions giving effect to any exemptive relief granted to us by the SEC (these provisions generally prohibit us from declaring any cash dividend or distribution upon any class of our capital stock, or purchasing any such capital stock if our asset coverage, as defined in the 1940 Act, is below 200% at the time of the declaration of the dividend or distribution or the purchase and after deducting the amount of such dividend, distribution or purchase);

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

- enter into transactions with affiliates;

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

- make investments; or

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

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

Furthermore, the terms of the indenture and the 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.

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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 restrictions that restrict our ability to raise capital, the Wells Facility, the Union Bank Facility and the Convertible Senior Notes contain various covenants which, if not complied with, could accelerate repayment under the facility or require us to repurchase the Convertible Senior Notes, thereby materially and adversely affecting our liquidity, financial condition, results of operations and ability to pay dividends 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.

Pending legislation may allow us to incur additional leverage.

As a business development company, under the 1940 Act generally we are not permitted to incur indebtedness unless immediately after such borrowing we have an asset coverage for total borrowings of at least 200% (i.e., the amount of debt may not exceed 50% of the value of our assets). We have agreed in the covenant in the indenture governing the Notes not to violate this section of the 1940 Act, whether or not we continue to be subject to such provision, but giving effect, in either case, to any exemptive relief granted to us by the SEC. Recent legislation introduced in the U.S. House of Representatives, if passed, would modify this section of the 1940 Act and increase the amount of debt that business development companies may incur by modifying the percentage from 200% to 150%. See Prospectus Supplement Summary Recent Developments New BDC Legislation for more information with respect to this legislation. As a result, we may be able to incur additional indebtedness in the future and therefore your risk of an investment in the Notes may increase.

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 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 a liquid 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.

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 Convertible Senior Notes and the 7.00% 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 payments of principal, premium, if any, and interest on our indebtedness, or if we otherwise fail to comply with the various covenants, including financial and operating covenants, in the instruments governing our indebtedness, we could be in default under the terms of the agreements governing such indebtedness. In the event of such default, the holders of such indebtedness could elect to declare all the funds borrowed thereunder to be due and payable, together with accrued and unpaid interest, the lenders under the Wells Facility and the Union Bank Facility or other debt we may incur in the future could elect to terminate their commitments, cease making further loans and institute foreclosure proceedings against our assets, and we could be forced into bankruptcy or liquidation. If our operating performance declines, we may in the future need to seek to obtain waivers from the required lenders under the Wells Facility or Union Bank Facility or the required holders of our Convertible Senior Notes or 7.00% 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 Convertible Senior Notes, the 7.00% Notes or other debt and seek a waiver, we may not be able to obtain a waiver from the required lenders or holders. If this occurs, we would be in default under the Wells Facility or Union Bank Facility or the Convertible Senior Notes or other debt, the lenders or holders could exercise their rights as described above, and we could be forced into bankruptcy or liquidation. If we are unable to repay debt, lenders having secured obligations, including the lenders under the Wells Facility and the Union Bank Facility, could proceed against the collateral securing the debt. Because the Wells Facility, the Union Bank Facility and the Convertible Senior Notes have, and any future credit facilities will likely have, customary cross-default provisions, if the indebtedness under the Notes, the Wells Facility, Union Bank Facility, the Convertible Senior Notes or under any future credit facility is accelerated, we may be unable to repay or finance the amounts due. See Description of the Notes.

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

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

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

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

There is no assurance that HT II or HT III will be able to draw up to the maximum limit available under the SBIC program.

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. As

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of June 30, 2012, HT II had the potential to borrow up to $125.0 million of SBA-guaranteed debentures under the SBIC program. With our net investment of $75.0 million in HT II as of June 30, 2012, HT II has the capacity to issue a total of $125.0 million of SBA guaranteed debentures, subject to SBA approval, of which $100.7 million is outstanding as of June 30, 2012.

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. As of June 30, 2012, HT III had the potential to borrow up to $100.0 million of SBA-guaranteed debentures under the SBIC program. With our net investment of $50.0 million in HT III as of June 30, 2012, HT III has the capacity to issue a total of $100.0 million of SBA guaranteed debentures, subject to SBA approval, of which $100.0 million was outstanding as of June 30, 2012.

As of June 30, 2012, there was $200.7 million principal amount of indebtedness outstanding incurred by our SBIC subsidiaries. Access to the remaining leverage is subject to SBA approval and compliance with SBA regulations.

There is no assurance that HT II or HT III will be able to draw up to the maximum limit available under the SBIC program.

In addition to regulatory restrictions that restrict our ability to raise capital, the Wells Facility, the Union Bank Facility and the Convertible Senior Notes and 7.00% Notes contain various covenants which, if not complied with, could accelerate repayment under the facility or require us to repurchase the Convertible Senior Notes or the 7.00% Notes, thereby materially and adversely affecting our liquidity, financial condition, results of operations and ability to pay dividends.

The credit agreements governing the Wells Facility and the Union Bank Facility and the Convertible Senior Notes and 7.00% Notes require us to comply with certain financial and operational covenants. These covenants require us to, among other things, maintain certain financial ratios, including asset coverage, debt to equity and interest coverage. Our ability to continue to comply with these covenants in the future depends on many factors, some of which are beyond our control. There are no assurances that we will be able to comply with these covenants. Failure to comply with these covenants would result in a default which, if we were unable to obtain a waiver from the lenders under the Wells Facility and the Union Bank Facility or the trustee or holders under the Convertible Senior Notes and 7.00% Notes, could accelerate repayment under the facilities or the Convertible Senior Notes or 7.00% Notes and thereby have a material adverse impact on our liquidity, financial condition, results of operations and ability to pay dividends. In addition, holders of the Convertible Senior Notes will have the right to require us to repurchase the Convertible Senior Notes upon the occurrence of a fundamental change at a repurchase price equal to 100% of their principal amount, plus accrued and unpaid interest, if any. We may not have enough available cash or be able to obtain financing at the time we are required to make repurchases. See Management s Discussion and Analysis of Results of Operations and Financial Condition Borrowings.

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

As of June 30, 2012, we had unfunded commitments of approximately $92.7 million. Approximately $32.6 million of these unfunded debt commitments are dependent upon the portfolio company reaching certain milestones before the debt commitment becomes available. These commitments will be subject to the same underwriting and ongoing portfolio maintenance. Since these commitments may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. Closed commitments generally fund 70-80% of the committed amount in aggregate over the life of the commitment. We intend to use cash flow from normal and early principal repayments, SBA debentures, our Wells Facility, our Union Bank Facility and proceeds from the Convertible Senior Notes, the 7.00% Notes and the Notes to fund these commitments. However, there can be no assurance that we will have sufficient capital available to fund these commitments as they come due.

Our 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, 2012 that represent greater than 5% of net assets:

	June 30, 2012	
(in thousands)	**Fair Value**	**Percentage of Net Assets**
Box.net, Inc.	$ 43,093	9.1%
BrightSource Energy, Inc.	$ 35,487	7.5%
Aveo Pharmaceuticals, Inc.	$ 29,071	6.1%
Women s Marketing, Inc.	$ 27,447	5.8%
Tectura Corporation	$ 26,451	5.6%
Anthera Pharmaceuticals, Inc.	$ 24,099	5.1%

Box.net Inc. is an online storage and sharing service that gives users access to their files from anywhere.

Brightsource Energy, Inc. designs, develops and sells solar thermal power systems that deliver reliable, clean energy to utilities and industrial companies.

Aveo Pharmaceuticals, Inc. is a biopharmaceutical company dedicated to the discovery and development of new, targeted cancer therapeutics.

Women s Marketing, Inc. is a media solutions company, delivering premium media at value pricing across all platforms.

Tectura Corporation is an IT services firm that specializes in Microsoft Business Solutions applications.

Anthera Pharmaceuticals, Inc. is a biopharmaceutical company focused on developing and commercializing products to treat serious diseases, including cardiovascular and autoimmune diseases.

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

Our quarterly and annual operating results are subject to fluctuation as a result of the nature of our business, and if we fail to achieve our investment objective, the net asset value of our common stock may decline.

We could experience fluctuations in our quarterly and annual operating results due to a number of factors, some of which are beyond our control, including, but not limited to, the interest rate payable on the debt securities that we acquire, the default rate on such securities, the level of our expenses, variations in and the timing of the recognition of realized and unrealized gains or losses, changes in our portfolio composition, the degree to which we encounter competition in our markets, market volatility in our publicly traded securities and the securities of our portfolio companies, and general economic conditions. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods. In addition, any of these factors could negatively impact our ability to achieve our investment objectives, which may cause our net asset value of our common stock to decline.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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intellectual property, and differentiate products from those of competitors. Failure by our portfolio companies to introduce planned products or other new products or to introduce products on schedule could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

Changes in healthcare laws and other regulations applicable to some of our portfolio companies businesses may constrain their ability to offer their products and services.

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

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

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

A portfolio company s failure to satisfy financial or operating covenants imposed by us or other lenders could lead to defaults and, potentially, termination of the portfolio company s loans and foreclosure on its secured assets, which could trigger cross-defaults under other agreements and jeopardize the portfolio company s ability to meet its obligations under the debt securities that we hold. We may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms with a defaulting portfolio company. In addition, if a portfolio company goes bankrupt, even though we may have structured our investment as senior debt or secured debt, depending on the facts and circumstances, including the extent to which we actually provided significant managerial assistance, if any, to that portfolio company, a bankruptcy court might re-characterize our debt holding and subordinate all or a portion of our claim to that of other creditors. These events could materially adversely affect our financial condition and operating results.

Generally, we do not control our portfolio companies. These portfolio companies may face intense competition, including competition from companies with greater financial resources, more extensive research and development, manufacturing, marketing and service capabilities and greater number of qualified and experienced managerial and technical personnel. They may need additional financing which they are unable to secure and which we are unable or unwilling to provide, or they may be subject to adverse developments unrelated to the technologies they acquire.

The business, financial condition and results of operations of our portfolio companies could be adversely affected by worldwide economic conditions, as well as political and economic conditions in the countries in which they conduct business.

The business and operating results of our portfolio companies may be impacted by worldwide economic conditions. Although the U.S. economy has in recent quarters shown signs of recovery from the 2008 2009 global recession, the strength and duration of any economic recovery will be impacted by worldwide economic growth. For instance, a number of recent reports indicate that growth in China and other emerging markets may be slowing relative to historical growth rates. The significant debt in U.S. and European countries is expected to hinder growth in those countries for the foreseeable future. Multiple factors relating to the international operations of some of our portfolio companies and to particular countries in which they operate could negatively impact their business, financial condition and results of operations.

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

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Some of our portfolio companies may need additional capital, which may not be readily available and may be needed if necessary regulatory review processes are extended or approvals not obtained.

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

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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 $72.3 million (or approximately $83.2 million if the underwriters fully exercise their overallotment option), in each case at a public offering price of 100% par, after deducting the underwriting discount of approximately $2.3 million (or approximately $2.6 million if the underwriters fully exercise their overallotment option) payable by us and estimated offering expenses of approximately $475,000 payable by us.

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

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

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RATIO OF EARNINGS TO FIXED CHARGES

For the six month period ended June 30, 2012 and for the years ended December 31, 2011, 2010, 2009, 2008 and 2007, our ratio of earnings to fixed charges, computed as set forth below, were as follows:

	For the six month period ended June 30, 2012	For the year ended December 31, 2011	For the year ended December 31, 2010	For the year ended December 31, 2009	For the year ended December 31, 2008	For the year ended December 31, 2007
Earnings to Fixed Charges[(1)]	1.68	2.95	0.51	1.20	1.33	7.45

For purposes of computing the ratios of earnings to fixed charges, earnings represent net increase in stockholders equity resulting from operations plus (or minus) income tax expense (benefit) including excise tax expense 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.

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CAPITALIZATION

The following table sets forth (i) our actual capitalization as of June 30, 2012, 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), in each case at a public offering price of 100% par, after deducting the underwriting discounts and commissions of approximately $2.3 million payable by us and estimated offering expenses of approximately $475,000 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 June 30, 2012	
	Actual (in thousands)	**As Adjusted (in thousands)**
Investments at fair value	$ 722,813	$ 722,813
Cash and cash equivalents	$ 56,140	$ 128,415
Debt:		
Wells Facility[1]	3,130	3,130
Union Bank Facility		
Long-term SBA debentures	200,750	200,750
Convertible Senior Notes	75,000	75,000
7.00% Notes	43,000	43,000
Notes offered hereby		75,000
Total debt[2]	$ 321,880	$ 396,880
Stockholders equity:		
Common stock, par value $0.001 per share; 100,000,000 shares authorized; 49,742,983 shares issued and outstanding	$ 50	$ 50
Capital in excess of par value	534,165	534,165
Unrealized appreciation (depreciation) on investments	(21,102)	(21,102)
Accumulated realized gains (losses) on investments	(31,902)	(31,902)
Distributions in excess of investment income	(6,430)	(6,430)
Total stockholders equity	$ 474,781	$ 474,781
Total capitalization	$ 796,661	$ 871,661

(1) As of September 10, 2012, there were no borrowings outstanding under the Wells Facility.

(2) Does not take into account the issuance of approximately $41.5 million in aggregate principal amount of the 7.00% Notes, which includes exercise of an over-allotment option, in July 2012. See Management s Discussion and Analysis of Financial Condition and Results of Operations Subsequent Events in this prospectus supplement for more information with respect to the 7.00% Notes.

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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. In addition to historical information, the following discussion and other parts of this prospectus supplement 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 Supplemental Risk Factors, Risk Factors and Forward-Looking Statements appearing elsewhere herein.

Overview

We are a specialty finance firm focused on providing senior secured loans to entrepreneurial venture capital and private equity-back companies in technology-related markets at all stages of development, including technology, biotechnology, life science, healthcare services and cleantech industries. We primarily finance privately-held companies backed by leading venture capital and private equity firms, and also may finance certain publicly-traded companies that lack access to public capital or are sensitive to equity ownership dilution. We source our investments through our principal office located in Silicon Valley, as well as through additional offices in Boston, MA, Boulder, CO, and McLean, VA.

Our goal is to be the leading structured debt financing provider of choice for venture capital and private equity backed technology-related companies requiring sophisticated and customized financing solutions. Our strategy is to evaluate and invest in a broad range of technology-related companies including technology, biotechnology, life science, healthcare services and cleantech companies and to offer a full suite of growth capital products up and down the capital structure. We invest primarily in structured debt with warrants and, to a lesser extent, in senior debt and equity investments. We use the term structured debt with warrants to refer to any debt investment, such as a senior or subordinated secured loan, that is coupled with an equity component, including warrants, options or rights to purchase common or preferred stock. Our structured debt with warrants investments will typically be secured by some or all of the assets of the portfolio companies.

Our investment objective is to maximize our portfolio total return by generating current income from our debt investments and capital appreciation from our equity-related investments. Our primary business objectives are to increase our net income, net operating income and net asset value by investing in structured debt with warrants and equity of venture capital and private equity backed technology-related companies with attractive current yields and the potential for equity appreciation and realized gains. Our structured debt investments typically include warrants or other equity interests, giving us the potential to realize equity-like returns on a portion of our investments. Our equity ownership in our portfolio companies may represent a controlling interest. 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 and private equity backed technology-related companies is generally used for growth and general working capital purposes as well as in select cases for acquisitions or recapitalizations.

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

From incorporation through December 31, 2005, we were taxed as a corporation under Subchapter C of the Internal Revenue Code, or the Code. As of January 1, 2006, we have elected to be treated for federal income tax purposes as a regulated investment company, or a RIC, under Subchapter M of the Code. Pursuant to this election, we generally will not have to pay corporate-level taxes on any income that we distribute to our stockholders. However, such an election and qualification to be treated as a RIC requires that we comply with

certain requirements contained in Subchapter M of the Code. For example, a RIC must meet certain requirements, including source-of income, asset diversification and income distribution requirements. The income source requirement mandates that we receive 90% or more of our income from qualified earnings, typically referred to as good income. Qualified earnings may exclude such income as management fees received in connection with our SBIC or other potential outside managed funds and certain other fees.

Our portfolio is comprised of, and we anticipate that our portfolio will continue to be comprised of, investments primarily in technology-related companies at various stages of their development. Consistent with regulatory requirements, we invest primarily in United States based companies and to a lesser extent in foreign companies. Our investing emphasis has been primarily on private companies following or in connection with a subsequent institutional round of equity financing, which we refer to as expansion-stage companies and private companies in later rounds of financing and certain public companies, which we refer to as established-stage companies and select lower middle market technology companies. We have focused our investment activities in private companies following or in connection with the first institutional round of financing, which we refer to as emerging-growth companies.

We regularly engage in discussions with third parties in respect of 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 or our subsidiaries 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 value of our investment portfolio was $722.8 million at June 30, 2012 as compared to $652.9 million at December 31, 2011.

During the six-month period ended June 30, 2012 we made debt and equity commitments to new and existing portfolio companies, including restructured loans, totaling $223.4 million and $16.9 million, respectively. Debt commitments for the six-month period ended June 30, 2012 included commitments of approximately $134.7 million to 17 new portfolio companies and $88.7 million, including restructured loans, to 11 existing companies. Equity commitments for the six-month period ended June 30, 2012 included commitments of approximately $14.6 million to two new portfolio companies and $2.3 million to two existing companies.

During the three and six-month periods ended June 30, 2012, we funded investments in debt securities, totaling approximately $106.9 million and $169.8 million, respectively. During the three and six-month periods ended June 30, 2012, we funded equity investments of approximately $5.0 million and $7.1 million, respectively. During the six-month period ended June 30, 2012, the Company converted approximately $356,000 of debt to equity in one portfolio company, and the investment in Facebook, Inc. of approximately $9.6 million was transferred from Other Assets to Investments.

At June 30, 2012, we had unfunded contractual commitments of approximately $92.7 million to 22 new and existing companies. Approximately $32.6 million of these unfunded origination activity commitments are dependent upon the portfolio company reaching certain milestones before the Hercules debt commitment becomes available.

These commitments will be subject to the same underwriting and ongoing portfolio maintenance as the on-balance sheet financial instruments that we hold. Since these commitments may expire without being drawn, unfunded commitments do not necessarily represent future cash requirements. In addition, we have approximately $48.0 million of non-binding term sheets outstanding to six new and existing companies at June 30, 2012. Non-binding outstanding term sheets are subject to completion of our due diligence and final 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 the loan portfolio at June 30, 2012 was approximately $647.1 million, compared to a fair value of approximately $411.6 million at June 30, 2011. The fair value of the equity portfolio at June 30, 2012 and 2011 was approximately $47.6 million and $31.1 million, respectively. The fair value of our warrant portfolio at June 30, 2012 and 2011 was approximately $28.1 million and $32.5 million, respectively.

We receive payments in our loan portfolio based on scheduled amortization of the outstanding balances. In addition, we receive repayments of some of our loans prior to their scheduled maturity date. The frequency or volume of these repayments may fluctuate significantly from period to period. During the six month period ended June 30, 2012, we received approximately $99.6 million of principal repayments, including normal principal amortization repayments of approximately $37.1 million, and early repayments of approximately $62.5 million. During the six month period ended June 30, 2012, we restructured our debt investments in two portfolio companies for approximately $49.1 million and converted $356,000 of debt to equity.

During the three-month period ended June 30, 2012, two of our portfolio companies completed initial public offerings. On May 10, 2012, WageWorks, Inc. completed its initial public offering of 6,500,000 shares of common stock at a price to the public of $9.00 per share, and on May 18, 2012, Facebook Inc. completed its initial public offering of 421,233,615 shares of common stock at a price to the public of $38.00 per share.

As of June 30, 2012, we held warrants or equity positions in three companies which filed registration statements on Form S-1 with the SEC in contemplation of potential initial public offerings, including Glori Energy, Inc., iWatt, Inc., and one company that filed a registration statement confidentially under the JOBS Act. During the second quarter of 2012, BrightSource Energy, Inc. withdrew its registration statement for its initial public offering. There can be no assurance that these companies will complete their initial public offerings in a timely manner or at all.

Total portfolio investment activity as of June 30, 2012 (unaudited) and for the year ended December 31, 2011 is as follows:

(in millions)	**June 30, 2012**	**December 31, 2011**
Beginning Portfolio	$ 652.9	$ 472.0
Purchase of debt investments	169.8	433.4
Equity Investments	7.1	2.1
Sale of Investments	(5.6)	(18.6)
Principal payments received on investments	(37.1)	(65.2)
Early pay-offs and recoveries	(62.5)	(182.1)
Accretion of loan discounts and paid-in-kind principal	6.2	6.6
Net change in unrealized depreciation in investments	(17.7)	4.7
Net change in unrealized appreciation (depreciation) in Citigroup participation	0.1	(0.2)
Conversion of Other Assets to Equity	9.6	0.2
Restructure fundings		16.1
Restructure payoffs		(16.1)
Ending Portfolio	$ 722.8	$ 652.9

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The following table shows the fair value of our portfolio of investments by asset class as of June 30, 2012 (unaudited) and December 31, 2011 (excluding unearned income).

	June 30, 2012		December 31, 2011	
(in thousands)	**Investments at Fair Value**	**Percentage of Total Portfolio**	**Investments at Fair Value**	**Percentage of Total Portfolio**
Senior secured debt with warrants	$ 570,551	78.9%	$ 482,268	73.9%
Senior secured debt	104,633	14.5%	133,544	20.4%
Preferred stock	29,507	4.1%	30,181	4.6%
Common Stock	18,122	2.5%	6,877	1.1%
	$ 722,813	100.0%	$ 652,870	100.0%

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

	June 30, 2012		December 31, 2011	
(in thousands)	**Investments at Fair Value**	**Percentage of Total Portfolio**	**Investments at Fair Value**	**Percentage of Total Portfolio**
United States	$ 711,181	98.4%	$ 634,736	97.2%
England	6,819	0.9%	8,266	1.3%
Iceland	4,708	0.7%	4,970	0.7%
Ireland	105	0.0%	3,842	0.6%
Canada		0.0%	672	0.1%
Israel		0.0%	384	0.1%
	$ 722,813	100.0%	$ 652,870	100.0%

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

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The following table shows the fair value of our portfolio by industry sector at June 30, 2012 (unaudited) and December 31, 2011:

	June 30, 2012		December 31, 2011	
(in thousands)	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
Drug Discovery & Development	$ 136,872	18.9%	$ 131,428	20.1%
Software	87,953	12.2%	27,850	4.3%
Clean Tech	83,807	11.6%	64,587	9.9%
Drug Delivery	70,186	9.7%	62,665	9.6%
Internet Consumer & Business Services	68,521	9.5%	117,542	18.0%
Media/Content/Info	47,750	6.6%	38,476	5.9%
Communications & Networking	41,271	5.7%	28,618	4.4%
Healthcare Services, Other	38,484	5.3%		0.0%
Information Services	34,058	4.7%	45,850	7.0%
Therapeutic	19,236	2.7%	35,911	5.5%
Diagnostic	17,287	2.4%	15,158	2.3%
Medical Device & Equipment	13,292	1.9%		0.0%
Specialty Pharma	13,188	1.8%	39,384	6.0%
Consumer & Business Products	13,175	1.8%	4,186	0.6%
Surgical Devices	12,285	1.7%	11,566	1.8%
Biotechnology Tools	12,228	1.7%	18,693	2.9%
Semiconductors	8,017	1.1%	9,733	1.5%
Electronics & Computer Hardware	5,203	0.7%	1,223	0.2%
Energy		0.0%		0.0%
	$ 722,813	100.0%	$ 652,870	100.0%

The largest portfolio companies vary as new loans are recorded and loans pay off. Loan revenue, consisting of interest, fees, and recognition of gains on equity interests, can fluctuate dramatically when a loan is paid off or a related equity interest is sold. Revenue recognition in any given year can be highly concentrated among several portfolio companies. As of June 30, 2012 and December 31, 2011, our ten largest portfolio companies represented approximately 37.1% and 37.9%, respectively, of the total fair value of our investments in portfolio companies. At June 30, 2012 and December 31, 2011, we had six and seven investments, respectively, that represented 5% or more of our net assets. At June 30, 2012, we had five equity investments representing approximately 61.7% of the total fair value of our equity investments, and each represented 5% or more of the total fair value of our equity investments. At December 31, 2011, we had seven equity investments which represented approximately 63.8% of the total fair value of our equity investments, and each represented 5% or more of the total fair value of such investments.

As of June 30, 2012, approximately 61.9% of the fair value of our portfolio was composed of investments in five industries: 18.9% was composed of investments in the drug discovery and development industry, 12.2% was composed of investments in the software industry, 11.6% was composed of investments in the clean technology industry, 9.7% was composed of investments in the internet drug delivery industry; and 9.5% was composed of investments in the internet consumer and business services industry.

As of June 30, 2012, over 99.0% of our debt investments were in a senior secured first lien position, and more than 94.9% of the debt investment portfolio was priced at floating interest rates or floating interest rates with a Prime or LIBOR based interest rate floor. Our investments in senior secured debt with warrants have equity enhancement features, typically in the form of warrants or other equity-related securities designed to provide us with an opportunity for capital appreciation. Our warrant coverage generally ranges from 3% to 20%

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of the principal amount invested in a portfolio company, with a strike price equal to the most recent equity financing round at the time of issuance. As of June 30, 2012, we held warrants in 115 portfolio companies, with a fair value of approximately $28.1 million. The fair value of the warrant portfolio has decreased by approximately 6.3% as compared to the fair value of $30.0 million at December 31, 2011. The decrease was primarily driven by the realized gain and exit from two of our portfolio companies during the second quarter of 2012. These warrant holdings would require us to invest approximately $74.6 million to exercise such warrants.

Warrants may appreciate or depreciate in value depending largely upon the underlying portfolio company s performance and overall market conditions. Of the warrants which have monetized since inception, we have realized warrant and equity gain multiples in the range of approximately 1.04x to 10.17x based on the historical rate of return on our investments. However, our current warrants may not appreciate in value and, in fact, may decline in value. Accordingly, we may not be able to realize gains from our warrant interests. The value of our senior secured debt (without warrants) at June 30, 2012 was approximately $104.6 million compared to approximately $133.5 million at December 31, 2011. The increase in 2011 was primarily attributable to two new investments in lower middle market technology companies, which typically do not have equity enhancement features.

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. Generally, under the 1940 Act, we are deemed to control a company in which we have invested if 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 us, as defined in the 1940 Act, which are not control investments. We are deemed to be an affiliate of a company in which we have invested if we own 5% or more but less than 25% of the voting securities of such company. Non-control/ non-affiliate investments are investments that are neither control investments nor affiliate investments.

The following table summarizes our realized and unrealized gain and loss and changes in our unrealized appreciation and depreciation on control and affiliate investments for the three and six-months ended June 30, 2012 and June 30, 2011:

(in thousands)		Three months ended June 30, 2012					Six months ended June 30, 2012			
Portfolio Company	**Type**	**Fair Value at June 30, 2012**	**Investment Income**	**Unrealized (Depreciation)/ Appreciation**	**Reversal of Unrealized (Depreciation)/ Appreciation**	**Realized Gain/ (Loss)**	**Investment Income**	**Unrealized (Depreciation)/ Appreciation**	**Reversal of Unrealized (Depreciation)/ Appreciation**	**Realized Gain/ (Loss)**
MaxVision Holding, LLC.	Control	$ 169	$ 13	$ (313)	$	$	$ 26	$ (287)	$	$
E-Band Communications, Corp.	Non-Controlled Affiliate	1,504		411			5	1,486		
Gelesis	Non-Controlled Affiliate	5,693	205	672			445	891		
Total		$ 7,366	$ 218	$ 770	$	$	$ 476	$ 2,090	$	$

(in thousands)		Three months ended June 30, 2011					Six months ended June 30, 2011			
Portfolio Company	**Type**	**Fair Value at June 30, 2011**	**Investment Income**	**Unrealized (Depreciation)/ Appreciation**	**Reversal of Unrealized (Depreciation)/ Appreciation**	**Realized Gain/ (Loss)**	**Investment Income**	**Unrealized (Depreciation)/ Appreciation**	**Reversal of Unrealized (Depreciation)/ Appreciation**	**Realized Gain/ (Loss)**
MaxVision Holding, LLC.	Control	$ 3,037	$ 446	$ (2,060)	$	$	$ 852	$ (3,560)	$	$
E-Band Communications, Corp.	Non-Controlled Affiliate	53	3	(2,334)			3	(3,372)		
Total		$ 3,090	$ 449	$ (4,394)	$	$	$ 855	$ (6,932)	$	$

We use an investment grading system, which grades each debt investment on a scale of 1 to 5, to characterize and monitor our expected level of risk on the debt investments in our portfolio with 1 being the highest quality. The following table shows the distribution of our outstanding debt investments on the 1 to 5 investment grading scale at fair value as of June 30, 2012 (unaudited) and December 31, 2011, respectively.

	June 30, 2012		December 31, 2011	
(in thousands)	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
Investment Grading				
1	$ 119,727	18.5%	$ 104,516	17.8%
2	389,607	60.2%	403,114	68.8%
3	128,396	19.9%	70,388	12.0%
4	9,169	1.4%	6,722	1.2%
5	169	0.0%	1,027	0.2%
	$ 647,068	100.0%	$ 585,767	100.0%

As of June 30, 2012, our investments had a weighted average investment grading of 2.08 as compared to 2.01 at December 31, 2011. The downgrade in investment grading is primarily attributable to eight companies being downgraded from a 2 to a 3, one company being downgraded from a 3 to a 4, one company being downgraded from a 1 to a 3 and one company being downgraded from a 2 to a 4. This overall downgrade was partially offset by four companies being upgraded from a 3 to a 2, four companies being upgraded from a 2 to a 1 and the complete payoffs of one rated 1, four rated 2, one rated 3 and one rated 4 as of June 30, 2012. 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 and 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 have therefore been downgraded until their funding is complete or their operations improve. At June 30, 2012, 46 portfolio companies were graded 2, 18 portfolio companies were graded 3, three portfolio companies were graded 4, and one portfolio company was graded 5 as compared to 43 portfolio companies that were graded 2, 12 portfolio companies that were graded 3, two portfolio companies that were grade 4, and two portfolio companies that were graded 5 at December 31, 2011.

At June 30, 2012, there was one portfolio company on non-accrual status with a fair value of $169,000. There was one portfolio company on non-accrual status as of December 31, 2011 with a fair value of approximately $1.0 million.

We generate revenue in the form of interest income, primarily from our investments in debt securities, and commitment and facility fees. Fees generated in connection with our debt investments are recognized over the life of the loan or, in some cases, recognized as earned. In addition, we generate revenue in the form of capital gains, if any, on warrants or other equity-related securities that we acquire from our portfolio companies. Our investments generally range from $1.0 million to $25.0 million. Our debt investments have a term of between two and seven years and typically bear interest at a rate ranging from Prime to approximately 13.9% as of June 30, 2012. In addition to the cash yields received on our loans, in some instances, our loans may also include any of the following: end-of-term payments, exit fees, balloon payment fees, commitment fees, success fees, PIK provisions or prepayment fees which may be required to be included in income prior to receipt.

Loan origination and commitment fees received in full at the inception of a loan are deferred and amortized into fee income as an enhancement to the related loan s yield over the contractual life of the loan. We recognize nonrecurring fees amortized over the remaining term of the loan commencing in the quarter relating to specific loan modifications. Loan exit fees to be paid at the termination of the loan are accreted into interest income over the contractual life of the loan. We had approximately $2.9 million and $4.5 million of unamortized fees at June 30, 2012 and December 31, 2011, respectively, and approximately $4.8 million and $4.4 million in exit fees receivable at June 30, 2012 and December 31, 2011, respectively. We recognize nonrecurring fees amortized

over the remaining term of the loan 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.

We have loans in our portfolio that contain a PIK provision. The PIK interest, computed at the contractual rate specified in each loan agreement, is added to the principal balance of the loan and recorded as interest income. To maintain our status as a RIC, this non-cash source of income must be paid out to stockholders in the form of dividends even though we have not yet collected the cash. Amounts necessary to pay these dividends may come from available cash or the liquidation of certain investments. We recorded approximately $569,000 and $1.1 million in PIK income in the six month periods ended June 30, 2012 and 2011. 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 six month period ended June 30, 2012.

In some cases, we collateralize our investments by obtaining a first priority security interest in a portfolio company s assets, which may include their intellectual property. In other cases, we may obtain a negative pledge covering a company s intellectual property. At June 30, 2012, approximately 63.1% our portfolio company loans were secured by a first priority security in all of the assets of the portfolio company (including their intellectual property), 33.8% of portfolio company loans were to portfolio companies that were prohibited from pledging or encumbering their intellectual property, 2.3% of portfolio company loans had a first priority security in only their intellectual property, and 0.8% of portfolio company loans had an equipment only lien.

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

The effective yield on our debt investments for the three-month periods ended June 30, 2012 and 2011 was 15.2% and 18.4%, respectively. This yield was lower period over period due to fewer fee accelerations attributed to early payoffs and one-time events during the current year as compared to the prior year. The effective yield excluding payoffs on our debt investments for the three month periods ended June 30, 2012 and 2011 was 13.3% and 15.7%, respectively. The decline in this rate is due primarily to the repayments of debt investments that had higher effective yields than the debt investments made in the past three to four quarters.

The overall weighted average yield to maturity of our loan investments was approximately 12.6% at both June 30, 2012 and December 31, 2011. The weighted average yield to maturity is computed using the interest rates in effect at the inception of each of the loans, and includes amortization of the loan facility fees, commitment fees and market premiums or discounts over the expected life of the debt investments, weighted by their respective costs when averaged and based on the assumption that all contractual loan commitments have been fully funded and held to maturity.

Results of Operations

Comparison of the three and six month periods ended June 30, 2012 and 2011

Investment Income

Total investment income for the three and six-month periods ended June 30, 2012 totaled approximately $23.9 million and $46.2 million, respectively, compared to $20.8 million and $40.0 million for the three and six-month periods ended June 30, 2011, respectively.

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Interest income for the three and six-month periods ended June 30, 2012 totaled approximately $21.1 million and $41.4 million, respectively, compared to $18.1 million and $34.5 million for the three and six-month periods ended June 30, 2011, respectively. The increase in interest income is attributable to an increase of loan interest income and back end interest income of approximately $4.0 million and $8.5 million for the three and six-month periods ended June 30, 2012, respectively, partially offset by decreases in default interest income, OID interest income and PIK interest income of approximately $849,000 and $1.4 million for the three and six-month periods ended June 30, 2012, respectively.

Income from commitment, facility and loan related fees for the three and six-month periods ended June 30, 2012 totaled approximately $2.7 million and $4.8 million, respectively, compared to $2.8 million and $5.4 million for the three and six-month periods ended June 30, 2011, respectively. The decrease in income from commitment, facility and loan related fees is primarily the result of a decrease in facility fees, one time fees and amendment revenue of approximately $319,000 and $1.0 million for the three and six-month periods ended June 30, 2012, respectively, partially offset by an increase in commitment fees of approximately $216,000 and $327,000 for the three and six-month periods ended June 30, 2012, respectively.

The following table shows the PIK-related activity for the six months ended June 30, 2012 and 2011, at cost:

	Six months ended June 30,	
(in thousands)	**2012**	**2011**
Beginning PIK loan balance	$ 2,041	$ 3,955
PIK interest capitalized during the period	584	1,431
Payments received from PIK loans		(3,222)
PIK converted to other securities		(440)
Realized Loss		
Ending PIK loan balance	$ 2,625	$ 1,724

The decrease in payments received from PIK loans and PIK interest capitalized during the six months ended June 30, 2012 is due to approximately $1.4 million, $894,000, $207,000 and $166,000 of PIK collected in conjunction with the sale of our investment in Infologix, Inc. and the early payoffs of IPA Holdings, LLC., Unify Corporation and Velocity Technology Solutions, Inc., respectively, in the six-months ended June 30, 2011. The decrease in PIK converted to other securities during the six months June 30, 2012 is due to approximately $440,000 related to the conversion of MaxVision Holding, LLC. debt to equity in six months period ended June 30, 2011.

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 three and six-month periods ended June 30, 2012 and 2011, respectively.

Operating Expenses

Operating expenses, which are comprised of interest and fees on borrowings, general and administrative and employee compensation, totaled approximately $11.5 million and $10.5 million during the three month periods ended June 30, 2012 and 2011, respectively. Operating expenses totaled approximately $22.5 million and $19.8 million during the six month periods ended June 30, 2012 and 2011, respectively.

Interest and fees on borrowings totaled approximately $5.2 million and $10.2 million during the three and six-month periods ended June 30, 2012, respectively, and approximately $3.8 million and $7.0 million during the three and six months periods ended June 30, 2011, respectively. The increase is primarily attributed to interest

and fee expenses of $1.1 million and $2.3 million during the three and six-month periods ended June 30, 2012, respectively, related to the $75.0 million of Convertible Senior Notes issued on April 15, 2011 and approximately $668,000 related to the $43.0 million of the 7.00% Senior Notes due 2019 (the 2019 Note) issued on April 17, 2012. Additionally, we incurred approximately $271,000 and $541,000 of non-cash interest expense during the three and six-month periods ended June 30, 2012, respectively, and $225,000 during both the three and six-month periods ended June 30, 2011 attributed to the accretion of the fair value of the conversion feature on the Convertible Senior Notes. Additionally, we recognized an acceleration of approximately $457,000 of unamortized fees in connection with the pay down of $24.3 million SBA debentures in February 2012.

We had a weighted average cost of debt comprised of interest and fees of approximately 6.7% at June 30, 2012, as compared to 6.6% during the second quarter of 2011. The increase was primarily attributed to the weighted average cost of debt on the 2019 Notes of 7.6%, which closed in April 2012, offset by a lower weighted average cost of debt on outstanding SBA debentures of 4.9% in the second quarter of 2012 versus 5.6% in the second quarter of 2011.

General and administrative expenses include legal fees, consulting fees, accounting fees, printer fees, insurance premiums, rent, workout and various other expenses. Expenses decreased to $1.9 million from $2.3 million for the three month periods ended June 30, 2012 and 2011, respectively. These decreases were primarily due to decreases of approximately $222,000, $162,000 and $132,000 in outside services, SEC printing expenses and legal disbursements, respectively, partially offset by an increase in public relations expenses of approximately $118,000 for the three month period ended June 30, 2012.

Expenses decreased to $3.7 million from $4.5 million for the six month periods ended June 30, 2012 and 2011, respectively. These decreases were primarily due to decreases of approximately $241,000, $187,000, $185,000, $141,000 and $134,000 in auditing fees, outside services, legal disbursements, workout related expenses and SEC printing expenses, respectively, partially offset by an increase in public relations expenses of approximately $183,000 for the six month period ended June 30, 2012.

Employee compensation and benefits totaled approximately $3.3 million and $6.6 million during the three and six-month periods ended June 30, 2012, respectively. Employee compensation and benefits totaled approximately $3.4 million and $6.6 million during the three and six-month periods ended June 30, 2011, respectively. Stock-based compensation totaled approximately $1.2 million and $927,000 during the three-month periods ended June 30, 2012 and 2011, respectively, and approximately $2.0 million and $1.6 million during the six-month periods ended June 30, 2012 and 2011, respectively. These increases were due primarily to the expense on restricted stock grants of approximately 672,000 shares issued in the first quarter of 2012. See Financial Condition, Liquidity, and Capital Resources for disclosure of additional expenses.

Net Investment Income Before Investment Gains and Losses

Net investment income per share was $0.25 for the quarter ended June 30, 2012 compared to $0.24 per share in the quarter ended June 30, 2011, based on 48,615,780 and 42,970,747 weighted average shares outstanding, respectively. Net investment income before investment gains and losses for the three and six-month periods ended June 30, 2012 totaled approximately $12.3 million and $23.7 million, respectively, as compared to $10.4 million and $20.2 million in the three and six-month periods ended June 30, 2011, respectively. The changes are made up of the items described above under Investment Income and Operating Expenses.

Net Investment Realized Gains and Losses and 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 the investment without regard to unrealized appreciation or depreciation previously recognized, and includes investments charged 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.

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During the three and six month periods ended June 30, 2012, we recognized net realized gains of approximately $8.3 million and $11.1 million on the portfolio, respectively. During the quarter ended June 30, 2012, we recorded approximately $5.3 million, $2.4 million and $862,000 of realized gains from the sale of equity in NEXX Systems, Inc., Annie s, Inc. and Bullhorn, Inc., respectively. These gains were partially offset by realized losses due to the expiration of warrants in three private portfolio companies that had a cost basis of approximately $222,000.

During the three and six-months ended June 30, 2011 we recognized total net realized gains of approximately $497,000 for the sale of equity in Aegerion Pharmaceuticals, Inc. and $10.1 million from the sale of common stock in its public portfolio companies and realized gains of approximately $162,000 and realized losses of approximately $5.1 million from equity, loan, and warrant investments in portfolio companies that have been liquidated.

A summary of realized gains and losses for the three and six month periods ended June 30, 2012 and 2011 is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	**2012**	**2011**	**2012**	**2011**
Realized gains	$ 8,485	$ 665	$ 12,175	$ 10,264
Realized losses	(222)	(6)	(1,035)	(5,235)
Net realized gains (losses)	$ 8,263	$ 659	$ 11,140	$ 5,029

The net unrealized appreciation and depreciation of our investments is based on fair value of each investment determined in good faith by our Board of Directors.

The following table itemizes the change in net unrealized appreciation/depreciation of investments for the three and six-month periods ended June 30, 2012 and 2011:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	**2011**	**2012**	**2011**
(in thousands)	**Amount**	**Amount**	**Amount**	**Amount**
Gross unrealized appreciation on portfolio investments	$ 6,353	$ 23,676	$ 25,534	$ 30,016
Gross unrealized depreciation on portfolio investments	(19,991)	(9,521)	(32,343)	(27,410)
Reversal of prior period net unrealized appreciation upon a realization	(7,081)	(455)	(11,590)	(9,901)
Reversal of prior period net unrealized depreciation upon a realization	190		619	5,606
Citigroup Warrant Participation	4	(402)	108	(365)
Net unrealized appreciation (depreciation) on portfolio investments	$ (20,525)	$ 13,298	$ (17,672)	$ (2,054)

During the three month period ended June 30, 2012, we recorded approximately $20.5 million of net unrealized depreciation from our loans, warrant and equity investments. Approximately $5.0 million and $5.8 million is attributed to net unrealized depreciation on equity and warrants, respectively, of which approximately $5.2 million and $1.7 million is due to the reversal of prior period net unrealized appreciation upon being realized as a gain. Additionally, we recorded approximately $500,000 of unrealized depreciation attributed to reduced expectations of escrow proceeds previously anticipated to be collected.

We recorded approximately $9.2 million net unrealized depreciation on our debt investments related to decreases in fair value adjustments made as a result of an increase in current quarter effective yield.

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The following table itemizes the change in net unrealized appreciation/(depreciation) in the investment portfolio by category for the three month period ended June 30, 2012.

	Three Months Ended June 30, 2012				
(in millions)	Loans	Equity	Warrants	Other Assets	Total
Collateral based impairments	$ (0.6)				$ (0.6)
Reversals due to Loan Payoffs & Warrant/Equity sales	(0.3)	(1.7)	(5.2)	(0.5)	(7.7)
Fair Value Market/Yield Adjustments*					
Level 1 & 2 Assets		(3.9)	0.4		(3.5)
Level 3 Assets	(8.3)	0.6	(1.0)		(8.7)
Total Fair Value Market/Yield Adjustments	(8.3)	(3.3)	(0.6)		(12.2)
Total Unrealized Appreciation/(Depreciation)	$ (9.2)	$ (5.0)	$ (5.8)	$ (0.5)	$ (20.5)

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

During the six month period ended June 30, 2012, we recorded approximately $17.7 million of net unrealized depreciation from our loans, warrant and equity investments. Approximately $2.3 million and $4.2 million is attributed to net unrealized depreciation on equity and warrants, respectively, of which approximately $6.4 million and $4.6 million is due to the reversal of prior period net unrealized appreciation upon being realized as a gain. Additionally, we recorded approximately $500,000 of unrealized depreciation attributed to reduced expectations of escrow proceeds previously anticipated to be collected.

We recorded approximately $10.7 million net unrealized depreciation on our debt investments related to fluctuations in current market interest rates.

The following table itemizes the change in net unrealized appreciation/(depreciation) in the investment portfolio by category for the six month period ended June 30, 2012.

	Six Months Ended June 30, 2012				
(in millions)	Loans	Equity	Warrants	Other Assets	Total
Collateral based impairments	$ (0.6)				$ (0.6)
Reversals due to Loan Payoffs & Warrant/Equity sales	1.0	(4.6)	(6.4)	(0.5)	(10.5)
Fair Value Market/Yield Adjustments*					
Level 1 & 2 Assets		(4.2)	1.5		(2.7)
Level 3 Assets	(11.1)	6.5	0.7		(3.9)
Total Fair Value Market/Yield Adjustments	(11.1)	2.3	2.2		(6.6)
Total Unrealized Appreciation/(Depreciation)	$ (10.7)	$ (2.3)	$ (4.2)	$ (0.5)	$ (17.7)

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

As of June 30, 2012, the net unrealized depreciation recognized by us was increased by approximately $108,000 due to the warrant participation agreement with Citigroup. For a more detailed discussion of the warrant participation agreement, see the discussion set forth under Note 4 to the Consolidated Financial Statements.

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During the three month period ended June 30, 2011, we recorded approximately $13.3 million of net unrealized appreciation from our loans, warrant and equity investments. During the six month period ended June 30, 2011, we recorded approximately $2.1 million of net unrealized depreciation from our loans, warrant and equity investments.

Income and Excise Taxes

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

Net Increase in Net Assets Resulting from Operations and Change in Net Assets per Share

For the three and six months ended June 30, 2012, the net increase in net assets resulting from operations totaled approximately $48,000 and $17.2 million, respectively. For the three and six months ended June 30, 2011, the net decrease in net assets resulting from operations totaled approximately $24.3 million and $23.1 million, respectively. These changes are made up of the items previously described.

There was no net change in net assets per common share for the three month period ended June 30, 2012 and basic and fully diluted net change in net assets per common share for the six-month period ended June 30, 2012 was $0.35. The basic and fully diluted net change in net assets per common share was $0.56 and $0.53, respectively, for the three and six-month periods ended June 30, 2011.

Financial Condition, Liquidity, and Capital Resources

Our liquidity and capital resources are derived from our credit facilities, SBA debentures, Convertible Senior Notes, 2019 Notes 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 rotation of our portfolio and from public and private offerings of securities to finance our investment objectives. We may raise additional equity or debt capital through both registered offerings off a shelf registration and private offerings of securities, by securitizing a portion of our investments or borrowing, including from the SBA through our SBIC subsidiaries.

At June 30, 2012, we had $75.0 million of Convertible Senior Notes payable, $43.0 million of 2019 Notes and approximately $200.7 million of SBA debentures payable. We had approximately $3.1 million outstanding to the Wells Facility and no borrowings outstanding under the Union Bank Facility. In July 2012, we re-opened our 2019 Notes, and issued an additional amount of approximately $41.5 million in aggregate principal amount, which includes exercise of an over-allotment option, bringing the total amount of 2019 Notes issued to approximately $84.5 million in aggregate principal amount.

During the six months ended June 30, 2012, our operating activities used $42.7 million of cash and cash equivalents, compared to $20.3 million provided during the six months ended June 30, 2011. The $63.0 million decrease in cash provided by operating activities resulted primarily from a reduction of principal payments received on investments of approximately $78.4 million, partially offset by an increase in net unrealized appreciation of $15.6 million and a decrease in purchase of investments of $12.1 million during the six month period ended June 30, 2012. During the six months ended June 30, 2012, our financing activities provided $34.4 million of cash, compared to $70.9 million provided during the six months ended June 30, 2011. This $36.5 million decrease in cash provided by financing activities was primarily attributed to net proceeds from the issuance of common stock of $46.7 million, offset by the repayments of borrowings of approximately $46.3 million and by cash dividend payments of $22.1 million.

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As of June 30, 2012, net assets totaled $474.8 million, with a net asset value per share of $9.54. We intend to generate additional cash primarily from cash flows from operations, including income earned from investments in our portfolio companies and, to a lesser extent, from the temporary investment of cash in other high-quality debt investments that mature in one year or less as well as from future borrowings as required to meet our lending activities. Our primary use of funds will be investments in portfolio companies and cash distributions to holders of our common stock.

In January 2012, we completed a follow-on public offering of 5.0 million shares of common stock for proceeds of approximately $48.05 million, before deducting offering expenses, to us. Additionally, we expect to raise additional capital to support our future growth through future equity and debt offerings, and/or future borrowings, to the extent permitted by the 1940 Act. To the extent we determine to raise additional equity through an offering of our common stock at a price below net asset value, existing investors will experience dilution. During our 2012 Annual Shareholder Meeting held on May 30, 2012, our stockholders authorized us, with the approval of our Board of Directors, to sell up to 20% of our outstanding common stock at a price below our then current net asset value per share and to offer and issue debt with warrants or debt convertible into shares of our common stock at an exercise or conversion price that will not be less than the fair market value per share but may be below the then current net asset value per share. There can be no assurance that these capital resources will be available.

As required by the 1940 Act, our asset coverage must be at least 200% after each issuance of senior securities. As of June 30, 2012 our asset coverage ratio under our regulatory requirements as a business development company was 654.3%, 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. Total leverage when including our SBA debentures was 246.2% at June 30, 2012. As a result of the SEC exemptive order, our ratio of total assets on a consolidated basis to outstanding indebtedness may be less than 200%, which while providing increased investment flexibility, also may increase our exposure to risks associated with leverage.

At June 30, 2012 (unaudited) and December 31, 2011, we had the following borrowing capacity and outstanding amounts:

	June 30, 2012		**December 31, 2011**	
(in thousands)	**Total Available**	**Carrying Value[(1)]**	**Total Available**	**Carrying Value[(1)]**
Union Bank Facility	$ 55,000	$	$ 55,000	$
Wells Facility	75,000	3,130	75,000	10,187
2019 Notes[(2)]	43,000	43,000		
Convertible Senior Notes[(3)]	75,000	70,894	75,000	70,353
SBA Debentures[(4)]	225,000	200,750	225,000	225,000
Total	$ 473,000	$ 317,774	$ 430,000	$ 305,540

(1) Except for the Convertible Senior Notes, all carrying values are the same as the principal amount outstanding.
(2) In July 2012, we re-opened our 2019 Notes and issued an additional $41.5 million in aggregate principal amount of 2019 Notes, which includes exercise of an over-allotment option, bringing the total amount of 2019 Notes issued to approximately $84.5 million in aggregate principal amount.
(3) Represents the aggregate principal amount outstanding of the Convertible Senior Notes less the unaccreted discount initially recorded upon issuance of the Convertible Senior Notes. The total unaccreted discount for the Convertible Senior Notes was $4,106 at June 30, 2012.
(4) In February 2012, we repaid $24.3 million of SBA debentures under HT II, priced at approximately 6.63%, including annual fees. In June 2012, the SBA approved a $24.3 million dollar commitment for HT III bringing the total available borrowings to $225.0 million, of which $100.7 million was available in HT II and $124.3 million was available in HT III.

On September 27, 2006, HT II received a license and on May 26, 2010 HT III received a license to operate as SBICs under the SBIC program and are able to borrow funds from the SBA against eligible investments. As of

June 30, 2012, all required contributed capital from the Company has been invested into HT II and HT III. We are the sole limited partner of HT II and HT III and HTM is the general partner. HTM is our wholly-owned subsidiary. 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 June 30, 2012 as a result of having sufficient capital as defined under the SBA regulations. HT II and HT III hold approximately $203.8 million and $185.1 million in assets, respectively, and accounted for approximately 19.1% and 17.3% of our total assets prior to consolidation at June 30, 2012.

With our net investment of $75.0 million in HT II as of June 30, 2012, HT II has the capacity to issue a total of $100.7 million of SBA guaranteed debentures, of which $100.7 million was outstanding at June 30, 2012. As of June 30, 2012, HT II has paid the SBA commitment fees of approximately $1.5 million. As of June 30, 2012, we held investments in HT II in 52 companies with a fair value of approximately $179.7 million, accounting for approximately 24.9% of our total portfolio at June 30, 2012.

As of June 30, 2012, HT III had the potential to borrow up to $124.3 million of SBA-guaranteed debentures under the SBIC program. With our net investment of $62.3 million in HT III as of June 30, 2012, HT III has the capacity to issue a total of $124.3 million of SBA guaranteed debentures, subject to SBA approval, of which $100.0 million was outstanding at June 30, 2012. As of June 30, 2012, HT III has paid the SBA commitment fees of approximately $1.2 million. As of June 30, 2012, we held investments in HT III in 27 companies with a fair value of approximately $140.3 million accounting for approximately 19.4% of our total portfolio at June 30, 2012.

(in thousands) Issuance/Pooling Date	Maturity Date	Interest Rate[1]	June 30, 2012	December 31, 2011
SBA Debentures:				
September 26, 2007	September 1, 2017	6.43%	$ 12,000	$ 12,000
March 26, 2008	March 1, 2018	6.38%	47,550	58,050
September 24, 2008	September 1, 2018	6.63%		13,750
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	3.05%	11,250	11,250
March 21, 2012	March 1, 2022	3.28%	25,000	25,000
Total SBA Debentures			**$ 200,750**	**$ 225,000**

(1) Interest rate includes annual charge

As of June 30, 2012, the maximum statutory limit on the dollar amount of outstanding SBA guaranteed debentures issued by a single SBIC is $150.0 million, subject to periodic adjustments by the SBA, and a maximum amount of $225.0 million for funds under common control, subject to periodic adjustments by the SBA. In the aggregate, at June 30, 2012 there was $200.7 million principal amount of indebtedness outstanding incurred by our SBIC subsidiaries, and in June 2012 the SBA approved an additional $24.3 million under HT III, bringing us to the maximum statutory limit on the dollar amount of SBA guaranteed debentures under the SBIC program.

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We believe that our current cash and cash equivalents, cash generated from operations, and funds available from the credit facilities will be sufficient to meet our working capital and capital expenditure commitments for at least the next 12 months.

Commitments

In the normal course of business, we are party to financial instruments with off-balance sheet risk. These consist primarily of unfunded commitments to extend credit, in the form of loans, to our portfolio companies. Unfunded commitments to provide funds to portfolio companies are not reflected on our balance sheet. Our unfunded commitments may be significant from time to time. As of June 30, 2012, we had unfunded commitments of approximately $92.7 million. Approximately $32.6 million of these unfunded debt commitments are dependent upon the portfolio company reaching certain milestones before the debt commitment becomes available. These commitments will be subject to the same underwriting and ongoing portfolio maintenance as are the on-balance sheet financial instruments that we hold. Since these commitments may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. Closed commitments generally fund 70-80% of the committed amount in aggregate over the life of the commitment. We intend to use cash flow from normal and early principal repayments, and proceeds from borrowings and notes to fund these commitments. However, there can be no assurance that we will have sufficient capital available to fund these commitments as they come due.

In addition, we had approximately $48.0 million of non-binding term sheets outstanding to six new and existing companies, which generally convert to contractual commitments within approximately 45 to 60 days of signing. Non-binding outstanding term sheets are subject to completion of our due diligence and final approval process, as well as the negotiation of definitive documentation with the prospective portfolio companies. Not all non-binding term sheets are expected to close and do not necessarily represent future cash requirements.

Contractual Obligations

The following table shows our contractual obligations as of June 30, 2012:

		Payments due by period (in thousands)			
Contractual Obligations[(1)(2)]	**Total**	**Less than 1 year**	**1 - 3 years**	**3 - 5 years**	**After 5 years**
Borrowings[(3)(4)]	$ 317,774	$	$ 3,130	$ 70,894	$ 243,750
Operating Lease Obligations[(5)]	7,876	1,214	2,320	2,557	1,785
Total	$ 325,650	$ 1,214	$ 5,450	$ 73,451	$ 245,535

(1) Excludes commitments to extend credit to our portfolio companies.
(2) We also have a warrant participation agreement with Citigroup. See Note 4 to our consolidated financial statements.
(3) Includes $200,750 in borrowings under the SBA debentures, $3.1 million outstanding under the Wells Facility and $43.0 million in aggregate principal amount of the 2019 Notes issued in April 2012. In July 2012, the Company re-opened its 2019 Notes, and issued an additional $41.5 million in aggregate principal amount of 2019 Notes, which included exercise of an over-allotment option, bringing the total amount of 2019 Notes issued to approximately $84.5 million in aggregate principal amount. See Subsequent Events below.
(4) Except for the Convertible Senior Notes, all carrying values are the same as the principal amount outstanding. The aggregate principal amount outstanding of the Convertible Senior Notes less the unaccreted discount initially recorded upon issuance of the Convertible Senior Notes was $4,106 at June 30, 2012.
(5) Long-term facility leases.

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

Borrowings

Long-term SBA Debentures

On September 27, 2006, HT II received a license to operate as a SBIC under the SBIC program and is able to borrow funds from the SBA against eligible investments and regulatory capital. Under the Small Business Investment Company Act and current SBA policy applicable to SBICs, a SBIC can have outstanding at any time SBA guaranteed debentures up to twice the amount of its regulatory capital. HT II has a total of $100.7 million of SBA guaranteed debentures outstanding as of June 30, 2012 and has paid the SBA commitment fees of approximately $1.5 million. As of June 30, 2012, the Company held investments in HT II in 52 companies with a fair value of approximately $179.7 million, accounting for approximately 24.9% of our total portfolio at June 30, 2012.

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 $62.3 million in HT III as of June 30, 2012, HT III has the capacity to issue a total of $124.3 million of SBA guaranteed debentures, subject to SBA approval, of which $100.0 million was outstanding as of June 30, 2012. As of June 30, 2012, HT III has paid commitment fees of approximately $1.2 million. As of June 30, 2012, we held investments in HT III in 27 companies with a fair value of approximately $140.3 million accounting for approximately 19.4% of our total portfolio at June 30, 2012.

There is no assurance that HT II or HT III will be able to draw up to the maximum limit available under the SBIC program.

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 $18.0 million and have average annual fully taxed net income not exceeding $6.0 million for the two most recent fiscal years. In addition, SBICs must devote 25.0% of its investment activity to smaller concerns as defined by the SBA. A smaller concern is one that has a tangible net worth not exceeding $6.0 million and has average annual fully taxed net income not exceeding $2.0 million for the two most recent fiscal years. SBA regulations also provide alternative size standard criteria to determine eligibility, which depend on the industry in which the business is engaged and are based on such factors as the number of employees and gross sales. According to SBA regulations, SBICs may make long-term loans to small businesses, invest in the equity securities of such businesses and provide them with consulting and advisory services. Through its wholly-owned subsidiaries HT II and HT III, we plan to provide long-term loans to qualifying small businesses, and in connection therewith, make equity investments.

HT II and HT III are periodically examined and audited by the SBA s staff to determine their compliance with SBA regulations. If HT II or HT III fails to comply with applicable SBA regulations, the SBA could, depending on the severity of the violation, limit or prohibit HT II s or HT III s use of debentures, declare outstanding debentures immediately due and payable, and/or limit HT II or HT III from making new investments. In addition, HT II or HT III may also be limited in their ability to make distributions to us if they do not have sufficient capital in accordance with SBA regulations. Such actions by the SBA would, in turn, negatively affect us because HT II and III are our wholly owned subsidiaries. HT II and HT III were in compliance with the terms of the SBIC s leverage as of June 30, 2012 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 April 2007 are set semiannually in March and September and range from 2.77% to 5.73%. Interest payments on SBA debentures are payable semi-annually. 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 April 2007, the initial maturity of SBA debentures will occur in April 2017. 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 related to HT III debentures that pooled on March 21, 2012 were 0.285% and 0.515% depending upon the year in which the underlying commitment was closed. The annual fees on other debentures have been set at 0.906%. The average amount of debentures outstanding for the quarter ended June 30, 2012 for HT II was approximately $100.7 million with an average interest rate of approximately 6.3%. The average amount of debentures outstanding for the quarter ended June 30, 2012 for HT III was approximately $100.0 million with an average interest rate of approximately 3.6%.

In January 2011, we repaid $25.0 million of SBA debentures under HT II, priced at approximately 6.63%, including annual fees. In April 2011, the SBA approved a $25.0 million dollar commitment for HT III bringing the total available borrowings to $225.0 million, of which $125.0 million was available in HT II and $100.0 million was available in HT III.

In February 2012, we repaid $24.3 million of SBA debentures under HT II, priced at 6.63%, including annual fees. In June 2012, the SBA approved a $24.3 million dollar commitment for HT III bringing the total available borrowings to $225.0 million, of which $100.7 million was available in HT II and $124.3 million was available in HT III.

As of June 30, 2012, the maximum statutory limit on the dollar amount of outstanding SBA guaranteed debentures issued by a single SBIC is $150.0 million, subject to periodic adjustments by the SBA, and a maximum amount of $225.0 million for funds under common control, subject to periodic adjustments by the SBA. In the aggregate, at June 30, 2012 there was $200.7 million principal amount of indebtedness outstanding incurred by our SBIC subsidiaries, and in June 2012 the SBA approved an additional $24.3 million under HT III, bringing us to the maximum statutory limit on the dollar amount of SBA guaranteed debentures under the SBIC program.

Wells Facility

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

Borrowings under the Wells Facility will generally bear interest at a rate per annum equal to LIBOR plus 3.50%, with a floor of 5.00% and an advance rate of 50% against eligible loans. The Wells Facility is secured by loans in the borrowing base. The Wells Facility requires the monthly payment of a non-use fee of 0.3% for each payment date on or before September 1, 2011. The monthly payment of a non-use fee thereafter shall depend on the average balance that was outstanding on a scale between 0.0% and 0.75%. For the three-month period ended June 30, 2012, this non-use fee was approximately $140,000. On June 20, 2011 we paid an additional $1.1 million in structuring fees in connection with the Wells Facility which is being amortized through June 2014. At June 30, 2012, there was approximately $3.1 million outstanding under the Wells Facility.

The Wells Facility includes various financial and operating covenants applicable to us and our subsidiaries, in addition to those applicable to Hercules Funding II, LLC. These covenants require us to maintain certain financial ratios and a minimum tangible net worth in an amount, when added to outstanding subordinated indebtedness, that is in excess of $314.0 million plus 90% of the cumulative amount of equity raised after March 31, 2011. In addition, the tangible net worth covenant will increase by 90 cents on the dollar for every dollar of equity capital that we subsequently raise. As of June 30, 2012, the minimum tangible net worth

covenant has increased to $357.2 million as a result of the January 2012 follow-on public offering of 5.0 million shares of common stock for proceeds of approximately $48.05 million. The Wells Facility provides for customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, bankruptcy events and change of control. We were in compliance with all covenants at June 30, 2012. See Subsequent Events for a discussion of an amendment to the Wells Facility.

Union Bank Facility

On February 10, 2010, we entered a $20.0 million one-year revolving senior secured credit facility with Union Bank (the Union Bank Facility). On November 2, 2011, we renewed and amended the Union Bank Facility and added a new lender under the Union Bank Facility. Union Bank and RBC Capital Markets have made commitments of $30.0 million and $25.0 million, respectively. The Union Bank Facility contains an accordion feature, in which we can increase the credit line up to an aggregate of $150.0 million, funded by additional lenders and with the agreement of Union Bank and subject to other customary conditions. We expect to continue discussions with various other potential lenders to join the new facility; however, there can be no assurances that additional lenders will join the Union Bank Facility.

Borrowings under the Union Bank Facility will generally bear interest at a rate per annum equal to LIBOR plus 2.25% with a floor of 4.0%. The Union Bank Facility requires the payment of a non-use fee of 0.50% annually. For the three-month period ended June 30, 2012, this nonuse fee was approximately $70,000. The Union Bank Facility is collateralized by debt investments in our portfolio companies, and includes an advance rate equal to 50.0% of eligible loans placed in the collateral pool. The Union Bank Facility generally requires payment of interest on a monthly basis. All outstanding principal is due upon maturity. At June 30, 2012, there were no borrowings outstanding on this facility.

The Union Bank Facility requires various financial and operating covenants. These covenants require us to maintain certain financial ratios and a minimum tangible net worth in an amount, when added to outstanding subordinated indebtedness, that is in excess of $314.0 million plus 90% of the amount of net cash proceeds received from the sale of common stock after March 31, 2011. As of June 30, 2012, the minimum tangible net worth covenant has increased to $356.5 million as a result of the January 2012 follow-on public offering of 5.0 million shares of common stock for net proceeds of approximately $47.2 million. The Union Bank Facility will mature on November 2, 2014, approximately three years from the date of issuance, revolving through the first 24 months with a term out provision for the remaining 12 months. Union Bank Facility also provides for customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, bankruptcy events and change of control. On March 30, 2012 the Company entered into an amendment to the Union Bank Facility which permitted the Company to issue additional senior notes relating to the offer and sale of the Company s 2019 Notes. We were in compliance with all covenants at June 30, 2012.

Citibank Credit Facility

We, through Hercules Funding Trust I, an affiliated statutory trust, had a securitized credit facility (the Citibank Credit Facility) with Citigroup Global Markets Realty Corp. which expired under normal terms. During the first quarter of 2009, we paid off all principal and interest owed under the Citibank Credit Facility. Citigroup has an equity participation right through a warrant participation agreement on the pool of loans and warrants collateralized under the Citibank Credit Facility. Pursuant to the warrant participation agreement, we granted to Citigroup a 10% participation in all warrants held as collateral. However, no additional warrants were included in collateral subsequent to the facility amendment on May 2, 2007. As a result, Citigroup is entitled to 10% of the realized gains on the warrants until the realized gains paid to Citigroup pursuant to the agreement equal $3,750,000 (the Maximum Participation Limit). The obligations under the warrant participation agreement continue even after the Citibank Credit Facility is terminated until the Maximum Participation Limit has been reached. The value of their participation right on unrealized gains in the related equity investments was approximately $606,000 as of June 30, 2012 and is included in accrued liabilities. There can be no assurances

that the unrealized appreciation of the warrants will not be higher or lower in future periods due to fluctuations in the value of the warrants, thereby increasing or reducing the effect on the cost of borrowing. Since inception of the agreement, we have paid Citigroup approximately $1.1 million under the warrant participation agreement thereby reducing our realized gains by this amount. We will continue to pay Citigroup under the warrant participation agreement until the Maximum Participation Limit is reached or the warrants expire. Warrants subject to the Citigroup participation agreement are set to expire between July 2012 and January 2017.

Convertible Senior Notes

In April 2011, we issued $75.0 million in aggregate principal amount of Convertible Senior Notes. As of June 30, 2012, 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 $70.9 million.

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

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

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

In accounting for the Convertible Senior Notes, we estimated that the values of the debt and the embedded conversion feature of the Convertible Senior Notes were approximately 92.8% and 7.2%, respectively. The original issue discount of 7.2% attributable to the conversion feature of the Convertible Senior Notes has initially been recorded in capital in excess of par value in the consolidated statement of assets and liabilities. As a result, we record interest expense comprised of both stated interest expense as well as accretion of the original issue discount resulting in an estimated effective interest rate of approximately 7.9%.

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As of June 30, 2012, the components of the carrying value of the Convertible Senior Notes were as follows:

(in thousands)	As of June 30, 2012
Principal amount of debt	$ 75,000
Original issue discount, net of accretion	(4,106)
Carrying value of debt	$ 70,894

For the three and six months ended June 30, 2012, the components of interest expense, fees and cash paid for interest expense for the Convertible Senior Notes were as follows:

(in thousands)	Three Months Ended June, 2012	Six Months Ended June, 2012
Stated interest expense	$ 1,125	$ 2,250
Accretion of original issue discount	271	541
Amortization of debt issuance cost	144	289
Total interest expense	$ 1,540	$ 3,080
Cash paid for interest expense	$ 2,250	$ 2,250

As of June 30, 2012, we are in compliance with the terms of the indentures governing the Convertible Senior Notes. See Note to our consolidated financial statements for more detail on the Convertible Senior Notes.

2019 Notes

On April 17, 2012, we and U.S. Bank, N.A. (the Trustee), entered into the First Supplemental Indenture (the First Supplemental Indenture) to the Indenture (the Indenture) between us and the Trustee, dated April 17, 2012, relating to our issuance, offer and sale of $43.0 million aggregate principal amount of 2019 Notes. The sale of the 2019 Notes generated net proceeds, before expenses, of approximately $41.7 million.

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

The 2019 Notes will be our direct unsecured obligations and will rank: (i) *pari passu* with our other outstanding and future senior unsecured indebtedness, including without limitation, the $75.0 million in aggregate principal amount of the Convertible Senior Notes; (ii) senior to any of our future indebtedness that expressly provides it is subordinated to the 2019 Notes; (iii) effectively subordinated to all our existing and future secured indebtedness (including indebtedness that is initially unsecured to which we subsequently grant security), to the extent of the value of the assets securing such indebtedness, including without limitation, borrowings under our credit facilities; (iv) structurally subordinated to all existing and future indebtedness and other obligations of any of our subsidiaries, including without limitation, the indebtedness of Hercules Technology II, L.P. and Hercules Technology III, L.P. and borrowings under our revolving senior secured credit facility with Wells Fargo Capital Finance, LLC.

The Indenture, as supplemented by the First Supplemental Indenture, contains certain covenants including covenants requiring our compliance with (regardless of whether it is subject to) the asset coverage requirements set forth in Section 18(a)(1)(A) as modified by Section 61(a)(1) of the Investment Company Act of 1940, as

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amended, 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 Investment Company Act of 1940, as amended, and to provide financial information to the holders of the 2019 Notes and the Trustee if the Company should no longer be subject to the reporting requirements under the Securities Exchange Act of 1934. These covenants are subject to important limitations and exceptions that are described in the Indenture, as supplemented by the First Supplemental Indenture. 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 2019 Notes in a series may declare such 2019 Notes immediately due and payable upon the occurrence of any event of default after expiration of any applicable grace period.

The 2019 Notes were sold pursuant to an underwriting agreement dated April 11, 2012 among us and Stifel, Nicolaus & Company, Incorporated, as representative of the several underwriters named in the underwriting agreement. In July 2012, we re-opened our 2019 Notes and issued an additional $41.5 million in aggregate principal amount of 2019 Notes, which includes exercise of an over-allotment option, bringing the total amount of the 2019 Notes issued to approximately $84.5 million in aggregate principal amount.

For the three months and six months ended June 30, 2012, the components of interest expense and cash paid for interest expense for the 2019 Notes are as follows:

(in thousands)	Three Months Ended June 30, 2012	Six Months Ended June 30, 2012
Stated interest expense	$ 619	$ 619
Amortization of debt issuance cost	49	49
Total interest expense	$ 668	$ 668
Cash paid for interest expense	$	$

As of June 30, 2012, we are in compliance with the terms of the indenture governing the 2019 Notes. See Note 4 to our consolidated financial statements for more detail on the 2019 Notes.

Outstanding Borrowings

At June 30, 2012 (unaudited) and December 31, 2011, we had the following borrowing capacity and outstanding borrowings:

	June 30, 2012		December 31, 2011	
(in thousands)	Total Available	Carrying Value(1)	Total Available	Carrying Value(1)
Union Bank Facility	$ 55,000	$	$ 55,000	$
Wells Facility	75,000	3,130	75,000	10,187
2019 Notes(2)	43,000	43,000		
Convertible Senior Notes(3)	75,000	70,894	75,000	70,353
SBA Debentures(4)	225,000	200,750	225,000	225,000
Total	$ 473,000	$ 317,774	$ 430,000	$ 305,540

(1) Except for the Convertible Senior Notes, all carrying values are the same as the principal amount outstanding.
(2) In July 2012, we re-opened our 2019 Notes and issued an additional $41.5 million in aggregate principal amount, which includes exercise of an over-allotment option, bringing the total amount of 2019 Notes issued to approximately $84.5 million in aggregate principal amount.
(3) Represents the aggregate principal amount outstanding of the Convertible Senior Notes less the unaccreted discount initially recorded upon issuance of the Convertible Senior Notes. The total unaccreted discount for the Convertible Senior Notes was $4,106 at June 30, 2012.
(4) In February 2012, we repaid $24.3 million of SBA debentures under HT II, priced at approximately 6.63%, including annual fees. In June 2012, the SBA approved a $24.3 million dollar commitment for HT III, bringing the total available borrowings to $225.0 million, of which $100.7 million was available in HT II and $124.3 million was available in HT III.

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Dividends

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

Date Declared	Record Date	Payment Date	Amount Per Share
October 27, 2005	November 1, 2005	November 17, 2005	$ 0.03
December 9, 2005	January 6, 2006	January 27, 2006	0.30
April 3, 2006	April 10, 2006	May 5, 2006	0.30
July 19, 2006	July 31, 2006	August 28, 2006	0.30
October 16, 2006	November 6, 2006	December 1, 2006	0.30
February 7, 2007	February 19, 2007	March 19, 2007	0.30
May 3, 2007	May 16, 2007	June 18, 2007	0.30
August 2, 2007	August 16, 2007	September 17, 2007	0.30
November 1, 2007	November 16, 2007	December 17, 2007	0.30
February 7, 2008	February 15, 2008	March 17, 2008	0.30
May 8, 2008	May 16, 2008	June 16, 2008	0.34
August 7, 2008	August 15, 2008	September 19, 2008	0.34
November 6, 2008	November 14, 2008	December 15, 2008	0.34
February 12, 2009	February 23, 2009	March 30, 2009	0.32*
May 7, 2009	May 15, 2009	June 15, 2009	0.30
August 6, 2009	August 14, 2009	September 14, 2009	0.30
October 15, 2009	October 20, 2009	November 23, 2009	0.30
December 16, 2009	December 24, 2009	December 30, 2009	0.04
February 11, 2010	February 19, 2010	March 19, 2010	0.20
May 3, 2010	May 12, 2010	June 18, 2010	0.20
August 2, 2010	August 12, 2010	September 17,2010	0.20
November 4, 2010	November 10, 2010	December 17, 2010	0.20
March 1, 2011	March 10, 2011	March 24, 2011	0.22
May 5, 2011	May 11, 2011	June 23, 2011	0.22
August 4, 2011	August 15, 2011	September 15, 2011	0.22
November 3, 2011	November 14, 2011	November 29, 2011	0.22
February 27, 2012	March 12, 2012	March 15, 2012	0.23
April 30, 2012	May 18, 2012	May 25, 2012	0.24
July 30, 2012	August 17, 2012	August 24, 2012	0.24
			$ 7.40

* Dividend paid in cash and stock.

On July 30, 2012 the Board of Directors declared a cash dividend of $0.24 per share to be paid on August 24, 2012 to shareholders of record as of August 17, 2012. This dividend represents the Company s twenty-eighth consecutive quarterly dividend declaration since its initial public offering, and will bring the total cumulative dividend declared to date to $7.40 per share.

Our Board of Directors maintains a variable dividend policy with the objective of distributing four quarterly distributions in an amount that approximates 90 100% of our taxable quarterly income or potential annual income for a particular year. In addition, at the end of the year, we may also pay an additional special dividend or fifth dividend, such that we may distribute approximately all of our annual taxable income in the year it was earned, while maintaining the option to spill over our excess taxable income.

Distributions in excess of our current and accumulated earnings and profits would generally be treated first as a return of capital to the extent of the stockholder s tax basis, and any remaining distributions would be treated

as a capital gain. The determination of the tax attributes of our distributions is made annually as of the end of our fiscal year based upon our taxable income for the full year and distributions paid for the full year, therefore a determination made on a quarterly basis may not be representative of the tax attributes of our 2012 distributions to stockholders. If we had determined the tax attributes of our distributions year-to-date as of June 30, 2012, approximately 98% would be from ordinary income and spillover earnings from 2011, and 2% would be a return of capital.

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

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

We intend to distribute quarterly dividends to our stockholders. In order to avoid certain excise taxes imposed on RICs, we currently intend to distribute during each calendar year an amount at least equal to the sum of (1) 98% of our ordinary income for the calendar year, (2) 98.2% of our capital gains in excess of capital losses for the one year period ending on October 31 of the calendar year, and (3) any ordinary income and net capital gains for the preceding year that were not distributed during such year. 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). In order to obtain the tax benefits applicable to RICs, we will be required to distribute to our stockholders with respect to each taxable year at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses.

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. See Regulation.

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

Our ability to make distributions will be limited by the asset coverage requirements under the 1940 Act.

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Critical Accounting Policies

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

Valuation of Portfolio Investments.

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

Our investments are carried at fair value in accordance with the 1940 Act and Accounting Standards Codification (ASC) topic 820 Fair Value Measurements and Disclosures (formerly known as SFAS No. 157, Fair Value Measurements). At June 30, 2012, approximately 90.1% of the Company s total assets represented investments in portfolio companies that are valued at fair value by the Board of Directors. Value, as defined in Section 2(a)(41) of the 1940 Act, is (i) the market price for those securities for which a market quotation is readily available and (ii) for all other securities and assets, fair value is as determined in good faith by the Board of Directors. Our debt securities are primarily invested in equity sponsored technology-related companies, including technology, biotechnology, life science, healthcare services and cleantech companies. Given the nature of lending to these types of businesses, our investments in these portfolio companies are generally considered Level 3 assets under ASC 820 because there is no known or accessible market or market indexes for these investment securities to be traded or exchanged. As such, it values substantially all of its investments at fair value as determined in good faith pursuant to a consistent valuation policy and our Board of Directors in accordance with the provisions of ASC 820 and the 1940 Act. Due to the inherent uncertainty in determining the fair value of investments that do not have a readily available market value, the fair value of our investments determined in good faith by our Board 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.

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

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

(1) our quarterly valuation process begins with each portfolio company or investment 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 valuation committee of the Board of Directors reviews the preliminary valuation of the investment committee which incorporates the results of the independent valuation firm as appropriate.

(4) the Board of Directors 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 valuation committee.

We adopted ASC 820 on January 1, 2008. ASC 820 establishes a framework for measuring the fair value of the assets and liabilities and outlines a fair value hierarchy which prioritizes the inputs used to measure fair value and the effect of fair value measures on earnings. ASC 820 also enhances disclosure requirements for fair value measurements based on the level within the hierarchy of the information used in the valuation. ASC 820 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

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

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

In accordance with ASU 2011-04, the following table provides quantitative information about our Level 3 fair value measurements of our investments as of June 30, 2012. In addition to the techniques and inputs noted in the table below, according to our valuation policy we may also use other valuation techniques and methodologies when determining our fair value measurements. The below table is not intended to be all-inclusive, but rather provides information on the significant Level 3 inputs as they relate to our fair value measurements.

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Quantitative Information about Level 3 Fair Value Measurements of Debt Investments

Investment Type - Level Three Debt Investments	Fair Value at June 30, 2012 *(in thousands)*	Valuation Techniques/ Methodologies	Unobservable Input[a]	Range
Pharmaceuticals - Debt	$ 218,877	Market Comparable Companies	Hypothetical Market Yield	14.9% -19.6%
			Premium/(Discount)	(2.0%) - 3.0%
		Option Pricing Model[b]	Average Industry Volatility[c]	61.54%
			Risk Free Interest Rate	0.27%
			Estimated Time to Exit (in months)	21.3
Medical Devices - Debt	40,984	Market Comparable Companies	Hypothetical Market Yield	14.1%
			Premium	0.0% - 1.3%
Technology - Debt	133,737	Market Comparable Companies	Hypothetical Market Yield	14.5% - 17.3%
			Premium/(Discount)	(1.5%) - 1.5%
Clean Tech - Debt	80,830	Market Comparable Companies	Hypothetical Market Yield Premium	15.4% - 19.7%
				0.0% - 1.0%
Lower Middle Market - Debt	172,640	Market Comparable Companies	Hypothetical Market Yield	10.7% - 16.9%
			Premium	0.0% - 5.0%
		Broker Quote[d]	Price Quotes	93.5% - 99% of par
		Liquidation	Investment Collateral	$50 - $293
			Other Costs	$63 - $99
Total Level Three Debt Investments	$ 647,068			

(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 Therapeutic, Specialty Pharmaceuticals, Drug Discovery and Development, Drug Delivery, and Diagnostics and Biotechnology industries in the Schedule of Investments.

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

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

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

Clean Tech, above, aligns with the Clean Tech Industry in the Schedule of Investments.

(b) An option pricing model valuation technique was used to derive the conversion feature of convertible notes.
(c) Represents the range of industry volatility used by market participants when pricing the investment.
(d) A broker quote valuation technique was used to derive the fair value of loans which are part of a syndicated facility.

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Quantitative Information about Level 3 Fair Value Measurements of Warrants and Equity Investments

Investment Type -	Fair Value at June 30, 2012 *(in thousands)*	Valuation Techniques/ Methodologies	Unobservable Input[a]	Range
Level Three Warrant and Equity Investments	$52,832	Market Comparable Companies	EBITDA Multiple[b]	3.6x - 31.3x
			Revenue Multiple[b]	0.58x - 2.97x
			Discount for Lack of Marketability[c]	11.5% - 25.0%
Warrant positions additionally subject to:		Option Pricing Model	Average Industry Volatility[d]	49.81% - 61.54%
			Risk-Free Interest Rate	0.19% - 0.56%
			Estimated Time to Exit (in months)	12 - 48
Total Level Three Warrant and Equity Investments	$52,832			

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

Debt Investments

Our debt securities are primarily invested in equity sponsored technology-related companies, including technology, biotechnology, life science, healthcare services and cleantech companies. 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 these investment securities to be traded or exchanged.

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. 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 loan 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 loan from recordation of the warrant or other equity instruments is accreted into interest income over the life of the loan.

Equity-Related Securities and Warrants

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

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

Income Recognition.

We record interest income on the accrual basis and we recognize it as earned in accordance with the contractual terms of the loan agreement to the extent that such amounts are expected to be collected. Original Issue Discount (OID) initially represents the value of detachable equity warrants obtained in conjunction with the acquisition of debt securities and is accreted into interest income over the term of the loan as a yield enhancement. When a loan becomes 90 days or more past due, or if management otherwise does not expect the portfolio company to be able to service its debt and other obligations, we will generally place the loan on non-accrual status and cease recognizing interest income on that loan until all principal has been paid. Any uncollected interest related to prior periods is reversed from income in the period that collection of the interest receivable is determined to be doubtful. However, we may make exceptions to this policy if the investment has sufficient collateral value and is in the process of collection. As of June 30, 2012, we had one portfolio company on non-accrual status with an approximate cost of $7.1 million and a fair value of approximately $169,000. There was one portfolio company on non-accrual status with an approximate cost of $7.7 million and a fair value of approximately $1.0 million as of December 31, 2011.

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 $271,000 and $569,000 in PIK income in the three and six-month periods ended June 30, 2012, respectively. We recorded approximately $524,000 and $1.1 million in the same periods ended June 30, 2011, 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 being 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.

Federal Income Taxes.

We intend to operate so as to qualify to be taxed as a RIC under Subchapter M of the Code and, as such, will not be subject to federal income tax on the portion of our taxable income and gains distributed to stockholders. To qualify as a RIC, we are required to distribute at least 90% of our investment company taxable income, as defined by the Code. We are subject to a non-deductible federal excise tax if we do not distribute at least 98% of our taxable income and 98.2% of our capital gain net income for each one year period ending on October 31. At December 31, 2011, 2010 and 2009, no excise tax was recorded. 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 Pronouncement

In May 2011, the Financial Accounting Standards Board (FASB) issued *Accounting Standards Update No. 2011-04 Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*, or ASU 2011-04. ASU 2011-04 clarifies the application of existing fair value measurement and disclosure requirements, changes the application of some requirements for measuring fair value and requires additional disclosure for fair value measurements. The highest and best use valuation premise is only applicable to non-financial assets. In addition, the disclosure requirements are expanded to include for fair value measurements categorized in Level 3 of the fair value hierarchy: (1) a quantitative disclosure of the unobservable inputs and assumptions used in the measurement; (2) a description of the valuation processes in place; and (3) a narrative description of the sensitivity of the fair value to changes in unobservable inputs and interrelationships between those inputs. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011, for public entities and as such we have adopted this ASU beginning with our quarter ended March 31, 2012. We have increased our disclosures related to Level 3 fair value measurement, in addition to other required disclosures. There were no related impacts on our financial position or results of operations.

Subsequent Events

Liquidity and Capital Resources

7.00% Senior Notes Due 2019

On July 6, 2012, we re-opened our 2019 Notes and issued approximately $38.8 million in aggregate principal amount of the 2019 Notes pursuant to an underwriting agreement among us and Stifel, Nicolaus & Company, Incorporated, as representative of the several underwriters named therein, relating to the issuance, offer and sale of the 2019 Notes. We granted the underwriters an option to purchase up to an additional $5.8 million in aggregate principal amount of the 2019 Notes to cover overallotments, if any. Pursuant to this option, approximately $2.7 million in aggregate principal amount of the 2019 Notes were issued and sold on July 12, 2012. The sale of the 2019 Notes generated net proceeds to us, before expenses and excluding accrued interest, of approximately $40.2 million.

The 2019 Notes are a further issuance of, rank equally in right of payment with, and form a single series for all purposes under the Indenture (as defined below) including, without limitation, waivers, amendments, consents, redemptions and other offers to purchase and voting, with the $43.0 million aggregate principal amount initially issued by us on April 17, 2012.

On April 17, 2012, we and U.S. Bank National Association, as Trustee (the Trustee) entered into the First Supplemental Indenture (the First Supplemental Indenture) to the Indenture (the Base Indenture, and together with the First Supplemental Indenture, the Indenture), between us and U.S. Bank National Association, as Trustee (the Trustee), dated March 6, 2012, relating to the issuance, offer and sale of the additional 2019 Notes were offered under the same Indenture.

The 2019 Notes will mature on April 30, 2019 and may be redeemed in whole or in part at our option at any time or from time to time on or after April 30, 2015, upon not less than 30 days nor more than 60 days written notice by mail prior to the date fixed for redemption thereof, at a redemption price of 100% of the outstanding principal amount thereof plus accrued and unpaid interest payments otherwise payable for the then-current quarterly interest period accrued to but not including the date fixed for redemption. The 2019 Notes bear interest

at a rate of 7.00% per year payable quarterly on January 30, April 30, July 30 and October 30 of each year, commencing on July 30, 2012.

The 2019 Notes will be our direct unsecured obligations and will rank: (i) *pari passu* with our other outstanding and future senior unsecured indebtedness, including without limitation, the $75.0 million Convertible Senior Notes; (ii) senior to any of our future indebtedness that expressly provides it is subordinated to the 2019 Notes (iii) effectively subordinated to all of our existing and future secured indebtedness (including indebtedness that is initially unsecured to which we subsequently grant security), to the extent of the value of the assets securing such indebtedness, including without limitation, borrowings under our credit facilities; (iv) structurally subordinated to all existing and future indebtedness and other obligations of any of our subsidiaries, including without limitation, the indebtedness of Hercules Technology II, L.P. and Hercules Technology III, L.P. and borrowings under our revolving senior secured credit facility with Wells Fargo Capital Finance.

The Base Indenture, as supplemented by the First 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 Investment Company Act of 1940, as amended, 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 Investment Company Act of 1940, as amended, and to provide financial information to the holders of the 2019 Notes and the Trustee if the Company should no longer be subject to the reporting requirements under the Securities Exchange Act of 1934. These covenants are subject to important limitations and exceptions that are described in the Base Indenture, as supplemented by the First Supplemental Indenture. The Base Indenture provides for customary events of default and further provides that the Trustee or the holders of 25% in aggregate principal amount of the outstanding 2019 Notes in a series may declare such 2019 Notes immediately due and payable upon the occurrence of any event of default after expiration of any applicable grace period.

Wells Credit Facility

In August 2012, we amended our credit facility with Wells Fargo Capital Finance, LLC (WFCF) under which WFCF has committed $75.0 million in initial credit capacity under a $300.0 million accordion credit facility. We can increase the credit line up to an aggregate of $300.0 million, funded by additional lenders who may join the facility and with the agreement of WFCF and subject to other customary conditions. There can be no assurances that additional lenders will join the new credit facility.

The credit facility has an advance rate equal to 50% of eligible loans placed in the collateral pool. The credit facility generally requires payment of interest on a monthly basis. We paid an amendment fee of $375,000.

Borrowings under the credit facility will continue to be at an interest rate per annum equal to LIBOR plus 3.50%, consistent with prior facilities while the floor has been lowered from 5.00% to 4.25%, a 75 basis point reduction. Additionally, an amortization period of 12 months was added to pay down the principal balance as of the maturity date, the maturity date was extended by one year to August 2015, and the unused line fee was reduced. The amendment also increased the minimum tangible net worth when added to outstanding subordinated indebtedness from in excess of $314.0 million plus 90% of the cumulative amount of equity raised after March 31, 2011 to in excess of $362.0 million plus 90% of the cumulative amount of equity raised after June 30, 2012. The amendment is effective as of August 1, 2012.

The credit facility provides for customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, bankruptcy events and change of control. The credit facility also includes various financial and operating covenants applicable to us and our subsidiaries. The covenants require, among other things, that we maintain certain financial ratios and a minimum tangible net worth.

Renewal of Stock Repurchase Plan

On July 25, 2012, we approved the extension of the stock repurchase plan as previously approved under the same terms and conditions that allows us to repurchase up to $35.0 million of our common stock. Unless renewed, the stock repurchase plan will expire on February 26, 2013.

Dividend Declaration

On July 30, 2012, our Board of Directors declared a cash dividend of $0.24 per share that will be payable on August 24, 2012 to shareholders of record as of August 17, 2012. This dividend represents our twenty-eighth consecutive dividend declaration since our initial public offering, bringing the total cumulative dividend declared to date to $7.40 per share.

Portfolio Company Developments

In July 2012, we received payment of $2.0 million for our total debt investments in Maxvision Holding, L.L.C. As of June 30, 2012, we valued these debt investments, which had a total cost basis of approximately $7.1 million, at a fair value of approximately $169,000. These investments were accounted for on a non-accrual basis. In the third quarter of 2012, we will record a realized loss of approximately $5.1 million and a reversal of previously recorded unrealized depreciation of $6.9 million for our Maxvision debt investments.

Closed and Pending Commitments

As of August 2, 2012, we had:

a. Closed commitments of approximately $100,000 to new and existing portfolio companies, and funded approximately $3.3 million since the close of the second quarter of 2012.

b. Pending commitments (signed non-binding term sheets) of approximately $129.5 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, 2012 Closed Commitments	$ 240.3
Q3-12 Closed Commitments (as of August 2, 2012)	$ 0.1
Total 2012 Closed Commitments[a]	**$ 240.4**
Pending Commitments (as of August 2, 2012)[b]	$ 129.5
Total	**$ 369.9**

Notes:

a. 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.

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 the general level of interest rates can affect our net investment income, which is the difference between the interest income earned on interest earning assets and our interest expense incurred in connection with our interest bearing debt and liabilities. 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.

As of June 30, 2012, approximately 94.9% of our portfolio loans were at variable rates or variable rates with a floor and 5.1% of our loans were at fixed rates. Over time additional investments may be at variable rates. 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. Interest rates on our borrowings are based primarily on LIBOR. Borrowings under our SBA program are fixed at the ten year treasury rate every March and September for borrowings of the preceding six months. Borrowings under the program are charged interest based on ten year treasury rates plus a spread and the rates are generally set for a pool of debentures issued by the SBA in six-month periods. The rates of borrowings under the various draws from the SBA beginning in April 2007 and set semiannually in March and September range from 2.77% to 5.73%. 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 related to HT III debentures that pooled on March 21, 2012 were 0.285% and 0.515% depending upon the year in which the underlying commitment was closed. The annual fees on other debentures have been set at 0.906%. The average amount of debentures outstanding for the quarter ended June 30, 2012 for HT II was approximately $100.7 million with an average interest rate of approximately 6.3%. The average amount of debentures outstanding for the quarter ended June 30, 2012 for HT III was approximately $100.0 million with an average interest rate of approximately 3.6%. Interest is payable semiannually and there are no principal payments required on these issues prior to maturity. Debentures under the SBA generally mature ten years after being borrowed. Based on the initial draw down date of April 2007, the initial maturity of SBA debentures will occur in April 2017.

Borrowings under the Wells Facility will generally bear interest at a rate per annum equal to LIBOR plus 3.50%, with a floor of 5.00% and an advance rate of 50% against eligible loans. The Wells Facility is secured by loans in the borrowing base. The Wells Facility requires the monthly payment of a non-use fee of 0.3% for each payment date on or before September 1, 2011. The monthly payment of a non-use fee thereafter shall depend on the average balance that was outstanding on a scale between 0.0% and 0.75%. For the three-month period ended June 30, 2012, this non-use fee was approximately $140,000. On June 20, 2011 we paid an additional $1.1 million in structuring fees in connection with the Wells Facility which is being amortized through June 2014. At June 30, 2012, there was approximately $3.1 million outstanding under the Wells Facility.

Borrowings under the Union Bank Facility will generally bear interest at a rate per annum equal to LIBOR plus 2.25% with a floor of 4.0%. The Union Bank Facility required the payment of an unused fee of 0.50% annually. For the three-month period ended June 30, 2012, this non-use fee was approximately $70,000. The Union Bank Facility is collateralized by debt investments in our portfolio companies, and includes an advance rate equal to 50% of eligible loans placed in the collateral pool. The Union Bank Facility generally requires payment of interest on a monthly basis. All outstanding principal is due upon maturity. There were no outstanding borrowings under this facility at June 30, 2012. On November 2, 2011, we renewed and amended the Union Bank Facility. The other terms of the Union Bank Facility generally remain unchanged, including the stated interest rate. The Union Bank Facility will mature on November 2, 2014, revolving through the first 24 months with a term out provision for the remaining 12 months.

Borrowings under the Convertible Senior Notes mature on April 15, 2016 (the Maturity Date), unless previously converted or repurchased in accordance with their terms. The Convertible Senior Notes bear interest at a rate of 6.00% per year payable semiannually in arrears on April 15 and October 15 of each year, commencing on October 15, 2011. The Convertible Senior Notes are our senior unsecured obligations and rank senior in right of payment to the our existing and future indebtedness that is expressly subordinated in right of payment to the Convertible Senior Notes; equal in right of payment to our existing and future unsecured indebtedness that is not so subordinated; effectively junior in right of payment to any of our secured indebtedness

(including unsecured indebtedness that we later secure) to the extent of the value of the assets securing such indebtedness; and structurally junior to all existing and future indebtedness (including trade payables) incurred by our subsidiaries, financing vehicles or similar facilities.

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

The 2019 Notes will be our direct unsecured obligations and will rank: (i) *pari passu* with our other outstanding and future senior unsecured indebtedness, including without limitation, the $75 million in aggregate principal amount of the Convertible Senior Notes; (ii) senior to any of our future indebtedness that expressly provides it is subordinated to the Notes; (iii) effectively subordinated to all our existing and future secured indebtedness (including indebtedness that is initially unsecured to which we subsequently grant security), to the extent of the value of the assets securing such indebtedness, including without limitation, borrowings under our credit facilities; (iv) structurally subordinated to all existing and future indebtedness and other obligations of any of our subsidiaries, including without limitation, the indebtedness of Hercules Technology II, L.P. and Hercules Technology III, L.P. and borrowings under our revolving senior secured credit facility with Wells Fargo Capital Finance.

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.

Disclosure Controls and Procedures

The Company has established disclosure controls and procedures to ensure that the information required to be disclosed by the Company in the reports that it 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 such information is accumulated and communicated to management of the Company, with the participation of its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As of December 31, 2011, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer, Chief Financial and Accounting Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934). Based on that evaluation, our Chief Executive Officer, Chief Financial and Accounting Officer have concluded that our disclosure controls and procedures are effective in timely alerting them of material information relating to us that is required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934.

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

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the SEC, internal control over financial reporting is a process designed under the supervision of the Company s principal executive and principal financial and accounting officer, approved and monitored by the Company s Board of Directors, and implemented by management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with U.S. generally accepted accounting principles.

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 generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of the Company s management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. 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, 2011 based on criteria established in Internal Control Integrated Framework 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, 2011.

Attestation Report of the Independent Registered Public Accounting Firm

The effectiveness of the Company s internal control over financial reporting as of December 31, 2011 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.

Remediation of Previously Disclosed Material Weakness

As described in Item 4 of the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2011, the Company identified a material weakness in its internal control over financial reporting. In particular, management became aware of matters where existing controls did not operate effectively to detect manual input errors in calculations used to derive the fair value of some investment portfolio holdings as of the measurement date, thereby impacting reported amounts with respect to investments and net increase (decrease) in unrealized appreciation on investments. The Company initiated a remediation effort during the second quarter of 2011 to address the material weakness. During the remediation effort the Company:

- added additional reviews of the accuracy of the number of equity security holdings as of the measurement date;
- added additional reviews of manually input data used in the calculations supporting the fair value of investments as of the measurement date; and
- added experienced professionals to augment and upgrade its financial staff to address issues of timeliness and completeness in financial reporting.

The Company continued its implementation and assessment of the additional controls during the third and fourth quarters of 2011 and found them to be operating effectively and have concluded as of December 31, 2011, this material weakness has been remediated.

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Changes in Internal Control Over Financial Reporting in 2011

As a result of the remediation of the material weakness described above, there were changes in our internal control over financial reporting during the three months ended December 31, 2011, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. There were no other changes in our internal control over financial reporting during the three months ended December 31, 2011, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

UNDERWRITING

We are offering the Notes described in this prospectus supplement and the accompanying prospectus through a number of underwriters. Stifel, Nicolaus & Company, Incorporated is acting as representative 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
Stifel, Nicolaus & Company, Incorporated	$ 18,750,000
Credit Suisse Securities (USA) LLC	11,250,000
Goldman, Sachs & Co.	11,250,000
RBC Capital Markets, LLC	11,250,000
BB&T Capital Markets, a division of Scott & Stringfellow, LLC	3,750,000
Janney Montgomery Scott LLC	3,750,000
JMP Securities LLC	3,750,000
Sterne, Agee & Leach, Inc.	3,750,000
Stephens Inc.	3,750,000
Wunderlich Securities, Inc.	3,750,000
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 3.00% per Note will be paid by us. This 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	100.00%	$ 75,000,000	$ 86,250,000
Underwriting discount	3.00%	$ 2,250,000	$ 2,587,500
Proceeds, before expenses, to us	97.00%	$ 72,750,000	$ 83,662,500

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

Authority (FINRA) members at the public offering price less a concession not in excess of 1.50% of the aggregate principal amount of the Notes. 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, not including the underwriting discount, are estimated at $475,000 and are payable by us.

Overallotment 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 overallotments. 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 Representative. This consent may be given at any time without public notice.

If (i) during the last 17 days of the foregoing 30-day period, we issue an earnings release or material news or a material event or (ii) prior to the expiration of the foregoing 30-day period, we announce that we will release earnings results during the 16-day period beginning on the last day of the foregoing 30-day period, the foregoing restrictions will continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event, as applicable, unless the Representative waives, in writing, such extension.

Listing

The Notes are a new issue of securities with no established trading market. We intend 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 HTGY. Currently there is no public market for the Notes.

We have been advised by the underwriters that they presently intend to make a market in the Notes after completion of the offering as permitted by applicable laws and regulations. The 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 the underwriters without any notice. Accordingly, no assurance can be given as to the liquidity of, or development of a public trading market for, the Notes. 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 overallotment, covering transactions and stabilizing transactions. Overallotment 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.

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.

An affiliate of RBC Capital Markets, LLC is a lender under the Union Bank Facility.

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

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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.

The principal business address of Stifel, Nicolaus & Company, Incorporated is 501 N. Broadway, St. Louis, Missouri 63102; the principal address of Credit Suisse Securities (USA) LLC is Eleven Madison Avenue, New York, NY 10010; the principal address of Goldman, Sachs & Co. is 200 West Street, New York, NY 10282; the principal address of RBC Capital Markets, LLC is 3 World Financial Center, 200 Vesey Street, 8th Floor, New York, NY 10281; the principal address of BB&T Capital Markets is 901 East Byrd Street, Suite 410, Richmond, Virginia 23219; the principal address of Janney Montgomery Scott LLC is 1717 Arch Street, Philadelphia, Pennsylvania 19103; the principal address of JMP Securities LLC is 600 Montgomery Street, Suite 1100, San Francisco, California 94111; the principal address of Sterne, Agee & Leach, Inc. is 800 Shades Creek Parkway, Birmingham, Alabama 35209; the principal address of Stephens Inc. is 111 Center Street, Suite 2400, Little Rock, Arkansas 72201; and the principal address of Wunderlich Securities, Inc. is 6000 Poplar Ave., Suite 150, Memphis, Tennessee 38119.

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.

UNITED STATES FEDERAL INCOME TAX CONSEQUENCES

The following discussion is a general summary of the material United States federal income tax considerations (and, in the case of a non-U.S. holder (as defined below), the material United States federal estate tax consequences) applicable to an investment in the Notes. 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 Internal Revenue Code of 1986, as amended (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. 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 and does not purport to deal with persons in special tax situations, such as financial institutions, insurance companies, controlled foreign corporations, passive foreign investment companies and regulated investment companies (and shareholders of such corporations), 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 United States 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 United States federal income tax purposes) and beneficial owners of pass-through entities, or persons whose functional currency is not the U.S. dollar. It also does not deal with beneficial owners of the Notes other than original purchasers of the Notes who acquire the Notes in this offering for a price equal to their original issue price (*i.e.*, the first price at which a substantial amount of the Notes is sold other than to bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). If you are considering purchasing the Notes, you should consult your own tax advisor concerning the application of the United States federal 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 United States 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 United States federal income tax purposes, created or organized in or under the laws of the United States or of any political subdivision thereof, (iii) a trust (a) subject to the control of one or more United States 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 United States 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). An individual may, subject to exceptions, be deemed to be a resident alien, as opposed to a non-resident alien, by, among other ways, being present in the United States (i) on at least 31 days in the calendar year, and (ii) for an aggregate of at least 183 days during a three-year period ending in the current calendar year, counting for such purposes all of the days present in the current year, one-third of the days present in the immediately preceding year, and one-sixth of the days present in the second preceding year. Resident aliens are subject to United States federal income tax as if they were United States citizens.

If a partnership (including an entity or arrangement treated as a partnership for U.S. federal income tax purposes) holds any Notes, the United States 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. Partners of partnerships holding Notes should consult their own tax advisors.

Taxation of Note Holders

Under present law, we are of the opinion that the Notes will constitute indebtedness of us for United States federal income tax purposes, which the below discussion assumes. We intend to treat all payments made with respect to the Notes consistent with this characterization.

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) 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 Note was held for more than one year. Long-term capital gains recognized by individuals and certain other non-corporate U.S. holders generally are eligible for reduced rates of taxation. The distinction between capital gain or loss and ordinary income or loss is also important in other contexts; for example, for purposes of the limitations on a U.S. holder s ability to offset capital losses against ordinary income.

After December 31, 2012, a tax of 3.8 percent will be imposed on the amount of net investment income, in the case of an individual, or undistributed net investment income, in the case of an estate or trust (other than a charitable trust), which exceeds certain threshold amounts. Net investment income as defined for United States federal Medicare contribution purposes generally includes interest payments and gain recognized from the sale or other disposition of the Notes. Qualified pension trusts, which are not subject to income taxes generally, and foreign individuals will not be subject to this tax. 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.

Taxation of Non-U.S. Holders. A non-U.S. holder generally will not be subject to United States 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) in the case of interest income, the recipient 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 (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 statement in the year in which a payment occurs or in the preceding 3 years, on an Internal Revenue Service (IRS) Form W-8BEN (or other applicable form) signed under penalties of perjury that includes its name and address and certifies that the non-U.S. holder is the beneficial owner and is not a United States person in compliance with applicable requirements, or satisfies documentary evidence requirements for establishing that it is a non-U.S. holder.

A non-U.S. holder that is not exempt from tax under these rules generally will be subject to United States 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 United States trade or business, so long as the non-U.S. holder has provided an IRS Form W-8ECI or substantially similar substitute 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 United States federal income tax on a net income basis as applicable to U.S. holders generally (unless an applicable income tax treaty provides otherwise), or (ii) an applicable income tax treaty provides for a lower rate of, or exemption from, withholding tax.

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 United States 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 United States 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 the benefit of an income tax treaty or to claim exemption from withholding because income is effectively connected with a United States trade or business, the non-U.S. holder must timely provide the appropriate, properly executed IRS forms. The non-U.S. holder must inform the recipient of any changes on these forms within 30 days of such change. These forms may be required to be periodically updated. Also, a non-U.S. holder who is claiming the benefits of a treaty may be required to obtain a United States taxpayer identification number and to provide certain documentary evidence issued by foreign governmental authorities to prove residence in the foreign country.

Generally, a non-U.S. holder will not be subject to United States 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 (i) 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) and (ii) that the non-U.S. holder is not an individual who is present in the U.S. for 183 days or more in the taxable year of the sale, exchange, or other taxable disposition and meets certain other conditions (unless such holder is eligible for relief under an applicable income tax treaty). Certain other exceptions may be applicable, and a non-U.S. holder should consult its tax advisor in this regard.

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 United States federal estate tax purposes) generally will not be subject to the United States 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 United States 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 at a rate of 28% (which rate currently is scheduled to increase to 31% for taxable years beginning on or after January 1, 2013) 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 may apply.

The amount of interest we pay to a non-U.S. holder on the Notes will be reported to such non-U.S. Holder and to the IRS annually on an IRS Form 1042-S even if the non-U.S. holder is exempt from the 30% withholding tax described above. Copies of the information returns reporting those payments and the amounts withheld may also be made available to the tax authorities in the country where the non-U.S. holder is resident under provisions of an applicable income tax treaty or agreement.

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 such non-U.S. holder provides a withholding certificate or other appropriate documentary evidence establishing that such non-U.S. holder is not a United States person to the broker and such broker does not have actual knowledge or reason to know that such non-U.S. holder is a United States 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 United States person or has certain enumerated connections with the U.S., 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 documentary evidence establishing that the non-U.S. holder is not a United States 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 United States 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 United States federal income tax provided the required information is timely furnished to the IRS.

Foreign Account Tax Compliance Act

Legislation enacted in 2010 imposes a withholding tax of 30% on payments of interest or gross proceeds from the disposition of a debt instrument paid after December 31, 2012 to certain non-U.S. entities, including certain non-U.S. financial institutions and investment funds, unless such non-U.S. entity complies with certain reporting requirements regarding its United States account holders and its United States owners. The date for implementation of these rules generally was extended by the IRS to January 1, 2014 for payments of fixed or determinable annual or periodic (FDAP) income, including interest, and to January 1, 2015 for other withholdable payments, including payments of gross proceeds. After these dates, payments of interest on, or gross proceeds from the sale or redemption of, the Notes made to a non-U.S. entity generally will be subject to the new information reporting regime; however, the new withholding obligations will only apply to obligations issued after March 18, 2012, and proposed Treasury regulations would extend this grandfathering provision to obligations that are outstanding on January 1, 2013. Congress delegated broad authority to the U.S. Treasury Department to promulgate regulations to implement the new withholding and reporting regime. It cannot be predicted whether or how these proposed Treasury regulations (if finalized) or any regulations promulgated by the U.S. Treasury Department pursuant to this broad delegation of regulatory authority will affect holders of the Notes. Prospective purchasers of the Notes should consult their own tax advisors regarding the new withholding and reporting provisions.

You should 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.

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LEGAL MATTERS

Certain legal matters in connection with the securities offered hereby will be passed upon for us by Sutherland Asbill & Brennan LLP, Washington, DC. 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 financial statements as of December 31, 2011 and 2010 and for each of the two years in the period ended December 31, 2011 included in this prospectus 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.

The consolidated financial statements of the Company for the year ended December 31, 2009 appearing in this prospectus have been audited by Ernst & Young LLP, an independent registered public accounting firm, as set forth in their report thereon appearing elsewhere herein and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

CHANGE IN INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

On September 9, 2010, we dismissed Ernst & Young LLP as our independent registered public accounting firm. During the fiscal years ended December 31, 2008 and 2009 and through September 9, 2010, there were no disagreements between us and Ernst & Young LLP with respect to any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Ernst & Young LLP, would have caused it to make reference to the subject matter of such disagreements in its reports on the financial statements for such years. Nor were there any reportable events as such term is described in Item 304(a)(1)(v) of Regulation S-K, promulgated under the Securities Exchange Act of 1934, as amended.

On September 9, 2010, we engaged PricewaterhouseCoopers LLP as our new independent registered public accounting firm to audit our consolidated financial statements for the fiscal year ending December 31, 2010. Through September 9, 2010, the date of the engagement of PricewaterhouseCoopers LLP, neither we nor any person on our behalf has consulted with PricewaterhouseCoopers LLP with respect to either (i) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company s consolidated financial statements or (ii) any matter that was either the subject of a disagreement or a reportable event as such terms are described in Items 304(a)(1)(iv) or 304(a)(1)(v), respectively, of Regulation S-K promulgated under the Exchange Act. PricewaterhouseCoopers LLP s principal business address is 300 Madison Avenue, New York, NY 10017.

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.

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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.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES

(unaudited)

(dollars in thousands, except per share data)

	June 30, 2012 (unaudited)	December 31, 2011
Assets		
Investments:		
Non-control/Non-affiliate investments (cost of $724,952 and $642,038, respectively)	$ 715,447	$ 651,843
Affiliate investments (cost of $8,065 and $3,236, respectively)	7,197	
Control investments (cost of $10,696 and $11,266, respectively)	169	1,027
Total investments, at value (cost of $743,713 and $656,540, respectively)	722,813	652,870
Cash and cash equivalents	56,140	64,474
Interest receivable	7,111	5,820
Other assets	15,808	24,230
Total assets	$ 801,872	$ 747,394
Liabilities		
Accounts payable and accrued liabilities	$ 9,317	$ 10,813
Wells Fargo Loan	3,130	10,187
2019 Notes	43,000	
Long-term Liabilities (Convertible Debt)	70,894	70,353
Long-term SBA Debentures	200,750	225,000
Total liabilities	327,091	316,353
Commitments and Contingencies (Note 10)		
Net assets consist of:		
Common stock, par value	50	44
Capital in excess of par value	534,165	484,244
Unrealized depreciation on investments	(21,102)	(3,431)
Accumulated realized losses on investments	(31,902)	(43,042)
Distributions in excess of investment income	(6,430)	(6,774)
Total net assets	474,781	431,041
Total liabilities and net assets	$ 801,872	$ 747,394
Shares of common stock outstanding ($0.001 par value, 100,000,000 authorized)	49,743	43,853
Net asset value per share	$ 9.54	$ 9.83

See notes to consolidated financial statements (unaudited)

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

June 30, 2012

(unaudited)

(dollars in thousands)

Portfolio Company	Industry	Type of Investment[1]	Series	Principal Amount	Cost[2]	Value[3]
Anthera Pharmaceuticals Inc.[3]	Drug Discovery & Development	Senior Debt Matures December 2014 Interest rate Prime + 7.30% or Floor rate of 10.55%		$ 25,000	$ 24,859	$ 24,005
Aveo Pharmaceuticals, Inc.[3]	Drug Discovery & Development	Senior Debt Matures September 2015 Interest rate Prime + 7.15% or Floor rate of 11.90%		$ 26,500	26,500	27,030
Cempra, Inc.[3]	Drug Discovery & Development	Senior Debt Matures December 2015 Interest rate Prime + 6.30% or Floor rate of 9.55%		$ 10,000	9,791	9,432
Chroma Therapeutics, Ltd.[5][10]	Drug Discovery & Development	Senior Debt Matures November 2013 Interest rate Prime + 7.75% or Floor rate of 12.00%		$ 5,724	6,262	6,319
Concert Pharmaceuticals, Inc.[4]	Drug Discovery & Development	Senior Debt Matures October 2015 Interest rate Prime + 3.25% or Floor rate of 8.50%		$ 20,000	19,522	18,072
Dicerna Pharmaceuticals, Inc.	Drug Discovery & Development	Senior Debt Matures January 2015 Interest rate Prime + 5.75% or		$ 11,081	10,834	10,607

		Floor rate of 10.15%			
Insmed, Incorporated(3)	Drug Discovery & Development	Senior Debt Matures January 2016 Interest rate Prime + 4.75% or Floor rate of 9.25%	$ 10,000	9,593	9,593
NeurogesX, Inc.(3)	Drug Discovery & Development	Senior Debt Matures February 2015 Interest rate Prime + 6.25% or Floor rate of 9.50%	$ 15,000	14,825	14,430
NextWave Pharmaceuticals, Inc.(4)	Drug Discovery & Development	Senior Debt Matures June 2015 Interest rate Prime + 4.30% or Floor rate of 9.55%	$ 6,000	5,960	5,751
Paratek, Pharmaceuticals, Inc.	Drug Discovery & Development	Senior Debt(9) Matures upon liquidation Interest rate Fixed 10.00%	$ 45	45	45
Total Debt Drug Discovery & Development (26.39%)*		**Beginning September 2012**		128,191	125,284
Bridgewave Communications	Communications & Networking	Senior Debt Matures March 2016 Interest rate Prime + 8.75% or Floor rate of 12.00%	$ 7,500	6,879	6,879
OpenPeak, Inc.(4)	Communications & Networking	Senior Debt Matures July 2015 Interest rate Prime + 8.75%	$ 15,000	14,589	14,589

See notes to consolidated financial statements (unaudited)

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

June 30, 2012

(unaudited)

(dollars in thousands)

Portfolio Company	Industry	Type of Investment[1]	Series	Principal Amount	Cost[2]	Value[3]
Pac-West Telecomm, Inc.	Communications & Networking	Senior Debt Matures October 2013 Interest rate Prime + 7.50% or Floor rate of 12.00%		$ 3,771	$ 3,678	$ 3,627
PeerApp, Inc.[4]	Communications & Networking	Senior Debt Matures April 2013 Interest rate Prime + 7.50% or Floor rate of 11.50%		$ 1,157	1,226	1,225
PointOne, Inc.	Communications & Networking	Senior Debt Matures April 2015 Interest rate Libor + 9.00% or Floor rate of 11.50%		$ 7,533	7,378	7,212
		Senior Debt Matures September 2015 Interest rate Libor + 9.00% or Floor rate of 11.50%		$ 366	360	347
Total PointOne, Inc.					7,738	7,559
Total Debt Communications & Networking (7.14%)*					34,110	33,879
Box.net, Inc.[4]	Software	Senior Debt Matures March 2015 Interest rate Prime + 3.75% or Floor rate of 7.50%		$ 10,000	9,880	9,295
		Senior Debt		$ 1,310	1,352	1,326

		Matures July 2014 Interest rate Prime + 5.25% or Floor rate of 8.50%			
		Senior Debt Matures July 2016 Interest rate Prime + 5.13% or Floor rate of 8.88%	$ 20,000	19,999	20,000
Total Box.net, Inc.				31,231	30,621
Caplinked	Software	Senior Debt[9] Matures May 2015 Interest rate Fixed 5.00%	$ 50	50	50
Central Desktop, Inc.	Software	Senior Debt Matures April 2014 Interest rate Prime + 6.75% or Floor rate of 10.50%	$ 2,420	2,353	2,353
Clickfox, Inc.	Software	Senior Debt Matures July 2013 Interest rate Prime + 6.00% or Floor rate of 11.25%	$ 2,817	2,780	2,775
		Senior Debt Matures December 2012 Interest rate Fixed 10.00%	$ 3,000	3,000	2,903

See notes to consolidated financial statements (unaudited)

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

June 30, 2012

(unaudited)

(dollars in thousands)

Portfolio Company	Industry	Type of Investment[1]	Series	Principal Amount	Cost[2]	Value[3]
Total Clickfox, Inc.					$ 5,780	$ 5,678
Hillcrest Laboratories, Inc		Senior Debt Matures July 2015 Interest rate Prime + 7.50% or Floor rate of 10.75%		$ 4,000	3,896	3,896
Kxen, Inc.[4]	Software	Senior Debt Matures January 2015 Interest rate Prime + 5.08% or Floor rate of 8.33%		$ 2,838	2,835	2,692
Tada Innovations, Inc.	Software	Senior Debt[9] Matures August 2012 Interest rate Fixed 8.00%		$ 100	99	99
Tectura	Software	Revolving Line of Credit Matures July 2013 Interest rate Fixed 11.00%		$ 17,064	18,162	18,162
		Senior Debt Matures December 2014 Interest rate Fixed 13.00%		$ 6,978	6,865	6,705
		Senior Debt Matures April 2013 Interest rate Fixed 13.00%		$ 1,607	1,571	1,570
Total Tectura					26,598	26,437
White Sky, Inc.	Software	Senior Debt Matures June 2014		$ 1,164	1,134	1,134

		Interest rate Prime + 7.00% or Floor rate of 10.25%			
Total Debt Software (15.37%)*				73,976	72,960
Maxvision Holding, LLC.(7)(8)	Electronics & Computer Hardware	Senior Debt Matures December 2013 Interest rate Prime + 8.25% or Floor rate of 12.00%, PIK interest 5.00%	$ 4,002	3,732	169
		Senior Debt Matures December 2013 Interest rate Prime + 6.25% or Floor rate of 10.00%, PIK interest 2.00%	$ 2,180	2,448	
		Revolving Line of Credit Matures December 2013 Interest rate Prime + 6.25% or Floor rate of 10.00%	$ 852	935	
Total Maxvision Holding, LLC				7,115	169
Total Debt Electronics & Computer Hardware (0.04%)*				7,115	169
Althea Technologies, Inc.	Specialty Pharmaceuticals	Senior Debt Matures October 2013 Interest rate Prime + 7.70% or Floor rate of 10.95%	$ 9,047	9,115	9,267

See notes to consolidated financial statements (unaudited)

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

June 30, 2012

(unaudited)

(dollars in thousands)

Portfolio Company	Industry	Type of Investment[1]	Series	Principal Amount	Cost[2]	Value[3]
Quatrx Pharmaceuticals Company	Specialty Pharmaceuticals	Senior Debt[9] Matures March 2014 Interest rate Fixed 8.00%		$ 1,888	$ 1,888	$ 2,252
Total Debt Specialty Pharmaceuticals (2.43%)*					11,003	11,519
Achronix Semiconductor Corporation	Semiconductors	Senior Debt Matures January 2015 Interest rate Prime + 10.60% or Floor rate of 13.85%		$ 2,213	2,148	2,209
Kovio Inc.	Semiconductors	Senior Debt Matures March 2015 Interest rate Prime + 5.50% or Floor rate of 9.25%		$ 1,250	1,225	1,150
		Senior Debt Matures March 2015 Interest rate Prime - 3.75% or Floor rate of 9.75%		$ 3,000	2,934	2,789
Total Kovio Inc.					4,159	3,939
Total Debt Semiconductors (1.29%)*					6,307	6,148
AcelRX Pharmaceuticals, Inc.[3]	Drug Delivery	Senior Debt Matures December 2014 Interest rate Prime + 3.25% or Floor rate of 8.50%		$ 10,000	9,855	9,473

		Senior Debt Matures December 2014 Interest rate Prime + 3.25% or Floor rate of 8.50%	$ 10,000	9,855	9,473
Total AcelRX Pharmaceuticals, Inc.				19,710	18,946
Alexza Pharmaceuticals, Inc.(3)(4)	Drug Delivery	Senior Debt Matures October 2013 Interest rate Prime + 6.5% or Floor rate of 10.75%	$ 7,849	8,072	8,072
BIND Biosciences, Inc.	Drug Delivery	Senior Debt Matures July 2014 Interest rate Prime + 7.45% or Floor rate of 10.70%	$ 4,259	4,148	4,233
Intelliject, Inc.(4)	Drug Delivery	Senior Debt Matures September 2015 Interest rate Prime + 5.75% or Floor rate of 11.00%	$ 15,000	14,294	14,295
Revance Therapeutics, Inc.	Drug Delivery	Senior Debt Matures March 2015 Interest rate Prime + 6.60% or Floor rate of 9.85%	$ 22,000	21,643	21,078
Total Debt Drug Delivery (14.03%)*				67,867	66,624

See notes to consolidated financial statements (unaudited)

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

June 30, 2012

(unaudited)

(dollars in thousands)

Portfolio Company	Industry	Type of Investment[1]	Series	Principal Amount	Cost[2]	Value[3]
Gelesis, Inc.[6]	Therapeutic	Senior Debt Matures April 2013 Interest rate Prime + 8.75% or Floor rate of 12.00%		$ 3,568	$ 3,809	$ 3,809
Gynesonics, Inc.	Therapeutic	Senior Debt Matures October 2013 Interest rate Prime + 8.25% or Floor rate of 11.50%		$ 4,991	4,905	4,991
		Senior Debt[9] Matures November 2012 Interest rate Fixed 8.00%		$ 181	181	181
Total Gynesonics, Inc.					5,086	5,172
Oraya Therapeutics, Inc.[4]	Therapeutic	Senior Debt Matures March 2015 Interest rate Prime + 4.75% or Floor rate of 9.50%		$ 7,500	7,329	7,265
Novasys Medical, Inc.	Therapeutic	Senior Debt[9] Matures January 2013 Interest rate Fixed 8.00%		$ 65	61	62
Total Debt Therapeutic (3.43%)*					16,285	16,308
Ahhha, Inc.	Internet Consumer & Business Services	Senior Debt Matures January 2015 Interest rate Fixed 10.00%		$ 350	346	50

Blurb, Inc.	Internet Consumer & Business Services	Senior Debt Matures December 2015 Interest rate Prime + 5.25% or Floor rate 8.50%	$ 8,000	7,624	7,372
Just.Me	Internet Consumer & Business Services	Senior Debt Matures June 2015 Interest rate Prime + 2.50% or Floor rate 5.75%	$ 150	146	146
NetPlenish	Internet Consumer & Business Services	Senior Debt Matures April 2015 Interest rate Fixed 10.00%	$ 500	486	486
Reply! Inc.[4]	Internet Consumer & Business Services	Senior Debt Matures June 2015 Interest rate Prime + 6.875% or Floor rate of 10.125%	$ 13,000	12,797	12,411
	Internet Consumer & Business Services	Senior Debt Matures June 2015 Interest rate Prime + 7.25% or Floor rate of 11.00%	$ 2,000	1,905	1,905
				14,702	14,316
Second Rotation	Internet Consumer & Business Services	Senior Debt Matures August 2015 Interest rate Prime + 6.50% or Floor rate of 10.25%, PIK Interest 2.50%	$ 6,000	5,914	5,914

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

June 30, 2012

(unaudited)

(dollars in thousands)

Portfolio Company	Industry	Type of Investment[1]	Series	Principal Amount	Cost[2]	Value[3]
Trulia, Inc.[4]	Internet Consumer & Business Services	Senior Debt Matures March 2015 Interest rate Prime + 2.75% or Floor rate of 6.00%		$ 5,000	$ 4,903	$ 4,558
		Senior Debt Matures March 2015 Interest rate Prime + 5.50% or Floor rate of 8.75%		$ 5,000	4,903	4,740
Total Trulia, Inc.					9,806	9,298
Vaultlogix, Inc.	Internet Consumer & Business Services	Senior Debt Matures September 2016 Interest rate LIBOR + 8.50% or Floor rate of 10.00%, PIK interest 2.50%		$ 7,500	7,560	7,560
		Senior Debt Matures September 2015 Interest rate LIBOR + 7.00% or Floor rate of 8.50%		$ 11,125	11,013	10,691
		Revolving Line of Credit Matures September 2015 Interest rate Libor + 6.00% or Floor rate of 7.50%		$ 300	286	287
Total Vaultlogix, Inc.					18,859	18,538

Votizen	Internet Consumer & Business Services	Senior Debt[9] Matures February 2013 Interest rate Fixed 5.00%	$ 100	100	100
Wavemarket, Inc.[4]	Internet Consumer & Business Services	Senior Debt Matures September 2015 Interest rate Prime + 5.75% or Floor rate of 9.50%	$ 10,000	9,787	9,786
Total Debt Internet Consumer & Business Services (13.90%)*				67,770	66,006
Cha Cha Search, Inc.	Information Services	Senior Debt Matures February 2015 Interest rate Prime + 6.25% or Floor rate of 9.50%	$ 3,000	2,945	2,800
Eccentex Corporation	Information Services	Senior Debt Matures May 2015 Interest rate Prime + 7.00% or Floor rate of 10.25%	$ 1,000	962	962
InXpo, Inc.	Information Services	Senior Debt Matures March 2014 Interest rate Prime + 7.50% or Floor rate of 10.75%	$ 2,550	2,445	2,467

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(dollars in thousands)

Portfolio Company	Industry	Type of Investment[1]	Series	Principal Amount	Cost[2]	Value[3]
Jab Wireless, Inc.	Information Services	Senior Debt Matures August 2016 Interest rate Prime + 5.25% or Floor rate of 6.75%		$ 21,902	$ 21,635	$ 21,635
RichRelevance, Inc.	Information Services	Senior Debt Matures January 2015 Interest rate Prime + 3.25% or Floor rate of 7.50%		$ 5,000	4,925	4,673
Total Debt Information Services (6.85%)*					32,912	32,537
Optiscan Biomedical, Corp.	Medical Device & Equipment	Senior Debt[9] Matures December 2013 Interest rate Prime + 8.20% or Floor rate of 11.45%		$ 10,056	10,437	10,437
Total Debt Medical Device & Equipment (2.20%)*					10,437	10,437
Navidea Biopharmaceuticals, Inc. (pka Neoprobe)[3]	Diagnostic	Senior Debt Matures December 2014 Interest rate Prime + 6.75% or Floor rate of 10.00%		$ 7,000	6,822	6,822
Tethys Bioscience Inc.	Diagnostic	Senior Debt Matures December 2015 Interest rate Prime + 8.40% or Floor rate of 11.65%		$ 10,000	9,755	9,755

Total Debt Diagnostic (3.49%)*				16,577	16,577
deCODE genetics ehf.[5][10]	Biotechnology Tools	Senior Debt Matures September 2014 Interest rate Prime + 10.25% or Floor rate of 13.50%, PIK interest 2.00%	$ 4,578	4,412	4,331
Labcyte, Inc.	Biotechnology Tools	Senior Debt Matures May 2013 Interest rate Prime + 8.60% or Floor rate of 11.85%	$ 1,613	1,663	1,663
		Senior Debt Matures June 2016 Interest rate Prime + 6.70% or Floor rate of 9.95%	$ 5,000	4,809	4,809
				6,472	6,472
Total Debt Biotechnology Tools (2.28%)*				10,884	10,803
ScriptSave (Medical Security Card Company, LLC)	Healthcare Services, Other	Senior Debt Matures February 2016 Interest rate LIBOR + 8.75% or Floor rate of 11.25%	$ 17,317	17,053	17,400

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(dollars in thousands)

Portfolio Company	Industry	Type of Investment[1]	Series	Principal Amount	Cost[2]	Value[3]
MedCall	Healthcare Services, Other	Senior Debt Matures January 2016 Interest rate 7.79% or Floor rate of 9.50%		$ 5,168	$ 5,078	$ 5,078
		Senior Debt Matures January 2016 Interest rate LIBOR + 8.00% or Floor rate of 10.00%		$ 4,250	4,170	4,170
					9,248	9,248
Pacific Child & Family Associates, LLC	Healthcare Services, Other	Senior Debt Matures January 2015 Interest rate LIBOR + 8.00% or Floor rate of 10.50%		$ 3,877	3,904	3,836
		Revolving Line of Credit Matures January 2015 Interest rate LIBOR + 6.50% or Floor rate of 9.00%		$ 1,500	1,487	1,411
		Senior Debt Matures January 2015 Interest rate LIBOR + 10.50% or Floor rate of 13.00%, PIK interest 3.75%		$ 5,900	6,412	6,589
Total Pacific Child & Family Associates, LLC					11,803	11,836

Total Debt Health Services, Other (8.11%)*					38,104	38,484
Entrigue Surgical, Inc.	Surgical Devices	Senior Debt Matures December 2014 Interest rate Prime + 5.90% or Floor rate of 9.65%	$	3,000	2,925	2,883
Transmedics, Inc.[4]	Surgical Devices	Senior Debt Matures February 2014 Interest rate Prime + 9.70% or Floor rate of 12.95%	$	8,375	8,693	8,694
Total Debt Surgical Devices (2.44%)*					11,618	11,577
Women s Marketing, Inc.	Media/ Content/ Info	Senior Debt Matures May 2016 Interest rate Libor + 9.50% or Floor rate of 12.00%, PIK interest 3.00%	$	9,681	9,820	9,920
		Senior Debt Matures November 2015 Interest rate Libor + 7.50% or Floor rate of 10.00%	$	8,819	8,655	8,653
		Senior Debt Matures November 2015 Interest rate Libor + 7.50% or Floor rate of 10.00%	$	9,043	8,873	8,874

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(dollars in thousands)

Portfolio Company	Industry	Type of Investment[1]	Series	Principal Amount	Cost[2]	Value[3]
Total Women s Marketing, Inc.					$ 27,348	$ 27,447
Westwood One Communications	Media/Content/ Info	Senior Debt Matures October 2016 Interest rate LIBOR + 6.50% or Floor rate of 8.00%		$ 20,831	19,118	19,479
Total Debt Media/Content/Info (9.88%)*					46,466	46,926
Alphabet Energy, Inc.	Clean Tech	Senior Debt Matures February 2015 Interest rate Prime + 5.75% or Floor rate of 9.00%		$ 513	494	494
American Superconductor Corporation[3]	Clean Tech	Senior Debt Matures December 2014 Interest rate Prime + 7.25% or Floor rate of 11.00%		$ 10,000	9,615	9,615
BrightSource Energy, Inc.	Clean Tech	Senior Debt Matures November 2012 Interest rate Prime + 7.25% or Floor rate of 10.50%		$ 35,000	34,886	34,886
EcoMotors, Inc.	Clean Tech	Senior Debt Matures February 2014 Interest rate Prime + 6.10% or Floor rate of 9.35%		$ 3,837	3,855	3,826
Enphase Energy, Inc.[3]	Clean Tech	Senior Debt		$ 4,898	4,839	4,670

		Matures June 2014 Interest rate Prime + 4.40% or Floor rate of 9.00%			
Glori Energy, Inc.	Clean Tech	Senior Debt Matures June 2015 Interest rate Prime + 6.75% or Floor rate of 10.00%	$ 4,000	3,863	3,863
Integrated Photovoltaics, Inc.	Clean Tech	Senior Debt Matures February 2015 Interest rate Prime + 7.38% or Floor rate of 10.63%	$ 3,000	2,899	2,839
Propel Biofuels, Inc.	Clean Tech	Senior Debt Matures September 2013 Interest rate of 11.00%	$ 963	1,015	964
SCIenergy, Inc.	Clean Tech	Senior Debt Matures October 2014 Interest rate 6.25%	$ 202	202	156
		Senior Debt Matures August 2015 Interest rate Prime + 4.90% or Floor rate of 8.15%	$ 5,000	4,909	4,507
Total SCIenergy, Inc.				5,111	4,663

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(dollars in thousands)

Portfolio Company	Industry	Type of Investment[1]	Series	Principal Amount	Cost[2]	Value[3]
Solexel, Inc.	Clean Tech	Senior Debt Matures June 2013 Interest rate Prime + 8.25% or Floor rate of 11.50%		$ 5,578	$ 5,547	$ 5,547
		Senior Debt Matures June 2013 Interest rate Prime + 7.25% or Floor rate of 10.50%		$ 642	639	639
Total Solexel, Inc.					6,186	6,186
Stion Corporation[4]	Clean Tech	Senior Debt Matures February 2015 Interest rate Prime + 6.75% or Floor rate of 10.00%		$ 9,031	8,824	8,824
Total Debt Clean Tech (17.02%)*					81,587	80,830
Total Debt (136.29%)					661,209	647,068
Acceleron Pharmaceuticals, Inc.	Drug Discovery & Development	Common Stock Warrants			39	48
		Preferred Stock Warrants	Series A		69	312
		Preferred Stock Warrants	Series B		35	58
Total Warrants Acceleron Pharmaceuticals, Inc.					143	418
Anthera Pharmaceuticals Inc.[3]	Drug Discovery & Development	Common Stock Warrants			984	94
Cempra, Inc.[3]	Drug Discovery & Development	Common Stock Warrants			187	113
Chroma Therapeutics, Ltd.[5][10]	Drug Discovery & Development	Preferred Stock Warrants	Series D		490	500
Concert Pharmaceuticals, Inc.[4]		Preferred Stock Warrants	Series C		367	119

	Drug Discovery & Development				
Dicerna Pharmaceuticals, Inc.	Drug Discovery & Development	Common Stock Warrants		28	12
		Preferred Stock Warrants	Series A	236	126
		Preferred Stock Warrants	Series B	311	159
Total Warrants Dicerna Pharmaceuticals, Inc.				575	297
EpiCept Corporation[3]	Drug Discovery & Development	Common Stock Warrants		4	1
Horizon Pharma, Inc.[3]	Drug Discovery & Development	Preferred Stock Warrants	Series C	231	1
Insmed, Incorporated[3]	Drug Discovery & Development	Preferred Stock Warrants	Series C	570	568
Merrimack Pharmaceuticals, Inc.[3]	Drug Discovery & Development	Common Stock Warrants		155	897
NeurogesX, Inc.[3]	Drug Discovery & Development	Common Stock Warrants		503	220

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Portfolio Company	Industry	Type of Investment[1]	Series	Principal Amount	Cost[2]	Value[3]
NextWave Pharmaceuticals, Inc.[4]	Drug Discovery & Development	Preferred Stock Warrants	Series A-1		$ 126	$ 179
PolyMedix, Inc.[3]	Drug Discovery & Development	Common Stock Warrants			480	15
Portola Pharmaceuticals, Inc.	Drug Discovery & Development	Preferred Stock Warrants	Series B		152	198
Total Warrants Drug Discovery & Development (0.76%)*					4,967	3,620
Affinity Videonet, Inc.	Communications & Networking	Preferred Stock Warrants	Series A		102	180
Bridgewave Communications	Communications & Networking	Preferred Stock Warrants	Series 5		752	740
IKANO Communications, Inc.	Communications & Networking	Preferred Stock Warrants	Series D		72	
Intelepeer, Inc.	Communications & Networking	Preferred Stock Warrants	Series C		102	179
Neonova Holding Company	Communications & Networking	Preferred Stock Warrants	Series A		94	47
OpenPeak, Inc.[4]	Communications & Networking	Preferred Stock Warrants	Series E		149	138
Pac-West Telecomm, Inc.	Communications & Networking	Common Stock Warrants			121	
PeerApp, Inc.[4]	Communications & Networking	Preferred Stock Warrants	Series B		61	37
Peerless Network, Inc.	Communications & Networking	Preferred Stock Warrants	Series A		95	264
Ping Identity Corporation	Communications & Networking	Preferred Stock Warrants	Series B		52	130
PointOne, Inc.	Communications & Networking	Common Stock Warrants			131	14
Purcell Systems, Inc.	Communications & Networking	Preferred Stock Warrants	Series B		123	115
Stoke, Inc.	Communications & Networking	Preferred Stock Warrants	Series C		53	134
		Preferred Stock Warrants	Series D		65	56
Total Stoke, Inc.					118	190
Total Warrants Communications & Networking (0.43%)*					1,972	2,034
Atrenta, Inc.	Software	Preferred Stock Warrants	Series C		136	643
		Preferred Stock Warrants	Series D		95	224
Total Atrenta, Inc.					231	867

Box.net, Inc.[4]	Software	Preferred Stock Warrants	Series C	117	1,598
		Preferred Stock Warrants	Series B	72	2,337
		Preferred Stock Warrants	Series D-1	194	241
Total Box.net, Inc.				383	4,176
Braxton Technologies, LLC.	Software	Preferred Stock Warrants	Series A	188	
Central Desktop, Inc.	Software	Preferred Stock Warrants	Series B	108	188

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Portfolio Company	Industry	Type of Investment[1]	Series	Principal Amount	Cost[2]	Value[3]
Clickfox, Inc.	Software	Preferred Stock Warrants	Series B		$ 329	$ 540
Daegis Inc. (pka Unify Corporation)[3]	Software	Common Stock Warrants			1,434	19
Forescout Technologies, Inc.	Software	Preferred Stock Warrants	Series D		99	155
HighRoads, Inc.	Software	Preferred Stock Warrants	Series B		44	9
Hillcrest Laboratories, Inc.	Software	Preferred Stock Warrants	Series E		55	25
Kxen, Inc.[4]	Software	Preferred Stock Warrants	Series D		47	19
Rockyou, Inc.	Software	Preferred Stock Warrants	Series B		117	
SugarSync Inc.	Software	Preferred Stock Warrants	Series CC		78	151
		Preferred Stock Warrants	Series DD		34	38
Total SugarSync Inc.					112	189
Tada Innovations, Inc.	Software	Preferred Stock Warrants	Series A		25	30
Tectura Corporation	Software	Preferred Stock Warrants	Series B-1		51	14
White Sky, Inc.	Software	Preferred Stock Warrants	Series B-2		54	5
WildTangent, Inc.	Software	Preferred Stock Warrants	Series 3A		238	100
Total Warrants Software (1.34%)*					3,515	6,336
Luminous Devices, Inc.	Electronics & Computer Hardware	Common Stock Warrants			601	
Shocking Technologies, Inc.	Electronics & Computer Hardware	Preferred Stock Warrants	Series A-1		63	47
Total Warrant Electronics & Computer Hardware (0.01%)*					664	47
Althea Technologies, Inc.	Specialty Pharmaceuticals	Preferred Stock Warrants	Series D		309	447
Pacira Pharmaceuticals, Inc.[3]	Specialty Pharmaceuticals	Common Stock Warrants			1,086	1,222
Quatrx Pharmaceuticals Company	Specialty Pharmaceuticals	Preferred Stock Warrants	Series E		528	
Total Warrants Specialty Pharmaceuticals (0.35%)*					1,923	1,669
IPA Holdings, LLC	Consumer & Business Products	Common Stock Warrants			275	163
Market Force Information, Inc.	Consumer & Business Products	Preferred Stock Warrants	Series A		24	139
Seven Networks, Inc.	Consumer & Business Products	Preferred Stock Warrants	Series C		174	204
Wageworks, Inc.[3]	Consumer & Business Products	Common Stock Warrants			252	1,484
Wavemarket, Inc.[4]	Consumer & Business Products	Preferred Stock Warrants	Series E		106	61

Total Warrant Consumer & Business Products (0.43%)*				831	2,051
Achronix Semiconductor Corporation	Semiconductors	Preferred Stock Warrants	Series D	160	136
Enpirion, Inc.	Semiconductors	Preferred Stock Warrants	Series D	157	

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Portfolio Company	Industry	Type of Investment(1)	Series	Principal Amount	Cost(2)	Value(3)
iWatt, Inc.	Semiconductors	Preferred Stock Warrants	Series C		$ 45	$ 23
		Preferred Stock Warrants	Series D		583	475
Total iWatt, Inc.					628	498
Kovio Inc.	Semiconductors	Preferred Stock Warrants	Series B		92	
Quartics, Inc.	Semiconductors	Preferred Stock Warrants	Series C		53	
Total Warrants Semiconductors (0.13%)*					1,090	634
AcelRX Pharmaceuticals, Inc.(3)	Drug Delivery	Common Stock Warrants			357	285
Alexza Pharmaceuticals, Inc.(3)(4)	Drug Delivery	Common Stock Warrants			645	19
BIND Biosciences, Inc.	Drug Delivery	Preferred Stock Warrants	Series C-1		291	485
Intelliject, Inc.(4)	Drug Delivery	Preferred Stock Warrants	Series B		594	602
Merrion Pharma, Plc.(3)(5)(10)	Drug Delivery	Common Stock Warrants			210	100
Revance Therapeutics, Inc.	Drug Delivery	Preferred Stock Warrants	Series D		557	473
Transcept Pharmaceuticals, Inc.(3)	Drug Delivery	Common Stock Warrants			87	93
Total Warrant Drug Delivery (0.43%)*					2,741	2,057
EKOS Corporation	Therapeutic	Preferred Stock Warrants	Series C		327	
Gelesis, Inc.(6)	Therapeutic	Preferred Stock Warrants	Series A-1		78	110
Light Science Oncology, Inc.	Therapeutic	Preferred Stock Warrants	Series B		99	
Novasys Medical, Inc.	Therapeutic	Preferred Stock Warrants	Series D		131	16
Oraya Therapeutics, Inc.(4)	Therapeutic	Preferred Stock Warrants	Series C		550	221
Total Warrants Therapeutic (0.07%)*					1,185	347
Blurb, Inc.	Internet Consumer & Business Services	Preferred Stock Warrants	Series B		323	655
		Preferred Stock Warrants	Series C		636	411
Total Blurb, Inc.					959	1,066
Cozi Group, Inc.	Internet Consumer & Business Services	Preferred Stock Warrants	Series A		147	
Invoke Solutions, Inc.	Internet Consumer & Business Services	Common Stock Warrants			82	
Just.Me	Internet Consumer & Business Services	Preferred Stock Warrants	Series A		20	25
Prism Education Group, Inc.	Internet Consumer & Business Services	Preferred Stock Warrants	Series B		43	
RazorGator Interactive Group, Inc.	Internet Consumer & Business Services	Preferred Stock Warrants	Series C		1,224	
Reply! Inc.(4)	Internet Consumer & Business Services	Preferred Stock Warrants	Series B		320	598

Second Rotation	Internet Consumer & Business Services	Preferred Stock Warrants	Series D	57	30
Trulia, Inc.[4]	Internet Consumer & Business Services	Preferred Stock Warrants	Series D	188	763
Total Warrants Internet Consumer & Business Services (0.52%)*				3,040	2,482

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Portfolio Company	Industry	Type of Investment[1]	Series	Principal Amount	Cost[2]	Value[3]
Buzznet, Inc.	Information Services	Preferred Stock Warrants	Series B		$ 9	$
Cha Cha Search, Inc.	Information Services	Preferred Stock Warrants	Series F		58	1
Eccentex Corporation	Information Services	Preferred Stock Warrants	Series A		31	3
Intelligent Beauty, Inc.	Information Services	Preferred Stock Warrants	Series B		230	467
InXpo, Inc.	Information Services	Preferred Stock Warrants	Series C		98	46
		Preferred Stock Warrants	Series C-1		17	17
Total InXpo, Inc.					115	63
Magi.com (pka Hi5 Networks, Inc.)	Information Services	Preferred Stock Warrants	Series B		213	
Jab Wireless, Inc.	Information Services	Preferred Stock Warrants	Series A		265	355
RichRelevance, Inc.	Information Services	Preferred Stock Warrants	Series D		98	32
Solutionary, Inc.	Information Services	Preferred Stock Warrants	Series E		96	2
Zeta Interactive Corporation	Information Services	Preferred Stock Warrants	Series A		172	
Total Warrants Information Services (0.19%)*					1,287	923
Optiscan Biomedical, Corp.	Medical Device & Equipment	Preferred Stock Warrants	Series B		680	388
		Preferred Stock Warrants	Series C		389	357
Total Optiscan Biomedical, Corp.					1,069	745
Total Warrants Medical Device & Equipment (0.16%)*					1,069	745
Navidea Biopharmaceuticals, Inc. (pka Neoprobe)[3]	Diagnostic	Common Stock Warrants			245	563
Tethys Bioscience, Inc.	Diagnostic	Preferred Stock Warrants	Series E		147	147
Total Warrants Diagnostic (0.15%)					392	710
deCODE genetics ehf.[5][10]	Biotechnology Tools	Preferred Stock Warrants	Series A-2		305	378
Labcyte, Inc.	Biotechnology Tools	Preferred Stock Warrants	Series C		323	401
NuGEN Technologies, Inc.	Biotechnology Tools	Preferred Stock Warrants	Series B		45	135
		Preferred Stock Warrants	Series C		33	7
Total NuGEN Technologies, Inc.					78	142
Total Warrants Biotechnology Tools (0.20%)*					706	921
Entrigue Surgical, Inc.	Surgical Devices	Preferred Stock Warrants	Series B		87	39
Transmedics, Inc.[4]	Surgical Devices	Preferred Stock Warrants	Series B		225	
Gynesonics, Inc.	Surgical Devices	Preferred Stock Warrants	Series A		18	7
		Preferred Stock Warrants	Series C		365	273

				383	280
Total Warrants Surgical Devices (0.07%)*				695	319
Everyday Health, Inc. (pka Waterfront Media, Inc.)	Media/Content/ Info	Preferred Stock Warrants	Series C	60	245
Glam Media, Inc.	Media/Content/ Info	Preferred Stock Warrants	Series D	482	
Total Warrants Media/Content/Info (0.05%)*				542	245

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Portfolio Company	Industry	Type of Investment(1)	Series	Principal Amount	Cost(2)	Value(3)
Alphabet Energy, Inc.	Clean Tech	Preferred Stock Warrants	Series A		$ 32	$ 75
American Supercondutor Corporation(3)	Clean Tech	Common Stock Warrants			245	300
BrightSource Energy, Inc.	Clean Tech	Preferred Stock Warrants	Series D		675	601
Calera, Inc.	Clean Tech	Preferred Stock Warrants	Series C		513	173
EcoMotors, Inc.	Clean Tech	Preferred Stock Warrants	Series B		308	691
Enphase Energy, Inc.(3)	Clean Tech	Common Stock Warrants			102	65
Glori Energy, Inc.	Clean Tech	Preferred Stock Warrants	Series C		165	93
GreatPoint Energy, Inc.	Clean Tech	Preferred Stock Warrants	Series D-1		548	15
Integrated Photovoltaics, Inc.	Clean Tech	Preferred Stock Warrants	Series A-1		82	121
Lilliputian Systems, Inc.	Clean Tech	Preferred Stock Warrants	Series C		106	
		Common Stock Warrants			49	
Total Lilliputian Systems, Inc.					155	
Propel Biofuels, Inc.	Clean Tech	Preferred Stock Warrants	Series C		211	392
SCIenergy, Inc.(4)	Clean Tech	Preferred Stock Warrants	Series C		138	25
Solexel, Inc.	Clean Tech	Preferred Stock Warrants	Series B		1,161	110
Stion Corporation(4)	Clean Tech	Preferred Stock Warrants	Series E		317	250
Trilliant, Inc.	Clean Tech	Preferred Stock Warrants	Series A		161	65
Total Warrants Clean Tech (0.63%)*					4,813	2,976
Total Warrants (5.92%)					31,432	28,116
Aegerion Pharmaceuticals, Inc.(3)	Drug Discovery & Development	Common Stock			150	1,136
Aveo Pharmaceuticals, Inc.(3)	Drug Discovery & Development	Common Stock			842	2,041
Dicerna Pharmaceuticals, Inc.	Drug Discovery & Development	Preferred Stock	Series B		501	357
Inotek Pharmaceuticals Corp.	Drug Discovery & Development	Preferred Stock	Series C		1,500	
Merrimack Pharmaceuticals, Inc.(3)	Drug Discovery & Development	Common Stock			2,000	3,978
Paratek Pharmaceuticals, Inc.	Drug Discovery & Development	Preferred Stock	Series H		1,000	455
Total Equity Drug Discovery & Development (1.68%)*					5,993	7,967
Acceleron Pharmaceuticals, Inc.	Drug Delivery	Preferred Stock	Series C		243	186
		Preferred Stock	Series E		98	158
		Preferred Stock	Series F		60	70
		Preferred Stock	Series B		1,000	828
Total Acceleron Pharmaceuticals, Inc.					1,401	1,242

Merrion Pharma, Plc.(3)(5)(10)	Drug Delivery	Common Stock	8	5
Transcept Pharmaceuticals, Inc.(3)	Drug Delivery	Common Stock	500	258
Total Equity Drug Delivery (0.32%)*			1,909	1,505

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

June 30, 2012

(unaudited)

(dollars in thousands)

Portfolio Company	Industry	Type of Investment[1]	Series	Principal Amount	Cost[2]	Value[3]
E-band Communications, Corp.[6]	Communications & Networking	Preferred Stock	Series B		$ 2,000	$ 497
		Preferred Stock	Series C		372	182
		Preferred Stock	Series D		508	288
		Preferred Stock	Series E		374	537
Total E-band Communications, Corp.					3,254	1,504
Neonova Holding Company	Communications & Networking	Preferred Stock	Series A		250	245
Peerless Network, Inc.	Communications & Networking	Preferred Stock	Series A		1,000	2,984
Stoke, Inc.	Communications & Networking	Preferred Stock	Series E		500	625
Total Equity Communications & Networking (1.13%)*					5,004	5,358
Atrenta, Inc.	Software	Preferred Stock	Series D		250	375
Box.net, Inc.[4]	Software	Preferred Stock	Series C		500	3,625
		Preferred Stock	Series D		500	1,467
		Preferred Stock	Series D-1		1,000	1,155
		Preferred Stock	Series D-2		2,001	2,049
Total Box.net, Inc.					4,001	8,296
Total Equity Software (1.83%)*					4,251	8,671
Maxvision Holding, LLC.[7][8]	Electronics & Computer Hardware	Preferred Stock	Series A		3,500	
		Preferred Stock	LLC interest		81	
Total Maxvision Holding, LLC.					3,581	
Spatial Photonics, Inc.	Electronics & Computer Hardware	Preferred Stock	Series D		268	
Virident Systems	Electronics & Computer Hardware	Preferred Stock	Series D		5,000	4,987
Total Equity Electronics & Computer Hardware (1.05%)*					8,849	4,987
Quatrx Pharmaceuticals Company	Specialty Pharmaceuticals	Preferred Stock	Series E		750	
Total Equity Specialty Pharmaceuticals (0.00%)*					750	

Caivis Acquisition Corporation	Consumer & Business Products	Common Stock	Series A	880	642
Facebook, Inc.[3]	Consumer & Business Products	Common Stock	Series B	9,557	9,145
IPA Holdings, LLC	Consumer & Business Products	Preferred Stock	LLC interest	500	530
Market Force Information, Inc.	Consumer & Business Products	Preferred Stock	Series B	500	517
Wageworks, Inc.[3]	Consumer & Business Products	Common Stock	Series D	250	290
Total Equity Consumer & Business Products (2.34%)*				11,687	11,124

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CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

June 30, 2012

(unaudited)

(dollars in thousands)

Portfolio Company	Industry	Type of Investment[1]	Series	Principal Amount	Cost[2]	Value[3]
iWatt, Inc.	Semiconductors	Preferred Stock	Series E		$ 491	$ 1,234
Total Equity Semiconductors (0.26%)*					491	1,234
Gelesis, Inc.[6]	Therapeutic	Common Stock				526
		Preferred Stock	Series A-1		425	711
		Preferred Stock	Series A-2		500	537
Total Gelesis, Inc.					925	1,774
Novasys Medical, Inc.	Therapeutic	Preferred Stock	Series D-1		1,000	808
Total Equity Therapeutic (0.54%)*					1,925	2,582
Cozi Group, Inc.	Internet Consumer & Business Services	Preferred Stock	Series B		179	20
RazorGator Interactive Group, Inc.	Internet Consumer & Business Services	Preferred Stock	Series A		1,000	
Total Equity Internet Consumer & Business Services (0.00%)*					1,179	20
Buzznet, Inc.	Information Services	Preferred Stock	Series C		250	
Good Technologies, Inc. (pka Visto Corporation)	Information Services	Common Stock			604	100
Magi.com (pka Hi5 Networks, Inc.)	Information Services	Preferred Stock	Series C		250	247
Solutionary, Inc.	Information Services	Preferred Stock	Series A-1		17	177
		Preferred Stock	Series A-2		326	74
Total Solutionary, Inc.					343	251
Zeta Interactive Corporation	Information Services	Preferred Stock	Series A		500	
Total Equity Information Services (0.13%)*					1,947	598
Optiscan Biomedical, Corp.	Medical Device & Equipment	Preferred Stock	Series B		3,000	1,502
		Preferred Stock	Series C		655	608
Total Optiscan Biomedical, Corp.					3,655	2,110

Total Equity Medical Device & Equipment (0.44%)*				3,655	2,110
NuGEN Technologies, Inc.	Biotechnology Tools	Preferred Stock	Series C	500	504
Total Equity Biotechnology Tools (0.11%)*				500	504
Transmedics, Inc.(4)	Surgical Devices	Preferred Stock	Series C	300	
		Preferred Stock	Series B	1,100	

See notes to consolidated financial statements (unaudited)

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

June 30, 2012

(unaudited)

(dollars in thousands)

Portfolio Company	Industry	Type of Investment[1]	Series	Principal Amount	Cost[2]	Value[3]
Total Transmedics, Inc.					$ 1,400	$
Gynesonics, Inc.	Surgical Devices	Preferred Stock	Series B		250	150
		Preferred Stock	Series C		282	239
Total Gynesonics, Inc.					532	389
Total Equity Surgical Devices (0.08%)*					1,932	389
Everyday Health, Inc. (pka Waterfront Media, Inc.)	Media/ Content/ Info	Preferred Stock	Series D		1,000	580
Total Equity Media/Content/Info (0.12%)*					1,000	580
Total Equity (10.03%)					51,072	47,629
Total Investments (152.24%)					$ 743,713	$ 722,813

* Value as a percent of net assets
(1) Preferred and common stock, warrants, and equity interests are generally non-income producing.
(2) Gross unrealized appreciation, gross unrealized depreciation, and net depreciation for federal income tax purposes totaled $17,539, $35,500 and $17,961 respectively. The tax cost of investments is $748,632.
(3) Except for warrants in 18 publicly traded companies and common stock in seven publicly traded companies, all investments are restricted at June 30, 2012 and were valued at fair value as determined in good faith by the Board of Directors. No unrestricted securities of the same issuer are outstanding. The Company uses the Standard Industrial Code for classifying the industry grouping of its portfolio companies.
(4) Debt investments of this portfolio company have been pledged as collateral under the Wells Facility.
(5) Non-U.S. company or the company s principal place of business is outside the United States.
(6) Affiliate investment that is defined under the Investment Company Act of 1940 as companies in which the Company owns at least 5% but not more than 25% of the voting securities of the company.
(7) Control investment that is defined under the Investment Company Act of 1940 as companies in which the Company owns at least 25% of the voting securities of the company, or has greater than 50% representation on its board.
(8) Debt is on non-accrual status at June 30, 2012, and is therefore considered non-income producing.
(9) Convertible Senior Debt
(10) Indicates assets that the Company deems not qualifying assets under section 55(a) of the Investment Company Act of 1940, as amended. Qualifying assets must represent at least 70% of the Company s total assets at the time of acquisition of any additional non-qualifying assets.

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

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December 31, 2011

(dollars in thousands)

Portfolio Company	Industry	Type of Investment[1]	Principal Amount	Cost[2]	Value[3]
Anthera Pharmaceuticals Inc.	Drug Discovery & Development	Senior Debt Matures September 2014 Interest rate Prime + 7.3% or Floor rate of 10.55%	$ 25,000	$ 24,433	$ 25,183
Aveo Pharmaceuticals, Inc.	Drug Discovery & Development	Senior Debt Matures June 2014 Interest rate Prime + 7.15% or Floor rate of 11.9%	$ 25,000	25,360	26,110
Dicerna Pharmaceuticals, Inc.	Drug Discovery & Development	Senior Debt Matures January 2015 Interest rate Prime + 4.40% or Floor rate of 10.15%	$ 12,000	11,665	11,665
NextWave Pharmaceuticals, Inc.	Drug Discovery & Development	Senior Debt Matures June 2015 Interest rate Prime + 4.3% or Floor rate of 9.55%	$ 6,000	5,925	5,926
Concert Pharmaceuticals	Drug Discovery & Development	Senior Debt Matures July 2015 Interest rate Prime + 3.25% or Floor rate of 8.25%	$ 7,500	7,350	7,350
PolyMedix, Inc.	Drug Discovery & Development	Senior Debt Matures September 2013 Interest rate Prime + 7.1% or Floor rate of 12.35%	$ 6,763	6,594	6,729
Aegerion Pharmaceuticals, Inc.	Drug Discovery & Development	Senior Debt Matures September 2014 Interest rate Prime + 5.65% or Floor rate of 10.40%	$ 10,000	10,070	10,070
Chroma Therapeutics, Ltd.[5]	Drug Discovery & Development	Senior Debt Matures September 2013 Interest rate Prime + 7.75% or Floor rate of 12.00%	$ 7,633	7,958	7,879
NeurogesX, Inc.	Drug Discovery & Development	Senior Debt Matures February 2015 Interest rate Prime + 6.25% or Floor rate of 9.50%	$ 15,000	14,558	14,558
Total Debt Drug Discovery & Development (26.79%)*				113,913	115,470
E-band Communications, Corp.[6]	Communications & Networking	Convertible Senior Debt Due on demand Interest rate Fixed 6.00%	$ 356	356	
Intelepeer, Inc.	Communications & Networking	Senior Debt Matures May 2013 Interest rate Prime + 8.12% or Floor rate of 11.37%	$ 6,524	6,346	6,476
		Senior Debt Matures May 2012 Interest rate Prime + 4.25%	$ 1,100	1,100	1,070

Total Intelepeer, Inc.	7,446	7,546

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

December 31, 2011

(dollars in thousands)

Portfolio Company	Industry	Type of Investment[1]	Principal Amount	Cost[2]	Value[3]
Ahhha, Inc.	Communications & Networking	Senior Debt Matures January 2015 Interest rate Fixed 10.00%	$ 350	$ 345	$ 345
Pac-West Telecomm, Inc.	Communications & Networking	Senior Debt Matures October 2014 Interest rate Prime + 7.50% or Floor rate of 12.00%	$ 4,369	4,196	4,196
PeerApp, Inc.	Communications & Networking	Senior Debt Matures April 2013 Interest rate Prime + 7.5% or Floor rate of 11.50%	$ 1,776	1,814	1,835
PointOne, Inc.	Communications & Networking	Senior Debt Matures April 2013 Interest rate Libor + 9.0% or Floor rate of 11.50%	$ 8,308	8,107	8,100
Stoke, Inc[4]	Communications & Networking	Senior Debt Matures May 2013 Interest rate Prime + 7.0% or Floor rate of 10.25%	$ 2,627	2,586	2,612
Total Debt Communications & Networking (5.71%)*				24,850	24,634
Central Desktop, Inc.	Software	Senior Debt Matures April 2014 Interest rate Prime + 6.75% or Floor rate of 10.50%	$ 3,000	2,894	2,954
Clickfox, Inc.	Software	Senior Debt Matures July 2013 Interest rate Prime + 6.00% or Floor rate of 11.25%	$ 3,999	3,920	4,000
Kxen, Inc.	Software	Senior Debt Matures January 2015 Interest rate Prime + 5.08% or Floor rate of 8.33%	$ 3,000	2,958	2,858
RichRelevance, Inc.	Software	Senior Debt Matures January 2015 Interest rate Prime + 3.25% or Floor rate of 7.50%	$ 5,000	4,879	4,879
Blurb, Inc	Software	Senior Debt Matures December 2015 Interest rate Prime +5.25% or Floor rate 8.5%	$ 5,000	4,873	4,873
SugarSync Inc.	Software	Senior Debt Matures April 2015 Interest rate Prime + 4.50% or Floor rate of 8.25%	$ 2,000	1,950	1,950
White Sky, Inc.	Software	Senior Debt Matures June 2014 Interest rate Prime + 7.00% or Floor rate of 10.25%	$ 1,418	1,357	1,400

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

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(dollars in thousands)

Portfolio Company	Industry	Type of Investment[1]	Principal Amount	Cost[2]	Value[3]
Tada Innovations, Inc.	Software	Senior Debt Matures August 2012 Interest rate Prime + 3.25% or Floor rate of 6.50%	$ 100	$ 90	$ 90
Total Debt Software (5.34%)*				22,921	23,004
Maxvision Holding, LLC.[7]	Electronics & Computer Hardware	Senior Debt Matures December 2013 Interest rate Prime + 8.25% or Floor rate of 12.00%, PIK interest 5.00%	$ 4,185	4,143	
		Senior Debt Matures December 2013 Interest rate Prime + 6.25% or Floor rate of 10.00%, PIK interest 2.00%	$ 2,539	2,515	
		Revolving Line of Credit Matures December 2013 Interest rate Prime +5.00% or Floor rate of 8.50%	$ 892	1,027	1,027
Total Maxvision Holding, LLC				7,685	1,027
Total Debt Electronics & Computer Hardware (0.24%)*				7,685	1,027
Althea Technologies, Inc.	Specialty Pharmaceuticals	Senior Debt Matures October 2013 Interest rate Prime + 7.70% or Floor rate of 10.95%	$ 10,359	10,315	10,584
Pacira Pharmaceuticals, Inc.	Specialty Pharmaceuticals	Senior Debt Matures August 2014 Interest rate Prime + 6.25% or Floor rate of 10.25%	$ 11,250	11,257	11,397
		Senior Debt Matures August 2014 Interest rate Prime + 8.65% or Floor rate of 12.65%	$ 15,000	14,386	14,574
Total Pacira Pharmaceuticals, Inc.				25,643	25,971
Quatrx Pharmaceuticals Company	Specialty Pharmaceuticals	Convertible Senior Debt Matures March 2012 Interest rate Fixed 8.00%	$ 1,888	1,888	1,888
Total Debt Specialty Pharmaceuticals (8.92%)*				37,846	38,443
Achronix Semiconductor Corporation	Semiconductors	Senior Debt Matures January 2015 Interest rate Prime + 7.75% or Floor rate of 11.00%	$ 2,500	2,329	2,329

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

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(dollars in thousands)

Portfolio Company	Industry	Type of Investment[(1)]	Principal Amount	Cost[(2)]	Value[(3)]
Kovio Inc.	Semiconductors	Senior Debt Matures March 2015 Interest rate Prime + 5.50% or Floor rate of 9.25%	$ 1,250	$ 1,218	$ 1,218
		Senior Debt Matures March 2015 Interest rate Prime + 6.00% or Floor rate of 9.75%	$ 3,000	2,910	2,910
Total Kovio Inc.				4,128	4,128
Total Debt Semiconductors (1.50%)*				6,457	6,457
AcelRX Pharmaceuticals, Inc.	Drug Delivery	Senior Debt Matures December 2014 Interest rate Prime + 3.25% or Floor rate of 8.50%	$ 10,000	9,773	9,579
		Senior Debt Matures December 2014 Interest rate Prime + 3.25% or Floor rate of 8.50%	$ 10,000	9,772	9,578
Total AcelRX Pharmaceuticals, Inc.				19,545	19,157
Alexza Pharmaceuticals, Inc. [(4)]	Drug Delivery	Senior Debt Matures October 2013 Interest rate Prime + 6.5% or Floor rate of 10.75%	$ 10,497	10,537	10,695
BIND Biosciences, Inc.	Drug Delivery	Senior Debt Matures July 2014 Interest rate Prime + 7.45% or Floor rate of 10.70%	$ 5,000	4,730	4,880
Total BIND Biosciences, Inc.				4,730	4,880
Merrion Pharma, Plc.[(5)]	Drug Delivery	Senior Debt Matures January 2015 Interest rate Prime + 9.20% or Floor rate of 12.45%	$ 5,000	4,765	3,819
Revance Therapeutics, Inc.	Drug Delivery	Senior Debt Matures March 2015 Interest rate Prime + 6.60% or Floor rate of 9.85%	$ 22,000	21,379	21,379
Total Debt Drug Delivery (13.90%)*				60,956	59,930
Gelesis, Inc. [(8)]	Therapeutic	Senior Debt Matures April 2013 Interest rate Prime + 8.75% or Floor rate of 12.00%	$ 3,428	3,514	3,254

Gynesonics, Inc.	Therapeutic	Senior Debt Matures October 2013 Interest rate Prime + 8.25% or Floor rate of 11.50%	$ 5,336	5,309	5,383

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CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

December 31, 2011

(dollars in thousands)

Portfolio Company	Industry	Type of Investment[1]	Principal Amount	Cost[2]	Value[3]
Oraya Therapeutics, Inc.	Therapeutic	Senior Debt Matures March 2015 Interest rate Prime + 4.75% or Floor rate of 9.50%	$ 7,500	$ 7,377	$ 7,377
Pacific Child & Family Associates, LLC	Therapeutic	Senior Debt Matures January 2015 Interest rate LIBOR + 8.0% or Floor rate of 10.50%	$ 4,965	4,932	4,932
		Revolving Line of Credit Matures January 2015 Interest rate LIBOR + 6.5% or Floor rate of 9.00%	$ 1,500	1,485	1,412
		Senior Debt Matures January 2015 Interest rate LIBOR + 10.50% or Floor rate of 13.0%, PIK interest 3.75%	$ 5,900	6,259	6,436
Total Pacific Child & Family Associates, LLC				12,676	12,780
Total Debt Therapeutic (6.68%)*				28,876	28,794
InXpo, Inc.	Internet Consumer & Business Services	Senior Debt Matures March 2014 Interest rate Prime + 7.5% or Floor rate of 10.75%	$ 3,192	3,083	3,147
Westwood One Communications	Internet Consumer & Business Services	Senior Debt Matures October 2016 Interest rate LIBOR + 6.50% or Floor rate of 8.00%	$ 21,000	19,059	19,479
Reply! Inc.[4]	Internet Consumer & Business Services	Senior Debt Matures June 2015 Interest rate Prime + 6.87% or Floor rate of 10.12%	$ 13,000	12,877	13,131
MedCall	Internet Consumer & Business Services	Senior Debt Matures January 2016 Interest rate LIBOR + 7.79% or Floor rate of 9.50%	$ 5,168	5,051	5,051
ScriptSave (Medical Security Card Company, LLC)	Internet Consumer & Business Services	Senior Debt Matures February 2016 Interest rate LIBOR + 8.75%	$ 19,646	19,307	19,896
Trulia, Inc.	Internet Consumer & Business Services	Senior Debt Matures March 2015 Interest rate Prime + 2.75% or Floor rate of 6.00%	$ 5,000	4,871	4,871
		Senior Debt Matures March 2015 Interest rate Prime + 5.50% or Floor rate of 8.75%	$ 5,000	4,871	4,871

Total Trulia, Inc.	9,742	9,742

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CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

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(dollars in thousands)

Portfolio Company	Industry	Type of Investment[1]	Principal Amount	Cost[2]	Value[3]
Vaultlogix, Inc.	Internet Consumer & Business Services	Senior Debt Matures September 2016 Interest rate Libor + 8.50% or Floor rate of 10.00%, PIK interest 2.50%	$ 7,500	$ 7,441	$ 7,441
		Senior Debt	$ 11,500	11,335	11,335
		Revolving Line of Credit Matures September 2015 Interest rate Libor + 6.00% or Floor rate of 7.50%	$ 300	284	284
Total Vaultlogix, Inc.				19,060	19,060
Tectura Corporation	Internet Consumer & Business Services	Senior Debt Matures December 2012 Interest rate 11%	$ 5,625	6,834	6,834
		Revolving Line of Credit Senior Debt Matures August 2012 Interest rate 11%	$ 2,500	2,556	2,556
		Revolving Line of Credit Matures July 2012 Interest rate 11%, PIK interest 1.00%	$ 17,487	17,738	17,738
Total Tectura Corporation				27,128	27,128
Total Debt Internet Consumer & Business Services (27.06%)				115,307	116,634
Box.net, Inc.	Information Services	Senior Debt Matures March 2015 Interest rate Prime + 3.75% or Floor rate of 7.50%	$ 9,647	9,432	9,432
		Senior Debt Matures July 2014 Interest rate Prime + 5.25% or Floor rate of 8.50%	$ 1,590	1,613	1,645
Total Box.net, Inc.				11,045	11,077
Cha Cha Search, Inc.	Information Services	Senior Debt Matures February 2015 Interest rate Prime + 6.25% or Floor rate of 9.50%	$ 3,000	2,926	2,903
Jab Wireless, Inc.	Information Services	Senior Debt Matures August 2016 Interest rate Prime + 6.25% or Floor rate of 6.75%	$ 20,272	19,993	19,993
Total Debt Information Services (7.88%)				33,964	33,973

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December 31, 2011

(dollars in thousands)

Portfolio Company	Industry	Type of Investment(1)	Principal Amount	Cost(2)	Value(3)
Optiscan Biomedical, Corp.	Diagnostic	Senior Debt Matures December 2013 Interest rate Prime + 8.20% or Floor rate of 11.45%	$ 10,750	$ 10,884	$ 11,147
Total Debt Diagnostic (2.59%)*				10,884	11,147
deCODE genetics ehf.	Biotechnology Tools	Senior Debt Matures September 2014 Interest rate Prime + 10.25% or Floor rate of 13.50%, PIK interest 2.00%	$ 5,000	4,664	4,664
Labcyte, Inc.	Biotechnology Tools	Senior Debt Matures May 2013 Interest rate Prime + 8.6% or Floor rate of 11.85%	$ 2,416	2,425	2,479
Cempra Holdings LLC	Biotechnology Tools	Senior Debt Matures December 2015 Interest rate Prime + 7.05% or Floor rate of 10.30%	$ 10,000	9,721	9,721
Total Debt Biotechnology Tools (3.91%)*				16,810	16,864
Entrigue Surgical, Inc.	Surgical Devices	Senior Debt 3 Matures December 2014 Interest rate Prime + 5.90% or Floor rate of 9.65%	$ 3,000	2,879	2,879
Transmedics, Inc.(4)	Surgical Devices	Senior Debt Matures February 2014 Interest rate Prime + 9.70% or Floor rate of 12.95%	$ 8,375	8,602	8,602
Total Debt Surgical Devices (2.66%)*				11,481	11,481
Neoprobe Corporation	Media/Content/Info	Senior Debt Matures December 2014 Interest rate Prime + 6.75% or Floor rate of 10.00%	$ 7,000	6,733	6,733
Women s Marketing, Inc.	Media/Content/Info	Senior Debt Matures May 2016 Interest rate Libor + 9.50% or Floor rate of 12.00%, PIK interest 3.00%	$ 10,000	9,956	10,156
		Senior Debt Matures November 2015 Interest rate Libor + 7.50% or Floor rate of 10.0%	$ 9,710	9,503	9,896
		Senior Debt Matures November 2015 Interest rate Libor + 7.50% or Floor rate of 10.0%	$ 9,956	9,744	9,744

Total Women s Marketing, Inc.	29,203	29,796
Total Debt Media/Content/Info (8.47%)*	35,936	36,529

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December 31, 2011

(dollars in thousands)

Portfolio Company	Industry	Type of Investment[1]	Principal Amount	Cost[2]	Value[3]
BrightSource Energy, Inc.[4]	Clean Tech	Senior Debt Matures December 2011 Interest rate Prime + 7.75% or Floor rate of 11.0%	$ 11,250	$ 11,122	$ 11,122
		Senior Debt Matures December 2012 Interest rate Prime + 9.55% or Floor rate of 12.8%	$ 13,750	13,593	13,593
Total BrightSource Energy, Inc.				24,715	24,715
EcoMotors, Inc.	Clean Tech	Senior Debt Matures February 2014 Interest rate Prime + 6.1% or Floor rate of 9.35%	$ 4,879	4,713	4,859
Enphase Energy, Inc.	Clean Tech	Senior Debt Matures June 2014 Interest rate Prime + 5.75% or Floor rate of 9.0%	$ 4,898	4,784	4,748
NanoSolar, Inc.	Clean Tech	Senior Debt Matures September 2014 Interest rate Prime + 7.75% or Floor rate of 11.0%	$ 9,212	8,795	8,795
Integrated Photovoltaics	Clean Tech	Senior Debt Matures February 2015 Interest rate Prime + 7.375% or Floor rate of 10.625%	$ 3,000	2,875	2,875
Propel Biofuels, Inc.	Clean Tech	Senior Debt Matures September 2013 Interest rate of 11.0%	$ 1,348	1,356	1,320
SCIenergy, Inc.	Clean Tech	Senior Debt Matures October 2014 Interest rate 6.25%	$ 202	202	202
		Senior Debt Matures August 2015 Interest rate 8.15%	$ 5,000	4,883	4,883
Total SCIenergy, Inc.				5,085	5,085
Solexel, Inc.	Clean Tech	Senior Debt Matures June 2013 Interest rate Prime + 8.25% or Floor rate of 11.50%	$ 937	594	594
		Senior Debt Matures June 2013 Interest rate Prime + 7.25% or Floor rate of 10.50%	$ 8,120	8,389	8,389
Total Solexel, Inc.				8,983	8,983

Total Debt Clean Tech (14.24%)*	61,306	61,380
Total Debt (135.90%)	589,192	585,767

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(dollars in thousands)

Portfolio Company	Industry	Type of Investment[1]	Principal Amount	Cost[2]	Value[3]
Acceleron Pharmaceuticals, Inc.	Drug Discovery & Development	Common Stock Warrants		$ 39	$ 42
		Preferred Stock Warrants		69	273
		Preferred Stock Warrants		35	51
Total Warrants Acceleron Pharmaceuticals, Inc.				143	366
Anthera Pharmaceuticals Inc.	Drug Discovery & Development	Common Stock Warrants		541	551
		Common Stock Warrants		443	451
Total Warrants Anthera Pharmaceuticals Inc.				984	1,002
Dicerna Pharmaceuticals, Inc.	Drug Discovery & Development	Preferred Stock Warrants		236	69
		Common Stock Warrants		28	
		Preferred Stock Warrants		311	137
Total Warrants Dicerna Pharmaceuticals, Inc.				575	206
EpiCept Corporation[5]	Drug Discovery & Development	Common Stock Warrants		4	15
Concert Pharmaceuticals, Inc.	Drug Discovery & Development	Preferred Stock Warrants		234	233
NextWave Pharmaceuticals, Inc.	Drug Discovery & Development	Preferred Stock Warrants		126	125
Horizon Pharma, Inc.	Drug Discovery & Development	Common Stock Warrants		231	
Merrimack Pharmaceuticals, Inc.	Drug Discovery & Development	Preferred Stock Warrants		155	1,116
Paratek Pharmaceuticals, Inc.	Drug Discovery & Development	Preferred Stock Warrants		137	68
PolyMedix, Inc.	Drug Discovery	Common Stock Warrants		480	97

	& Development			
Portola Pharmaceuticals, Inc.	Drug Discovery & Development	Preferred Stock Warrants	152	207
Aegerion Pharmaceuticals, Inc.	Drug Discovery & Development	Common Stock Warrants	69	1,115
Chroma Therapeutics, Ltd.[5]	Drug Discovery & Development	Preferred Stock Warrants	490	387
NeurogesX, Inc.	Drug Discovery & Development	Preferred Stock Warrants	503	122
Total Warrants Drug Discovery & Development (1.17%)*			4,283	5,059
Affinity Videonet, Inc.	Communications & Networking	Preferred Stock Warrants	102	165
IKANO Communications, Inc.	Communications & Networking	Preferred Stock Warrants	45	
		Preferred Stock Warrants	72	
Total IKANO Communications, Inc.			117	

See notes to consolidated financial statements.

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

December 31, 2011

(dollars in thousands)

Portfolio Company	Industry	Type of Investment[1]	Principal Amount	Cost[2]	Value[3]
Intelepeer, Inc.	Communications & Networking	Preferred Stock Warrants		$ 101	$ 92
Neonova Holding Company	Communications & Networking	Preferred Stock Warrants		94	28
Pac-West Telecomm, Inc.	Communications & Networking	Preferred Stock Warrants		121	
PeerApp, Inc.	Communications & Networking	Preferred Stock Warrants		61	23
Peerless Network, Inc.	Communications & Networking	Preferred Stock Warrants		95	206
Ping Identity Corporation	Communications & Networking	Preferred Stock Warrants		52	109
PointOne, Inc.	Communications & Networking	Common Stock Warrants		131	5
Purcell Systems, Inc.	Communications & Networking	Preferred Stock Warrants		123	121
Stoke, Inc[4]	Communications & Networking	Preferred Stock Warrants		53	149
		Preferred Stock Warrants		65	81
Total Stoke, Inc.				118	230
Total Warrants Communications & Networking (0.23%)*				1,115	979
Atrenta, Inc.	Software	Preferred Stock Warrants		136	815
		Preferred Stock Warrants		95	284
Total Atrenta, Inc.				231	1,099
Blurb, Inc.	Software	Preferred Stock Warrants		323	855
		Preferred Stock Warrants		636	636
Total Blurb, Inc.				959	1,491
Braxton Technologies, LLC.	Software	Preferred Stock Warrants		189	
Bullhorn, Inc.	Software	Preferred Stock Warrants		43	229
Central Desktop, Inc.	Software	Preferred Stock Warrants		108	398

Clickfox, Inc.	Software	Preferred Stock Warrants	329	522
Forescout Technologies, Inc.	Software	Preferred Stock Warrants	99	142
HighRoads, Inc.	Software	Preferred Stock Warrants	45	7
Kxen, Inc.	Software	Preferred Stock Warrants	47	22
RichRelevance, Inc.	Software	Preferred Stock Warrants	98	12
Rockyou, Inc.	Software	Preferred Stock Warrants	116	1
Sportvision, Inc.	Software	Preferred Stock Warrants	39	
SugarSync Inc.	Software	Preferred Stock Warrants	78	162
Daegis Inc. (pka Unify Corporation)	Software	Common Stock Warrants	1,434	237
White Sky, Inc.	Software	Preferred Stock Warrants	54	3
Tada Innovations, Inc.	Software	Preferred Stock Warrants	25	25
WildTangent, Inc.	Software	Preferred Stock Warrants	238	22
Total Warrants Software (1.01%)*			4,132	4,372

See notes to consolidated financial statements.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

December 31, 2011

(dollars in thousands)

Portfolio Company	Industry	Type of Investment(1)	Principal Amount	Cost(2)	Value(3)
Luminus Devices, Inc.	Electronics & Computer Hardware	Preferred Stock Warrants		$ 334	$
		Preferred Stock Warrants		84	
		Preferred Stock Warrants		183	
Total Luminus Devices, Inc.				601	
Shocking Technologies, Inc.	Electronics & Computer Hardware	Preferred Stock Warrants		63	196
Total Warrant Electronics & Computer Hardware (0.05%)*				664	196
Althea Technologies, Inc.	Specialty Pharmaceuticals	Preferred Stock Warrants		309	516
Pacira Pharmaceuticals, Inc.	Specialty Pharmaceuticals	Common Stock Warrants		1,086	425
Quatrx Pharmaceuticals Company	Specialty Pharmaceuticals	Preferred Stock Warrants		528	
Total Warrants Specialty Pharmaceuticals (0.22%)*				1,923	941
Annie s, Inc.	Consumer & Business Products	Preferred Stock Warrants		321	250
IPA Holdings, LLC	Consumer & Business Products	Preferred Stock Warrants		275	58
Market Force Information, Inc.	Consumer & Business Products	Preferred Stock Warrants		24	118
Wageworks, Inc.	Consumer & Business Products	Preferred Stock Warrants		252	2,495
Seven Networks, Inc.	Consumer & Business Products	Preferred Stock Warrants		174	
Total Warrant Consumer & Business Products (0.68%)*				1,046	2,921
Achronix Semiconductor Corporation	Semiconductors	Preferred Stock Warrants		160	145
Enpirion, Inc.	Semiconductors	Preferred Stock Warrants		157	
iWatt, Inc.	Semiconductors	Preferred Stock Warrants		46	3
		Preferred Stock Warrants		582	10
Total iWatt, Inc.				628	13
Kovio Inc.	Semiconductors	Preferred Stock Warrants		92	4
NEXX Systems, Inc.	Semiconductors	Preferred Stock Warrants		297	1,328
Quartics, Inc.	Semiconductors	Preferred Stock Warrants		53	
Total Warrants Semiconductors (0.35%)*				1,387	1,490
AcelRX Pharmaceuticals, Inc.	Drug Delivery	Common Stock Warrants		178	41

		Common Stock Warrants	178	41
Total AcelRX Pharmaceuticals, Inc.			356	82
Alexza Pharmaceuticals, Inc.[(4)]	Drug Delivery	Preferred Stock Warrants	645	72
BIND Biosciences, Inc.	Drug Delivery	Preferred Stock Warrants	291	427
Merrion Pharma, Plc.[(5)]	Drug Delivery	Common Stock Warrants	214	194

See notes to consolidated financial statements.

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

December 31, 2011

(dollars in thousands)

Portfolio Company	Industry	Type of Investment[1]	Principal Amount	Cost[2]	Value[3]
Transcept Pharmaceuticals, Inc.	Drug Delivery	Common Stock Warrants		$ 36	$ 62
		Common Stock Warrants		51	93
Total Transcept Pharmaceuticals, Inc.				87	155
Revance Therapeutics, Inc.	Drug Delivery	Preferred Stock Warrants		557	565
Total Warrant Drug Delivery (0.35%)*				2,150	1,495
Gelesis, Inc.	Therapeutic	Preferred Stock Warrants		78	106
BARRX Medical, Inc.	Therapeutic	Preferred Stock Warrants		76	189
EKOS Corporation	Therapeutic	Preferred Stock Warrants		327	
Gynesonics, Inc.	Therapeutic	Preferred Stock Warrants		228	233
Light Science Oncology, Inc.	Therapeutic	Preferred Stock Warrants		99	
Novasys Medical, Inc.	Therapeutic	Preferred Stock Warrants		125	13
Oraya Therapeutics, Inc.	Therapeutic	Preferred Stock Warrants		551	551
Total Warrants Therapeutic (0.25%)*				1,484	1,092
Cozi Group, Inc.	Internet Consumer & Business Services	Preferred Stock Warrants		147	
Invoke Solutions, Inc.	Internet Consumer & Business Services	Common Stock Warrants		6	
		Common Stock Warrants		6	
		Common Stock Warrants		11	
		Common Stock Warrants		15	
		Common Stock Warrants		44	
Total Invoke Solutions, Inc.				82	
InXpo, Inc.	Internet Consumer & Business Services	Preferred Stock Warrants		98	56
Prism Education Group, Inc.	Internet Consumer & Business Services	Preferred Stock Warrants		43	
RazorGator Interactive Group, Inc.	Internet Consumer & Business Services	Preferred Stock Warrants		1,224	
Reply! Inc.[4]	Internet Consumer & Business Services	Preferred Stock Warrants		320	395
Trulia, Inc.	Internet Consumer & Business Services	Preferred Stock Warrants		188	413
Tectura Corporation	Internet Consumer & Business Services	Preferred Stock Warrants		51	26
Total Warrants Internet Consumer & Business Services (0.21%)				2,153	890
Lilliputian Systems, Inc.	Energy	Preferred Stock Warrants		106	
		Common Stock Warrants		49	

Total Lilliputian Systems, Inc.			155	
Total Warrants Energy (0.00%)*			155	
Box.net, Inc.	Information Services	Preferred Stock Warrants	117	1,557
		Preferred Stock Warrants	73	2,280
		Preferred Stock Warrants	193	233
Total Box.net, Inc.			383	4,070

See notes to consolidated financial statements.

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

December 31, 2011

(dollars in thousands)

Portfolio Company	Industry	Type of Investment[(1)]	Principal Amount	Cost[(2)]	Value[(3)]
Buzznet, Inc.	Information Services	Preferred Stock Warrants		$ 9	$
Cha Cha Search, Inc.	Information Services	Preferred Stock Warrants		58	1
Magi.com (pka Hi5 Networks, Inc.)	Information Services	Preferred Stock Warrants		213	
Jab Wireless, Inc.	Information Services	Preferred Stock Warrants		265	332
Solutionary, Inc.	Information Services	Preferred Stock Warrants		96	
Intelligent Beauty, Inc.	Information Services	Preferred Stock Warrants		230	83
Zeta Interactive Corporation	Information Services	Preferred Stock Warrants		172	237
Total Warrants Information Services (1.10%)				1,426	4,723
Optiscan Biomedical, Corp.	Diagnostic	Preferred Stock Warrants		1,069	872
Total Warrants Diagnostic (0.20%)*				1,069	872
deCODE genetics ehf.	Biotechnology Tools	Preferred Stock Warrants		305	305
Labcyte, Inc.	Biotechnology Tools	Common Stock Warrants		197	263
Cempra Holdings LLC	Biotechnology Tools	Preferred Stock Warrants		187	186
NuGEN Technologies, Inc.	Biotechnology Tools	Preferred Stock Warrants		45	203
		Preferred Stock Warrants		33	15
Total NuGEN Technologies, Inc.				78	218
Total Warrants Biotechnology Tools (0.23%)*				767	972
Entrigue Surgical, Inc.	Surgical Devices	Preferred Stock Warrants		87	85
Transmedics, Inc.[(4)]	Surgical Devices	Preferred Stock Warrants		225	
Total Warrants Surgical Devices (0.02%)*				312	85
Glam Media, Inc.	Media/Content/Info	Preferred Stock Warrants		482	2
Neoprobe Corporation	Media/Content/Info	Common Stock Warrants		244	245
Everyday Health, Inc. (Waterfront Media, Inc.)	Media/Content/Info	Preferred Stock Warrants		60	504
Total Warrants Media/Content/Info (0.17%)*				786	751
BrightSource Energy, Inc.[(4)]	Clean Tech	Preferred Stock Warrants		675	834
Calera, Inc.	Clean Tech	Preferred Stock Warrants		513	475
EcoMotors, Inc.	Clean Tech	Preferred Stock Warrants		154	323
		Common Stock Warrants		154	323
Total EcoMotors, Inc.				308	646
Enphase Energy, Inc.	Clean Tech	Preferred Stock Warrants		102	49
GreatPoint Energy, Inc.	Clean Tech	Preferred Stock Warrants		548	208
NanoSolar, Inc.	Clean Tech	Preferred Stock Warrants		355	355
Propel Biofuels, Inc.	Clean Tech	Preferred Stock Warrants		211	170

SCIenergy, Inc.	Clean Tech	Preferred Stock Warrants	8	2
		Preferred Stock Warrants	130	30
Total SCIenergy, Inc.			138	32
Solexel, Inc.	Clean Tech	Preferred Stock Warrants	1,161	275
Trilliant, Inc.	Clean Tech	Preferred Stock Warrants	162	82
Integrated Photovoltaics	Clean Tech	Preferred Stock Warrants	82	81
Total Warrants Clean Tech (0.74%)*			4,255	3,207
Total Warrants (6.97%)			29,107	30,045

See notes to consolidated financial statements.

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

December 31, 2011

(dollars in thousands)

Portfolio Company	Industry	Type of Investment[1]	Principal Amount	Cost[2]	Value[3]
Aegerion Pharmaceuticals, Inc.	Drug Discovery & Development	Common Stock		$ 1,092	$ 2,411
Aveo Pharmaceuticals	Drug Discovery & Development	Common Stock		842	2,887
Dicerna Pharmaceuticals, Inc.	Drug Discovery & Development	Preferred Stock		503	374
Inotek Pharmaceuticals Corp.	Drug Discovery & Development	Preferred Stock		1,500	
Merrimack Pharmaceuticals, Inc.	Drug Discovery & Development	Preferred Stock		2,000	3,825
Paratek Pharmaceuticals, Inc.	Drug Discovery & Development	Preferred Stock		1,000	1,231
Total Equity Drug Discovery & Development (2.49%)*				6,937	10,728
Acceleron Pharmaceuticals, Inc.	Drug Delivery	Preferred Stock		243	163
Acceleron Pharmaceuticals, Inc.		Preferred Stock		98	138
Acceleron Pharmaceuticals, Inc.		Preferred Stock		60	61
Acceleron Pharmaceuticals, Inc.		Preferred Stock		1,000	724
Total Acceleron Pharmaceuticals, Inc.				1,401	1,086
Transcept Pharmaceuticals, Inc.	Drug Delivery	Common Stock		500	325
Total Equity Drug Delivery (0.33%)*				1,901	1,411
E-band Communications, Corp.[6]	Communications & Networking	Preferred Stock		2,880	
Neonova Holding Company	Communications & Networking	Preferred Stock		250	212
Peerless Network, Inc.	Communications & Networking	Preferred Stock		1,000	2,335
Stoke, Inc[4]	Communications & Networking	Preferred Stock		500	458
Total Equity Communications & Networking (0.70%)*				4,630	3,005
Atrenta, Inc.	Software	Preferred Stock		250	474
Total Equity Software (0.11%)*				250	474
Maxvision Holding, LLC.[7]	Electronics & Computer Hardware	Common Stock		3,581	
Spatial Photonics, Inc.[8]	Electronics & Computer Hardware	Preferred Stock		268	
Total Equity Electronics & Computer Hardware (0.00%)*				3,849	

Quatrx Pharmaceuticals Company	Specialty Pharmaceuticals	Preferred Stock	750	
Total Equity Specialty Pharmaceuticals (0.00%)*			750	
IPA Holdings, LLC	Consumer & Business Products	Preferred Stock	500	360
Market Force Information, Inc.	Consumer & Business Products	Preferred Stock	500	491
Caivis Acquisition Corporation	Consumer & Business Products	Common Stock	880	

See notes to consolidated financial statements.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

December 31, 2011

(dollars in thousands)

Portfolio Company	Industry	Type of Investment(1)	Principal Amount	Cost(2)	Value(3)
Wageworks, Inc.	Consumer & Business Products	Preferred Stock		$ 250	$ 388
Total Equity Consumer & Business Products (0.29%)*				2,130	1,239
iWatt, Inc.	Semiconductors	Preferred Stock		490	984
NEXX Systems, Inc.	Semiconductors	Preferred Stock		277	802
Total Equity Semiconductors (0.41%)*				767	1,786
BARRX Medical, Inc.	Therapeutic	Preferred Stock		1,500	3,628
Gelesis, Inc.	Therapeutic	Common Stock			108
		Preferred Stock		425	519
		Preferred Stock		500	520
Total Gelesis, Inc.				925	1,147
Gynesonics, Inc.	Therapeutic	Preferred Stock		250	156
Gynesonics, Inc.		Preferred Stock		283	295
Total Gynesonics, Inc.				533	451
Novasys Medical, Inc.	Therapeutic	Preferred Stock		1,000	799
Total Equity Therapeutic (1.40%)*				3,958	6,025
Cozi Group, Inc.	Internet Consumer & Business Services	Preferred Stock		177	44
RazorGator Interactive Group, Inc.	Internet Consumer & Business Services	Preferred Stock		1,000	
Total Equity Internet Consumer & Business Services (0.01%)				1,177	44
Box.net, Inc.	Information Services	Preferred Stock		500	3,543
		Preferred Stock		1,500	2,564
Total Box.net, Inc.				2,000	6,107
Buzznet, Inc.	Information Services	Preferred Stock		250	26
Magi.com (pka Hi5 Networks, Inc.)	Information Services	Preferred Stock		250	247
Solutionary, Inc.	Information Services	Preferred Stock		250	55
Good Technologies, Inc. (pka Visto Corporation)	Information Services	Common Stock		603	90
Zeta Interactive Corporation	Information Services	Preferred Stock		500	629
Total Equity Information Services (1.66%)				3,853	7,154
Novadaq Technologies, Inc.(5)	Diagnostic	Common Stock		1,057	671
Optiscan Biomedical, Corp.	Diagnostic	Preferred Stock		3,655	2,468

Total Equity Diagnostic (0.73%)*			4,712	3,139
Kamada, LTD.	Biotechnology Tools	Common Stock	427	384
NuGEN Technologies, Inc.	Biotechnology Tools	Preferred Stock	500	473
Total Equity Biotechnology Tools (0.20%)*			927	857
Transmedics, Inc.[4]	Surgical Devices	Preferred Stock	1,400	
Total Equity Surgical Devices (0.00%)*			1,400	
Everyday Health, Inc. (pka Waterfront Media, Inc.)	Media/Content/ Info	Preferred Stock	1,000	1,196
Total Equity Media/Content/Info (0.28%)*			1,000	1,196
Total Equity (8.60%)			38,241	37,058
Total Investments (151.47%)			$ 656,540	$ 652,870

See notes to consolidated financial statements.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

December 31, 2011

(dollars in thousands)

* Value as a percent of net assets
(1) Preferred and common stock, warrants, and equity interests are generally non-income producing.
(2) Gross unrealized appreciation, gross unrealized depreciation, and net depreciation for federal income tax purposes totaled $34,519, $39,387 and $4,868 respectively. The tax cost of investments is $658,010.
(3) Except for warrants in thirteen publicly traded companies and common stock in five publicly traded companies, all investments are restricted at December 31, 2011 and were valued at fair value as determined in good faith by the Board of Directors. No unrestricted securities of the same issuer are outstanding. The Company uses the Standard Industrial Code for classifying the industry grouping of its portfolio companies.
(4) Debt investments of this portfolio company have been pledged as collateral under the Wells Facility.
(5) Non-U.S. company or the company s principal place of business is outside the United States.
(6) Affiliate investment that is defined under the Investment Company Act of 1940 as companies in which the Company owns at least 5% but not more than 25% of the voting securities of the company.
(7) Control investment that is defined under the Investment Company Act of 1940 as companies in which the Company owns at least 25% of the voting securities of the company, or has greater than 50% representation on its board.
(8) Debt is on non-accrual status at December 31, 2011, and is therefore considered non-income producing.

See notes to consolidated financial statements.

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Investment Income:				
Interest income				
Non Control/Non Affiliate investments	$ 20,934	$ 17,669	$ 40,989	$ 33,742
Affiliate investments	205	3	450	3
Control investments		394		777
Total interest income	21,139	18,066	41,439	34,522
Fees				
Non Control/Non Affiliate investments	2,706	2,702	4,760	5,375
Control investments	13	52	26	74
Total fees	2,719	2,754	4,786	5,449
Total investment income	23,858	20,820	46,225	39,971
Operating expenses:				
Interest	4,507	3,161	8,403	5,394
Loan fees	731	678	1,808	1,612
General and administrative	1,864	2,331	3,681	4,536
Employee Compensation:				
Compensation and benefits	3,251	3,363	6,647	6,615
Stock-based compensation	1,195	927	2,002	1,649
Total employee compensation	4,446	4,290	8,649	8,264
Total operating expenses	11,548	10,460	22,541	19,806
Net investment income	12,310	10,360	23,684	20,165
Net realized gains (loss) on investments				
Non Control/Non Affiliate investments	8,263	659	11,140	5,029
Total net realized gain (loss) on investments	8,263	659	11,140	5,029
Net increase (decrease) in unrealized appreciation (depreciation) on investments				
Non Control/Non Affiliate investments	(21,295)	17,692	(19,761)	4,878
Affiliate investments	1,083	(2,334)	2,377	(3,372)
Control investments	(313)	(2,060)	(287)	(3,560)
Total net unrealized (depreciation) appreciation on investments	(20,525)	13,298	(17,671)	(2,054)

Total net realized and unrealized gain (loss)	(12,262)	13,957	(6,531)	2,975
Net increase (decrease) in net assets resulting from operations	$ 48	$ 24,317	$ 17,153	23,140
Net investment income before provision for income taxes and investment gains and losses per common share:				
Basic	$ 0.25	$ 0.24	$ 0.48	$ 0.46
Net increase in net assets resulting from operations per common share				
Basic	$	$ 0.56	$ 0.35	$ 0.53
Diluted	$	$ 0.56	$ 0.35	$ 0.53
Weighted average shares outstanding				
Basic	48,616	42,971	47,817	42,843
Diluted	48,687	43,313	47,948	43,211

See notes to consolidated financial statements (unaudited)

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

(unaudited)

(dollars and shares in thousands)

	Common Stock				Accumulated	Distributions		
	Shares	Par Value	Capital in excess of par value	Unrealized Appreciation on Investments	Realized Gains (Losses) on Investments	in Excess of Investment Income	Provision for Income Taxes on Investment Gains	Net Assets
Balance at December 31, 2010	43,444	$ 43	$ 477,549	$ (8,038)	$ (51,033)	$ (5,647)	$ (342)	$ 412,532
Net increase in net assets resulting from operations				(2,054)	5,029	20,165		23,140
Issuance of common stock	154		773					773
Issuance of common stock under restricted stock plan	269							
Issuance of common stock as stock dividend	61		668					668
Retired shares from net issuance	(79)		(877)					(877)
Issuance of the Convertible Senior Notes			5,190					5,190
Dividends declared						(19,204)		(19,204)
Stock-based compensation			1,679					1,679
Balance at June 30, 2011	43,849	$ 43	$ 484,982	$ (10,092)	$ (46,004)	$ (4,686)	$ (342)	$ 423,901
Balance at December 31, 2011	43,853	$ 44	$ 484,244	$ (3,431)	$ (43,042)	$ (6,432)	$ (342)	$ 431,041
Net increase in net assets resulting from operations				(17,671)	11,140	23,684		17,153
Issuance of common stock	490		2,674					2,674
Issuance of common stock under restricted stock plan	575	1	(1)					
Issuance of common stock as stock dividend	117		1,230					1,230
Retired shares from net issuance	(292)		(3,670)					(3,670)
Public Offering	5,000	5	47,649					47,654
Dividends declared						(23,340)		(23,340)
Stock-based compensation			2,039					2,039
Balance at June 30, 2012	49,743	$ 50	$ 534,165	$ (21,102)	$ (31,902)	$ (6,088)	$ (342)	$ 474,781

See notes to consolidated financial statements (unaudited)

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

(unaudited)

(dollars in thousands)

	Six Months Ended June 30,	
	2012	**2011**
Cash flows from operating activities:		
Net increase in net assets resulting from operations	$ 17,153	$ 23,140
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by (used in) operating activities:		
Purchase of investments	(177,725)	(189,798)
Principal payments received on investments	99,596	178,023
Conversion of investment assets to other current assets		51
Proceeds from sale of investments	18,257	17,916
Net unrealized appreciation (depreciation) on investments	17,671	2,054
Net realized (gain) loss on investments	(11,140)	(5,029)
Accretion of paid-in-kind principal	(584)	(1,413)
Accretion of loan discounts	(2,783)	(4,683)
Accretion of loan exit fees	(2,111)	582
Change in deferred loan origination revenue	269	(2,528)
Unearned fees related to unfunded commitments	(1,280)	
Accretion of loan discount on Convertible Senior Notes	541	226
Amortization of debt fees and issuance costs	1,374	
Depreciation	141	180
Stock-based compensation and amortization of restricted stock grants	2,040	1,680
Change in operating assets and liabilities:		
Interest and fees receivable	(1,292)	175
Prepaid expenses and other assets	(1,420)	90
Accounts payable	41	(826)
Accrued liabilities	(1,429)	488
Net cash provided by (used in) operating activities	(42,681)	20,328
Cash flows from investing activities:		
Purchases of capital equipment	(40)	(103)
Other long-term assets		67
Net cash used in investing activities	(40)	(36)
Cash flows from financing activities:		
Proceeds from issuance of common stock, net	46,658	(104)
Dividends paid	(22,110)	(18,536)
Issuance of 2019 Notes	43,000	
Borrowings of credit facilities	15,000	118,750
Repayments of credit facilities	(46,307)	(25,000)
Cash paid for debt issuance costs	(1,854)	(3,110)
Fees paid for credit facilities and debentures		(1,061)
Net cash provided by financing activities	34,387	70,939

Net decrease in cash	(8,334)	91,231
Cash and cash equivalents at beginning of period	64,474	107,014
Cash and cash equivalents at end of period	$ 56,140	$ 198,245

See notes to consolidated financial statements (unaudited)

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Description of Business and Unaudited Interim Consolidated Financial Statements Basis of Presentation

Hercules Technology Growth Capital, Inc. (the Company) is a specialty finance company that provides debt and equity growth capital to technology-related companies at various stages of development, from seed and emerging growth to expansion and established stages of development, which include select publicly listed companies and select lower middle market technology companies. The Company sources its investments through its principal office located in Silicon Valley, as well as through its additional offices in Boston, MA, Boulder, CO and McLean, VA. The Company was incorporated under the General Corporation Law of the State of Maryland in December 2003.

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

Hercules Technology II, L.P. (HT II), Hercules Technology III, LP (HT III), and Hercules Technology IV, L.P. (HT IV), are Delaware limited partnerships that were formed in January 2005, September 2009 and December 2010, respectively. HT II and HT III were licensed to operate as small business investment companies (SBICs), under the authority of the Small Business Administration (SBA), on September 27, 2006 and May 26, 2010, respectively. As SBICs, HT II and HT III are subject to a variety of regulations concerning, among other things, the size and nature of the companies in which they may invest and the structure of those investments. The Company also formed Hercules Technology SBIC Management, LLC, or HTM, a limited liability company in November 2003. HTM is a wholly owned subsidiary of the Company and serves as the limited partner and general partner of HT II and HT III (see Note 4).

HT II and HT III hold approximately $203.8 million and $185.1 million in assets, respectively, and accounted for approximately 19.1% and 17.3% of our total assets prior to consolidation at June 30, 2012.

The Company also established wholly owned subsidiaries, all of which are structured as Delaware corporations and limited liability companies, to hold portfolio companies organized as limited liability companies, or LLCs (or other forms of pass-through entities). The Company currently qualifies as a RIC for federal income tax purposes, which allows the Company to avoid paying corporate income taxes on any income or gains that the Company distributes to our stockholders. The purpose of establishing these entities is to satisfy the RIC tax requirement that at least 90% of the Company s gross income for income tax purposes is investment income.

The consolidated financial statements include the accounts of the Company and its subsidiaries. All inter-company accounts and transactions have been eliminated in consolidation. In accordance with Article 6 of Regulation S-X under the Securities Act of 1933 and the Securities and Exchange Act of 1934, the Company does not consolidate portfolio company investments. The accompanying consolidated interim financial statements are presented in conformity with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial information, and pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X under the Securities Act of 1933 and the Securities Exchange Act of 1934. Accordingly, certain disclosures accompanying annual consolidated financial statements prepared in accordance with U.S. GAAP are omitted. In the opinion of management, all adjustments consisting solely of normal recurring accruals considered necessary for the fair presentation of consolidated financial statements for the interim periods have been

included. The current period s results of operations are not necessarily indicative of results that ultimately may be achieved for the year. Therefore, the interim unaudited consolidated financial statements and notes should be read in conjunction with the audited consolidated financial statements and notes thereto for the period ended December 31, 2011. The year-end consolidated statement of assets and liabilities data was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. Financial statements prepared on a U.S. GAAP basis require management to make estimates and assumptions that affect the amounts and disclosures reported in the consolidated financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

2. Valuation of Investments

The Company s investments are carried at fair value in accordance with the 1940 Act and Accounting Standards Codification (ASC) topic 820 Fair Value Measurements and Disclosures (formerly known as SFAS No. 157, Fair Value Measurements). At June 30, 2012, 90.1% of the Company s total assets represented investments in portfolio companies that are valued at fair value by the Board of Directors. Value, as defined in Section 2(a)(41) of the 1940 Act, is (i) the market price for those securities for which a market quotation is readily available and (ii) for all other securities and assets, fair value is as determined in good faith by the Board of Directors. The Company s debt securities are primarily invested in equity sponsored technology-related companies including life science, clean technology and select lower middle market technology companies. Given the nature of lending to these types of businesses, the Company s investments in these portfolio companies are considered Level 3 assets under ASC 820 because there is no known or accessible market or market indexes for these investment securities to be traded or exchanged. As such, the Company values substantially all of its investments at fair value as determined in good faith pursuant to a consistent valuation policy and the Company s Board of Directors in accordance with the provisions of ASC 820 and the 1940 Act. Due to the inherent uncertainty in determining the fair value of investments that do not have a readily available market value, the fair value of the Company s investments determined in good faith by its Board 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.

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

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

(1) the Company s quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals responsible for the portfolio investment;

(2) preliminary valuation conclusions are then documented and business based assumptions are discussed with the Company s investment committee;

(3) the valuation committee of the Board of Directors reviews the preliminary valuation of the investment committee which incorporates the results of the independent valuation firm as appropriate;

(4) the Board of Directors 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 valuation committee.

The Company adopted ASC 820 on January 1, 2008. ASC 820 establishes a framework for measuring the fair value of the assets and liabilities and outlines a fair value hierarchy which prioritizes the inputs used to measure fair value and the effect of fair value measures on earnings. ASC 820 also enhances disclosure requirements for fair value measurements based on the level within the hierarchy of the information used in the valuation. ASC 820 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

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

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

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In accordance with ASU 2011-04, the following table provides quantitative information about the Company s Level 3 fair value measurements of the Company s investments as of June 30, 2012. In addition to the techniques and inputs noted in the table below, according to the Company s valuation policy the Company may also use other valuation techniques and methodologies when determining the Company s fair value measurements. The below table is not intended to be all-inclusive, but rather provides information on the significant Level 3 inputs as they relate to the Company s fair value measurements.

Quantitative Information about Level 3 Fair Value Measurements of Debt Investments

Investment Type - Level Three Debt Investments	Fair Value at June 30, 2012 *(in thousands)*	Valuation Techniques/ Methodologies	Unobservable Input[(a)]	Range
Pharmaceuticals - Debt	$ 218,877	Market Comparable Companies	Hypothetical Market Yield Premium/(Discount)	14.9% - 19.6% (2.0%) - 3.0%
		Option Pricing Model[(b)]	Average Industry Volatility[(c)]	61.54%
			Risk Free Interest Rate Estimated Time to Exit (in months)	0.27% 21.3
Medical Devices - Debt	40,984	Market Comparable Companies	Hypothetical Market Yield Premium	14.1% 0.0% - 1.3%
Technology - Debt	133,737	Market Comparable Companies	Hypothetical Market Yield Premium/(Discount)	14.5% - 17.3% (1.5%) - 1.5%
Clean Tech - Debt	80,830	Market Comparable Companies	Hypothetical Market Yield Premium	15.4% - 19.7% 0.0% - 1.0%
Lower Middle Market - Debt	172,640	Market Comparable Companies	Hypothetical Market Yield Premium	10.7% - 16.9% 0.0% - 5.0%
		Broker Quote[(d)]	Price Quotes	93.5% - 99% of par
		Liquidation	Investment Collateral Other Costs	$50 - $293 $63 - $99
Total Level Three Debt Investments	$ 647,068			

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

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

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

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

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

Clean Tech, above, aligns with the Clean Tech industry in the Schedule of Investments.

(b) An option pricing model valuation technique was used to derive the value of the conversion feature of convertible notes.
(c) Represents the range of industry volatility used by market participants when pricing the investment.
(d) A broker quote valuation technique was used to derive the fair value of loans which are part of a syndicated facility.

Quantitative Information about Level 3 Fair Value Measurements of Warrants and Equity Investments

Investment Type -	Fair Value at June 30, 2012 *(in thousands)*	Valuation Techniques/ Methodologies	Unobservable Input[(a)]	Range
Level Three Warrant and Equity Investments	$ 52,832	Market Comparable Companies	EBITDA Multiple[(b)]	3.6x - 31.3x
			Revenue Multiple[(b)]	0.58x - 2.97x
			Discount for Lack of Marketability[(c)]	11.5% - 25.0%
Warrant positions additionally subject to:		Option Pricing Model	Average Industry Volatility[(d)]	49.81% - 61.54%
			Risk-Free Interest Rate	0.19% - 0.56%
			Estimated Time to Exit (in months)	12 - 48
Total Level Three Warrant and Equity Investments	$ 52,832			

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

Debt Investments

The Company s debt securities are primarily invested in equity sponsored technology-related companies including life science, clean technology and select lower middle market technology companies. Given the nature of lending to these types of businesses, the Company s investments in these portfolio companies are considered Level 3 assets under ASC 820 because there is no known or accessible market or market indexes for these investment securities to be traded or exchanged.

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

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

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

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

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

Investments measured at fair value on a recurring basis are categorized in the tables below based upon the lowest level of significant input to the valuations as of June 30, 2012 (unaudited) and as of December 31, 2011. We transfer investments in and out of Level 1, 2 and 3 securities as of the beginning balance sheet date, based on changes in the use of observable and unobservable inputs utilized to perform the valuation for the period. During the six month period ended June 30, 2012, there were no transfers in between Levels 1 or 2.

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(in thousands) Description	6/30/2012	Investments at Fair Value as of June 30, 2012 Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Senior secured debt	$ 647,068	$	$	$ 647,068
Preferred stock	29,507			29,507
Common stock	18,122	7,709	9,145	1,268
Warrants	28,116		6,059	22,057
	$ 722,813	$ 7,709	$ 15,204	$ 699,900

(in thousands) Description	12/31/2011	Investments at Fair Value as of December 31, 2011 Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Senior secured debt	$ 585,767	$	$	$ 585,767
Preferred stock	30,289			30,289
Common stock	6,769	6,679		90
Warrants	30,045		3,761	26,284
	$ 652,870	$ 6,679	$ 3,761	$ 642,430

The table below presents reconciliation for all financial assets and liabilities measured at fair value on a recurring basis, excluding accrued interest components, using significant unobservable inputs (Level 3) for the six months ended June 30, 2012 (unaudited) and for the year ended December 31, 2011.

(in thousands)	Balance, January 1, 2012	Net Realized Gains (losses)[1]	Net change in unrealized appreciation or (depreciation)[2]	Purchases	Sales	Repayments	Exit	Gross Transfers into Level 3[3]	Gross Transfers out of Level 3[3]	Balances, June 30, 2012
Senior Debt	$ 585,767	$	$ (10,715)	$ 171,968	$	$ (99,596)	$	$	$ (356)	$ 647,068
Preferred Stock	30,289	3,870	(2,328)	7,111	(5,647)			356	(4,144)	29,507
Common Stock	90		5,073	9,558					(13,453)	1,268
Warrants	26,284	3,923	(2,822)	2,899	(4,916)				(3,311)	22,057
Total	$ 642,430	$ 7,793	$ (10,792)	$ 191,536	$ (10,563)	$ (99,596)	$	$ 356	$ (21,264)	$ 699,900

(in thousands)	Balance, January 1, 2011	Net Realized Gains (losses)[1]	Net change in unrealized appreciation or (depreciation)[2]	Purchases	Sales	Repayments	Exit	Gross Transfers into Level 3	Gross Transfers out of Level 3	Balances, December 31, 2011
Senior secured debt	$ 394,198	$ (4,301)	$ 9,050	$ 454,640	$	$ (263,432)	$	$	$ (4,388)	$ 585,767
Subordinated debt	7,420					(7,420)				
Preferred stock	24,607	(1,441)	838	1,860				4,425		30,289
Common stock	1,030		(940)							90
Warrants	17,401	(1,054)	5,243	6,507	(497)		(51)		(1,265)	26,284

Total	$ 444,656	$ (6,796)	$ 14,191	$ 463,007	$ (497)	$ (270,852)	$ (51)	$ 4,425	$ (5,653)	$ 642,430

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

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

(3) Transfers in to Level 3 relate to the conversion of E-Band Communications, Inc. debt to equity. Transfers out of Level 3 relate to the respective initial public offerings of Annie s, Inc., Cempra, Inc., Enphase Energy, Inc. Merrimack Pharmaceuticals, Inc. and WageWorks, Inc. to level 1 and of Facebook, Inc. to level 2.

For the six months ended June 30, 2012, approximately $1.6 million in unrealized appreciation and approximately $861,000 in unrealized depreciation was recorded for equity and warrant Level 3 investments, respectively, relating to assets still held at the reporting date. For the same period, approximately $10.7 million in unrealized depreciation was recorded for Level 3 debt investments relating to assets still held at the reporting date.

For the year ended December 31, 2011, approximately $9.1 million and $3.8 million in unrealized appreciation was recorded for debt and warrant Level 3 investments, respectively, relating to assets still held at the reporting date. For the same period, approximately $480,000 in unrealized depreciation was recorded for equity Level 3 investments relating to assets still held at the reporting date.

As required by the 1940 Act, the Company classifies its investments by level of control. Control investments are defined in the 1940 Act as investments in those companies that the Company is deemed to control . Generally, under the 1940 Act, the Company is deemed to control a company in which it has invested if it owns 25% or more of the voting securities of such company or has greater than 50% representation on its board. Affiliate investments are investments in those companies that are affiliated companies of the Company, as defined in the 1940 Act, which are not control investments. The Company is deemed to be an affiliate of a company in which it has invested if it owns 5% or more but less than 25% of the voting securities of such company. Non-control/non-affiliate investments are investments that are neither control investments nor affiliate investments.

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The following table summarizes our realized and unrealized gain and loss and changes in our unrealized appreciation and depreciation on control and affiliate investments for the three and six months ended June 30, 2012 and June 30, 2011:

(in thousands) Portfolio Company	Type	Three months ended June 30, 2012 Fair Value at June 30, 2012	Investment Income	Unrealized (Depreciation)/ Appreciation	Reversal of Unrealized (Depreciation)/ Appreciation	Realized Gain/ (Loss)	Six months ended June 30, 2012 Investment Income	Unrealized (Depreciation)/ Appreciation	Reversal of Unrealized (Depreciation)/ Appreciation	Realized Gain/ (Loss)
MaxVision Holding, LLC.	Control	$ 169	$ 13	$ (313)	$	$	$ 26	$ (287)	$	$
E-Band Communications, Corp.	Non-Controlled Affiliate	1,504		411			5	1,486		
Gelesis	Non-Controlled Affiliate	5,693	205	672			445	891		
Total		$ 7,366	$ 218	$ 770	$	$	$ 476	$ 2,090	$	$

(in thousands) Portfolio Company	Type	Three months ended June 30, 2011 Fair Value at June 30, 2011	Investment Income	Unrealized (Depreciation)/ Appreciation	Reversal of Unrealized (Depreciation)/ Appreciation	Realized Gain/ (Loss)	Six months ended June 30, 2011 Investment Income	Unrealized (Depreciation)/ Appreciation	Reversal of Unrealized (Depreciation)/ Appreciation	Realized Gain/ (Loss)
MaxVision Holding, LLC.	Control	$ 3,037	$ 446	$ (2,060)	$	$	$ 852	$ (3,560)	$	$
E-Band Communications, Corp.	Non-Controlled Affiliate	53	3	(2,334)			3	(3,372)		
Total		$ 3,090	$ 449	$ (4,394)	$	$	$ 855	$ (6,932)	$	$

A summary of the composition of the Company s investment portfolio as of June 30, 2012 (unaudited) and December 31, 2011 at fair value is shown as follows:

	June 30, 2012		December 31, 2011	
(in thousands)	**Investments at Fair Value**	**Percentage of Total Portfolio**	**Investments at Fair Value**	**Percentage of Total Portfolio**
Senior secured debt with warrants	$ 570,551	78.9%	$ 482,268	73.9%
Senior secured debt	104,633	14.5%	133,544	20.4%
Preferred stock	29,507	4.1%	30,181	4.6%
Common Stock	18,122	2.5%	6,877	1.1%
	$ 722,813	100.0%	$ 652,870	100.0%

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A summary of the Company s investment portfolio, at value, by geographic location as of June 30, 2012 (unaudited) and as of December 31, 2011 is shown as follows:

	June 30, 2012		December 31, 2011	
(in thousands)	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
United States	$ 711,181	98.4%	$ 634,736	97.2%
England	6,819	0.9%	8,266	1.3%
Iceland	4,708	0.7%	4,970	0.7%
Ireland	105	0.0%	3,842	0.6%
Canada		0.0%	672	0.1%
Israel		0.0%	384	0.1%
	$ 722,813	100.0%	$ 652,870	100.0%

The following table shows the fair value the Company s portfolio by industry sector at June 30, 2012 (unaudited) and December 31, 2011:

	June 30, 2012		December 31, 2011	
(in thousands)	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
Drug Discovery & Development	$ 136,872	18.9%	$ 131,428	20.1%
Software	87,953	12.2%	27,850	4.3%
Clean Tech	83,807	11.6%	64,587	9.9%
Drug Delivery	70,186	9.7%	62,665	9.6%
Internet Consumer & Business Services	68,521	9.5%	117,542	18.0%
Media/Content/Info	47,750	6.6%	38,476	5.9%
Communications & Networking	41,271	5.7%	28,618	4.4%
Healthcare Services, Other	38,484	5.3%		0.0%
Information Services	34,058	4.7%	45,850	7.0%
Therapeutic	19,236	2.7%	35,911	5.5%
Diagnostic	17,287	2.4%	15,158	2.3%
Medical Device & Equipment	13,292	1.9%		0.0%
Specialty Pharma	13,188	1.8%	39,384	6.0%
Consumer & Business Products	13,175	1.8%	4,186	0.6%
Surgical Devices	12,285	1.7%	11,566	1.8%
Biotechnology Tools	12,228	1.7%	18,693	2.9%
Semiconductors	8,017	1.1%	9,733	1.5%
Electronics & Computer Hardware	5,203	0.7%	1,223	0.2%
	$ 722,813	100.0%	$ 652,870	100.0%

During the three and six-month periods ended June 30, 2012, the Company funded investments in debt securities, totaling approximately $106.9 million and $169.8 million, respectively. During the three and six-month periods ended June 30, 2012, the Company funded equity investments of approximately $5.0 million and $7.1 million respectively. During the six-month period ended June 30, 2012, the Company converted approximately $356,000 of debt to equity in one portfolio company. In addition, in December 2011, Hercules entered into an agreement to acquire shares of Facebook, Inc. common stock for approximately $9.6 million through a secondary marketplace. The investments were subject to a Facebook, Inc. right of first refusal, which expired thirty days after the date of investment. At December 31, 2011 these assets were held as Other Assets. In February 2012, Hercules was notified that Facebook Inc. had not exercised its repurchase right with respect to any of the shares and had executed all documents necessary to fully transfer the ownership of the shares to Hercules. Accordingly, during the six-month period ended June 30, 2012, the investment in Facebook, Inc. was transferred from Other Assets to Investments.

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During the three and six-month periods ended June 30, 2011 the Company made investments in debt securities, totaling approximately $105.2 million and $189.3 million, respectively. The Company funded equity investments of approximately $500,000 in the three month period and approximately $500,000 in the six-month period ended June 30, 2011.

During the three and six-months ended June 30, 2012, the Company recognized net realized gains of approximately $8.3 million and $11.1 million on the portfolio, respectively. During the quarter ended June 30, 2012, we recorded approximately $5.3 million, $2.4 million and $862,000 of realized gains from the sale of equity and warrant investments in NEXX Systems, Inc., Annie s, Inc. and Bullhorn, Inc., respectively. These gains were partially offset by realized losses due to the expiration of warrants in three private portfolio companies that had a total cost basis of approximately $222,000.

During the three and six-months ended June 30, 2011 the Company recognized total net realized gains of approximately $497,000 for the sale of equity in Aegerion Pharmaceuticals, Inc. and $10.1 million from the sale of common stock in its public portfolio companies and realized gains of approximately $162,000 and realized losses of approximately $5.1 million from equity, loan, and warrant investments in portfolio companies that have been liquidated.

Loan origination and commitment fees received in full at the inception of a loan are deferred and amortized into fee income as an enhancement to the related loan s yield over the contractual life of the loan. Loan exit fees to be paid at the termination of the loan are accreted into interest income over the contractual life of the loan. The Company had approximately $2.9 million and $4.5 million of unamortized fees at June 30, 2012 and December 31, 2011, respectively, and approximately $4.8 million and $4.4 million in exit fees receivable at June 30, 2012 and December 31, 2011, respectively.

The Company has loans in its portfolio that contain a payment-in-kind (PIK) provision. The PIK interest, computed at the contractual rate specified in each loan agreement, is added to the principal balance of the loan and recorded as interest income. To maintain the Company s status as a RIC, this non-cash source of income must be paid out to stockholders in the form of dividends even though the Company has not yet collected the cash. Amounts necessary to pay these dividends may come from available cash or the liquidation of certain investments. The Company recorded approximately $271,000 and $569,000 in PIK income in the three and six-month periods ended June 30, 2012. The Company recorded approximately $524,000 and $1.1 million in PIK income in the same periods ended June 30, 2011, respectively.

In certain investment transactions, the Company may provide advisory services. For services that are separately identifiable and external evidence exists to substantiate fair value, income is recognized as earned, which is generally when the investment transaction closes. The Company had no income from advisory services in the three and six-month periods ended June 30, 2012.

In some cases, the Company collateralizes its investments by obtaining a first priority security interest in a portfolio company s assets, which may include their intellectual property. In other cases, the Company may obtain a negative pledge covering a company s intellectual property. At June 30, 2012, approximately 63.1% of the Company s portfolio company loans were secured by a first priority security in all of the assets of the portfolio company (including their intellectual property), 33.8% of portfolio company loans were to portfolio companies that were prohibited from pledging or encumbering their intellectual property, 2.3% of portfolio company loans had a first priority security in only their intellectual property, and 0.8% of portfolio company loans had an equipment only lien.

3. Fair Value of Financial Instruments

Fair value estimates are made at discrete points in time based on relevant information. These estimates may be subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be

determined with precision. The Company believes that the carrying amounts of its financial instruments, consisting of cash and cash equivalents, receivables, accounts payable and accrued liabilities approximate the fair values of such items due to the short maturity of such instruments. The Convertible Senior Notes, 2019 Notes and the SBA debentures as sources of liquidity remain a strategic advantage due to their flexible structure, long-term duration, and low fixed interest rates. At June 30, 2012, the 2019 Notes were trading on the New York Stock Exchange for $1.014 per dollar at par value. Based on market quotations on or around June 30, 2012, the Convertible Senior Notes were trading for $1.0375 per dollar at par value. Calculated based on the net present value of payments over the term of the notes using estimated market rates for similar notes and remaining terms, the fair value of the SBA debentures would be approximately $216.0 million, compared to the carrying amount of $200.7 million as of June 30, 2012.

The liabilities of the Company below are recorded at amortized cost and not at fair value on the balance sheet. The following table provides additional information about the level in the fair value hierarchy of our liabilities:

(in thousands) Description	6/30/2012	Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Wells Fargo Loan	$ 3,130	$	$	$ 3,130
2019 Notes	$ 43,602	$	$ 43,602	$
Convertible Senior Notes	$ 77,813	$	$ 77,813	$
SBA Debentures	$ 216,000	$	$	$ 216,000

See the accompanying Consolidated Schedule of Investments for the fair value of the Company s investments. The methodology for the determination of the fair value of the Company s investments is discussed in Note 1.

4. Borrowings

Long-term SBA Debentures

On September 27, 2006, HT II received a license to operate as a SBIC under the SBIC program and is able to borrow funds from the SBA against eligible investments and regulatory capital. Under the Small Business Investment Company Act and current SBA policy applicable to SBICs, a SBIC can have outstanding at any time SBA guaranteed debentures up to twice the amount of its regulatory capital. The Company s net investment of $75.0 million in HT II as of June 30, 2012 fully funds the required regulatory capital for HT II. HT II has a total of $100.7 million of SBA guaranteed debentures outstanding as of June 30, 2012 and has paid the SBA commitment fees of approximately $1.5 million. As of June 30, 2012, the Company held investments in HT II in 52 companies with a fair value of approximately $179.7 million, accounting for approximately 24.9% of the Company s total portfolio.

On May 26, 2010, HT III received a license to operate as a SBIC under the SBIC program and is able to borrow funds from the SBA against eligible investments and additional contributions to regulatory capital. With the Company s net investment of $62.3 million in HT III as of June 30, 2012, HT III has the capacity to issue a total of $124.3 million of SBA guaranteed debentures, subject to SBA approval, of which $100.0 million was outstanding as of June 30, 2012. As of June 30, 2012, HT III has paid commitment fees of approximately $1.2 million. As of June 30, 2012, the Company held investments in HT III in 27 companies with a fair value of approximately $140.3 million, accounting for approximately 19.4% of the Company s total portfolio.

There is no assurance that HT II or HT III will be able to draw to the maximum limit available under the SBIC program.

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 $18.0

million and have average annual fully taxed net income not exceeding $6.0 million for the two most recent fiscal years. In addition, SBICs must devote 25.0% of its investment activity to smaller concerns as defined by the SBA.

A smaller concern is one that has a tangible net worth not exceeding $6.0 million and has average annual fully taxed net income not exceeding $2.0 million for the two most recent fiscal years. SBA regulations also provide alternative size standard criteria to determine eligibility, which depend on the industry in which the business is engaged and are based on such factors as the number of employees and gross sales. According to SBA regulations, SBICs may make long-term loans to small businesses, invest in the equity securities of such businesses and provide them with consulting and advisory services. Through its wholly-owned subsidiaries HT II and HT III, the Company plans to provide long-term loans to qualifying small businesses, and in connection therewith, make equity investments.

HT II and HT III are periodically examined and audited by the SBA s staff to determine their compliance with SBA regulations. If HT II or HT III fails to comply with applicable SBA regulations, the SBA could, depending on the severity of the violation, limit or prohibit HT II s or HT III s use of debentures, declare outstanding debentures immediately due and payable, and/or limit HT II or HT III from making new investments. In addition, HT II or HT III may also be limited in their ability to make distributions to the Company if they do not have sufficient capital in accordance with SBA regulations. Such actions by the SBA would, in turn, negatively affect the Company because HT II and III are the Company s wholly owned subsidiaries. HT II and HT III were in compliance with the terms of the SBIC s leverage as of June 30, 2012 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 April 2007 are set semiannually in March and September and range from 2.77% to 5.73%. Interest payments on SBA debentures are payable semi-annually. 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 April 2007, the initial maturity of SBA debentures will occur in April 2017. 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 related to HT III debentures that pooled on March 21, 2012 were 0.285% and 0.515% depending upon the year in which the underlying commitment was closed. The annual fees on other debentures have been set at 0.906%. The average amount of debentures outstanding for the quarter ended June 30, 2012 for HT II was approximately $100.7 million with an average interest rate of approximately 6.3%. The average amount of debentures outstanding for the quarter ended June 30, 2012 for HT III was approximately $100.0 million with an average interest rate of approximately 3.6%.

HT II and HT III hold approximately $203.8 million and $185.1 million in assets, respectively, and accounted for approximately 19.1% and 17.3% of the Company s total assets prior to consolidation at June 30, 2012.

In January 2011, the Company repaid $25.0 million of SBA debentures under HT II, priced at approximately 6.63%, including annual fees. In April 2011, the SBA approved a $25.0 million dollar commitment for HT III bringing the total available borrowings to $225.0 million, of which $125.0 million was available in HT II and $100.0 million was available in HT III.

In February 2012, the Company repaid $24.3 million of SBA debentures under HT II, priced at 6.63%, including annual fees. In June 2012, the SBA approved a $24.3 million dollar commitment for HT III bringing the total available borrowings to $225.0 million, of which $100.7 million was available in HT II and $124.3 million was available in HT III.

As of June 30, 2012, the maximum statutory limit on the dollar amount of outstanding SBA guaranteed debentures issued by a single SBIC is $150.0 million, subject to periodic adjustments by the SBA, and a

maximum amount of $225.0 million for funds under common control, subject to periodic adjustments by the SBA. In the aggregate, at June 30, 2012 there was $200.7 million principal amount of indebtedness outstanding incurred by our SBIC subsidiaries, and in June 2012 the SBA approved an additional $24.3 million under HT III, bringing us to the maximum statutory limit on the dollar amount of SBA guaranteed debentures under the SBIC program.

The Company reported the following SBA debentures outstanding on its Consolidated Statement of Assets and Liabilities as of June 30, 2012 (unaudited) and December 31, 2011:

(in thousands)

Issuance/Pooling Date	Maturity Date	Interest Rate[(1)]	June 30, 2012	December 31, 2011
SBA Debentures:				
September 26, 2007	September 1, 2017	6.43%	$ 12,000	$ 12,000
March 26, 2008	March 1, 2018	6.38%	47,550	58,050
September 24, 2008	September 1, 2018	6.63%		13,750
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	3.05%	11,250	11,250
March 21, 2012	March 1, 2022	3.28%	25,000	25,000
Total SBA Debentures			**$ 200,750**	**$ 225,000**

(1) Interest rate includes annual charge

Wells Facility

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

Borrowings under the Wells Facility will generally bear interest at a rate per annum equal to LIBOR plus 3.50%, with a floor of 5.00% and an advance rate of 50% against eligible loans. The Wells Facility is secured by loans in the borrowing base. The Wells Facility requires the monthly payment of a non-use fee of 0.3% for each payment date on or before September 1, 2011. The monthly payment of a non-use fee thereafter shall depend on the average balance that was outstanding on a scale between 0.0% and 0.75%. For the three-month period ended June 30, 2012, this non-use fee was approximately $140,000. On June 20, 2011 we paid an additional $1.1 million in structuring fees in connection with the Wells Facility which is being amortized through June 2014. At June 30, 2012, there was approximately $3.1 million outstanding under the Wells Facility.

The Wells Facility includes various financial and operating covenants applicable to us and our subsidiaries, in addition to those applicable to Hercules Funding II, LLC. These covenants require us to maintain certain financial ratios and a minimum tangible net worth in an amount, when added to outstanding subordinated indebtedness, that is in excess of $314.0 million plus 90% of the cumulative amount of equity raised after March 31, 2011. In addition, the tangible net worth covenant will increase by 90 cents on the dollar for every dollar of equity capital subsequently raised by the Company. As of June 30, 2012, the minimum tangible net

worth covenant has increased to $357.2 million as a result of the January 2012 follow-on public offering of 5.0 million shares of common stock for proceeds of approximately $48.05 million. The Wells Facility provides for customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, bankruptcy events and change of control. We were in compliance with all covenants at June 30, 2012.

Union Bank Facility

On February 10, 2010, the Company entered a $20.0 million one-year revolving senior secured credit facility with Union Bank (the Union Bank Facility). On November 2, 2011, the Company renewed and amended the Union Bank Facility and added a new lender under the Union Bank Facility. Union Bank and RBC Capital Markets have made commitments of $30.0 million and $25.0 million, respectively. The Union Bank Facility contains an accordion feature, in which we can increase the credit line up to an aggregate of $150.0 million, funded by additional lenders and with the agreement of Union Bank and subject to other customary conditions. We expect to continue discussions with various other potential lenders to join the new facility; however, there can be no assurances that additional lenders will join the Union Bank Facility.

Borrowings under the Union Bank Facility will generally bear interest at a rate per annum equal to LIBOR plus 2.25% with a floor of 4.0%. At June 30, 2012, there were no borrowings outstanding on this facility. The Union Bank Facility requires the payment of a non-use fee of 0.50% annually. For the three-month period ended June 30, 2012, this non-use fee was approximately $70,000. The Union Bank Facility is collateralized by debt investments in our portfolio companies, and includes an advance rate equal to 50.0% of eligible loans placed in the collateral pool. The Union Bank Facility generally requires payment of interest on a monthly basis. All outstanding principal is due upon maturity.

The Union Bank Facility requires various financial and operating covenants. These covenants require us to maintain certain financial ratios and a minimum tangible net worth in an amount, when added to outstanding subordinated indebtedness, that is in excess of $314.0 million plus 90% of the amount of net cash proceeds received from the sale of common stock after March 31, 2011. As of June 30, 2012, the minimum tangible net worth covenant has increased to $356.5 million as a result of the January 2012 follow-on public offering of 5.0 million shares of common stock for net proceeds of approximately $47.2 million. The Union Bank Facility will mature on November 2, 2014, approximately three years from the date of issuance, revolving through the first 24 months with a term out provision for the remaining 12 months. Union Bank Facility also provides for customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, bankruptcy events and change of control. On March 30, 2012 the Company entered into an amendment to the Union Bank Facility which permitted the Company to issue additional senior notes relating to the offer and sale of the Company s 2019 Notes. We were in compliance with all covenants at June 30, 2012.

Citibank Credit Facility

The Company, through Hercules Funding Trust I, an affiliated statutory trust, had a securitized credit facility (the Citibank Credit Facility) with Citigroup Global Markets Realty Corp. which expired under normal terms. During the first quarter of 2009, the Company paid off all principal and interest owed under the Citibank Credit Facility. Citigroup has an equity participation right through a warrant participation agreement on the pool of loans and warrants collateralized under the Citibank Credit Facility. Pursuant to the warrant participation agreement, the Company granted to Citigroup a 10% participation in all warrants held as collateral. However, no additional warrants were included in collateral subsequent to the facility amendment on May 2, 2007. As a result, Citigroup is entitled to 10% of the realized gains on the warrants until the realized gains paid to Citigroup pursuant to the agreement equal $3,750,000 (the Maximum Participation Limit). The obligations under the warrant participation agreement continue even after the Citibank Credit Facility was terminated until the Maximum Participation Limit has been reached. The value of their participation right on unrealized gains in the related equity investments was approximately $606,000 as of June 30, 2012 and is included in accrued liabilities. There can be no assurances that the unrealized appreciation of the warrants will not be higher or lower in future

periods due to fluctuations in the value of the warrants. Since inception of the agreement, the Company has paid Citigroup approximately $1.1 million under the warrant participation agreement thereby reducing its realized gains by this amount. The Company will continue to pay Citigroup under the warrant participation agreement until the Maximum Participation Limit is reached or the warrants expire. Warrants subject to the Citigroup participation agreement are set to expire between July 2012 and January 2017.

Convertible Senior Notes

In April 2011, the Company issued $75.0 million in aggregate principal amount of its 6.00% convertible senior notes (the Convertible Senior Notes) due 2016.

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

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

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

The Convertible Senior Notes are accounted for in accordance with ASC 470-20 (previously FASB Staff Position No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)). In accounting for the Convertible Senior Notes, we estimated at the time of issuance that the values of the debt and the embedded conversion feature of the Convertible Senior Notes were approximately 92.8% and 7.2%, respectively. The original issue discount of 7.2% attributable to the conversion feature of the Convertible Senior Notes was recorded in capital in excess of par value in the accompanying consolidated statement of assets and liabilities. As a result, the Company records interest expense comprised of both stated interest expense as well as accretion of the original issue discount. Additionally, the issuance costs associated with the Convertible Senior Notes were allocated to the debt and equity components in proportion to the allocation of the proceeds and accounted for as debt issuance costs and equity issuance costs, respectively. At the time of issuance, the debt issuance costs and equity issuance costs were approximately $2.9 million and $224,000, respectively. At the time of issuance and as of June 30, 2012, the equity component, net of

issuance costs, as recorded in the capital in excess of par value in the balance sheet was approximately $5.2 million.

As of June 30, 2012, the components of the carrying value of the Convertible Senior Notes were as follows:

(in thousands)	As of June 30, 2012
Principal amount of debt	$ 75,000
Original issue discount, net of accretion	(4,106)
Carrying value of debt	$ 70,894

For the three month and six months ended June 30, 2012, the components of interest expense, fees and cash paid for interest expense for the Convertible Senior Notes were as follows:

(in thousands)	Three Months Ended June, 2012	Six Months Ended June, 2012
Stated interest expense	$ 1,125	$ 2,250
Accretion of original issue discount	271	541
Amortization of debt issuance cost	144	289
Total interest expense	$ 1,540	$ 3,080
Cash paid for interest expense	$ 2,250	$ 2,250

The estimated effective interest rate of the debt component of the Convertible Senior Notes, equal to the stated interest of 6.0% plus the accretion of the original issue discount, was approximately 8.2% for the three and six-months ended June 30, 2012. As of June 30, 2012, we are in compliance with the terms of the indentures governing the Convertible Senior Notes.

2019 Notes

On April 17, 2012, the Company and U.S. Bank, N.A. (the Trustee), entered into the First Supplemental Indenture (the First Supplemental Indenture) to the Indenture (the Indenture) between the Company and the Trustee, dated April 17, 2012, relating to the Company s issuance, offer and sale of $43.0 million aggregate principal amount of 7.00% senior notes due 2019 (the 2019 Notes). The sale of the Notes generated net proceeds, before expenses, of approximately $41.7 million.

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

The 2019 Notes will be the Company s direct unsecured obligations and will rank: (i) *pari passu* with our other outstanding and future senior unsecured indebtedness, including without limitation, the $75 million in aggregate principal amount of the Convertible Senior Notes; (ii) senior to any of our future indebtedness that expressly provides it is subordinated to the 2019 Notes; (iii) effectively subordinated to all our existing and future secured indebtedness (including indebtedness that is initially unsecured to which we subsequently grant security), to the extent of the value of the assets securing such indebtedness, including without limitation, borrowings under our credit facilities; (iv) structurally subordinated to all existing and future indebtedness and other obligations of any of our subsidiaries, including without limitation, the indebtedness of Hercules

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Technology II, L.P. and Hercules Technology III, L.P. and borrowings under our revolving senior secured credit facility with Wells Fargo Capital Finance.

The Indenture, as supplemented by the First Supplemental Indenture, contains certain covenants including covenants requiring the Company to comply with (regardless of whether it is subject to) the asset coverage requirements set forth in Section 18(a)(1)(A) as modified by Section 61(a)(1) of the Investment Company Act of 1940, as amended, 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 Investment Company Act of 1940, as amended, and to provide financial information to the holders of the 2019 Notes and the Trustee if the Company should no longer be subject to the reporting requirements under the Securities Exchange Act of 1934. These covenants are subject to important limitations and exceptions that are described in the Indenture, as supplemented by the First Supplemental Indenture. 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 2019 Notes in a series may declare such 2019 Notes immediately due and payable upon the occurrence of any event of default after expiration of any applicable grace period.

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

In July 2012, we re-opened our 2019 Notes and issued an additional amount of approximately $41.5 million in aggregate principal amount of 2019 Notes, which includes exercise of an over-allotment option, bringing the total amount of the 2019 Notes issued to approximately $84.5 million in aggregate principal amount. See Subsequent Events below.

For the three months and six months ended June 30, 2012, the components of interest expense and related fees and cash paid for interest expense for the 2019 Notes are as follows:

(in thousands)	Three Months Ended June 30, 2012	Six Months Ended June 30, 2012
Stated interest expense	$ 619	$ 619
Amortization of debt issuance cost	49	49
Total interest expense and fees	$ 668	$ 668
Cash paid for interest expense	$	$

At June 30, 2012 (unaudited) and December 31, 2011, the Company had the following borrowing capacity and outstanding borrowings:

	June 30, 2012		December 31, 2011	
(in thousands)	Total Available	Carrying Value[1]	Total Available	Carrying Value[1]
Union Bank Facility	$ 55,000	$	$ 55,000	$
Wells Facility	75,000	3,130	75,000	10,187
2019 Notes[2]	43,000	43,000		
Convertible Senior Notes[3]	75,000	70,894	75,000	70,353
SBA Debentures[4]	225,000	200,750	225,000	225,000
Total	$ 473,000	$ 317,774	$ 430,000	$ 305,540

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

(2) In July 2012, the Company re-opened its 2019 Notes and issued an additional approximate $41.5 million in aggregate principal amount, which includes exercise of an over-allotment option, bringing the total amount of 2019 Notes issued to approximately $84.5 million in aggregate principal amount.

(3) Represents the aggregate principal amount outstanding of the Convertible Senior Notes (as defined below) less the unaccreted discount initially recorded upon issuance of the Convertible Senior Notes. The total unaccreted discount for the Convertible Senior Notes was $4,106 at June 30, 2012.

(4) In February 2012, the Company repaid $24.3 million of SBA debentures under HT II, priced at approximately 6.63%, including annual fees. In June 2012, the SBA approved a $24.3 million dollar commitment for HT III bringing the total available borrowings to $225.0 million, of which $100.7 million was available in HT II and $124.3 million was available in HT III.

5. Income taxes

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

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

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

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

During the quarter ended June 30, 2012, the Company declared a distribution of $0.24 per share. The determination of the tax attributes of the Company s distributions is made annually as of the end of the Company s fiscal year based upon its taxable income for the full year and distributions paid for the full year. As a result, a determination made on a quarterly basis may not be representative of the actual tax attributes of the Company s distributions for a full year. If we had determined the tax attributes of our distributions year-to-date as of June 30, 2012, approximately 98% would be from ordinary income and spillover earnings from 2011, and 2% would be a return of capital. However there can be no certainty to shareholders that this determination is representative of what the tax attributes of its 2012 distributions to shareholders will actually be.

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

declaration and payment guidelines. To the extent the Company chooses to carry over taxable income into the next tax year, dividends declared and paid by 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.

Taxable income for the six month period ended June 30, 2012 was approximately $22.1 million or $0.47 per share. Taxable net realized gains for the same period were $15.3 million or approximately $0.32 per share. Taxable income for the six-month period ended June 30, 2011 was approximately $18.5 million or $0.43 per share. Taxable net realized gains for the same period were $8.8 million or approximately $0.21 per share.

6. Shareholders Equity

On January 20, 2012, the Company raised approximately $47.7 million, net of issuance costs, in a public offering of 5,000,000 shares of its common stock.

On July 25, 2012, the Company approved the extension of the stock repurchase plan under the same terms and conditions that allows the Company to repurchase up to $35.0 million of its common stock as previously approved and extended for an additional six month period set to expire on February 26, 2013. During the six month period ended June 30, 2012, the Company did not repurchase any common stock.

At June 30, 2012, the Company was authorized to issue 100,000,000 shares of common stock with a par value of $0.001. Each share of common stock entitles the holder to one vote.

The Company has issued stock options for common stock subject to future issuance, of which 2,637,654 and 4,231,444 were outstanding at June 30, 2012 and December 31, 2011, respectively.

7. Equity Incentive Plan

The Company and its stockholders have authorized and adopted the 2004 Equity Incentive Plan (the 2004 Plan) for purposes of attracting and retaining the services of its executive officers and key employees. Under the 2004 Plan, the Company is authorized to issue 7,000,000 shares of common stock. On June 1, 2011, stockholders approved an increase of 1,000,000 shares, authorizing the Company to issue 8,000,000 shares of common stock under the 2004 Plan. Unless terminated earlier by the Company s Board of Directors, the 2004 Plan will terminate on June 9, 2014, and no additional awards may be made under the 2004 Plan after that date.

The Company and its stockholders have authorized and adopted the 2006 Non-Employee Director Plan (the 2006 Plan and, together with the 2004 Plan, the Plans) for purposes of attracting and retaining the services of its Board of Directors. Under the 2006 Plan, the Company is authorized to issue 1,000,000 shares of common stock. Unless terminated earlier by the Company s Board of Directors, the 2006 Plan will terminate on May 29, 2016 and no additional awards may be made under the 2006 Plan after that date. The Company filed an exemptive relief request with the Securities and Exchange Commission (SEC) to allow options to be issued under the 2006 Plan which was approved on October 10, 2007.

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

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of all of the Company s outstanding warrants, options and rights issued to the Company s directors, officers and employees, together with any restricted stock issued pursuant to the Plans, would exceed 15% of the Company s outstanding voting securities, then the total amount of voting securities that would result from the exercise of all outstanding warrants, options and rights, together with any restricted stock issued pursuant to the Plans, at the time of issuance shall not exceed 20% of our outstanding voting securities.

In conjunction with the amendment and in accordance with the exemptive order, on June 21, 2007 the Company made an automatic grant of shares of restricted common stock to Messrs. Badavas, Chow and Woodward, the independent members of its Board of Directors, in the amounts of 1,667, 1,667 and 3,334 shares, respectively. In May 2008, the Company issued restricted shares to Messrs. Badavas and Chow in the amount of 5,000 shares each. In June 2009, the Company issued 5,000 restricted stock shares to Mr. Woodward. The shares were issued pursuant to the 2006 Plan and vest 33% on an annual basis from the date of grant and deferred compensation cost will be recognized ratably over the three year vesting period.

A summary of common stock options activity under the Company s 2006 and 2004 Plans for the six months ended June 30, 2012 and 2011 is as follows:

	Six Months Ended June 30,	
	2012 Common Stock Options	2011 Common Stock Options
Outstanding at Beginning of Period	4,231,444	4,729,849
Granted	38,000	499,700
Exercised	(490,095)	(154,015)
Cancelled	(1,141,695)	(334,558)
Outstanding at End of Period	2,637,654	4,740,976
Weighted-average exercise price	$ 11.92	$ 11.43

Options generally vest 33% one year after the date of grant and ratably over the succeeding 24 months. All options may be exercised for a period ending seven years after the date of grant. At June 30, 2012, options for approximately 2.2 million shares were exercisable at a weighted average exercise price of approximately $12.25 per share with a weighted average remaining contractual term of 2.38 years.

The Company determined that the fair value of options granted under the 2006 and 2004 Plans during the six-month periods ended June 30, 2012 and 2011 was approximately $67,000 and $930,000 respectively. During the three-month periods ended June 30, 2012 and 2011, approximately $116,000 and $187,000 of share-based cost due to stock option grants was expensed, respectively. During the six-month periods ended June 30, 2012 and 2011, approximately $220,000 and $354,000 of share-based cost due to stock option grants was expensed, respectively. As of June 30, 2012, there was approximately $603,000 of total unrecognized compensation costs related to stock options. These costs are expected to be recognized over a weighted average period of 1.9 years. The fair value of options granted is based upon a Black Scholes option pricing model using the assumptions in the following table for each of the six-month periods ended June 30, 2012 and 2011:

	Six Months Ended June 30,	
	2012	2011
Expected Volatility	46.39%	46.87%
Expected Dividends	10%	10%
Expected term (in years)	4.5	4.5
Risk-free rate	0.55% - 0.97%	1.19% - 2.15%

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The following table summarizes stock options outstanding and exercisable at June 30, 2012.

(Dollars in thousands, except exercise price)	Options outstanding				Options exercisable			
Range of exercise prices	Number of shares	Weighted average remaining contractual life	Aggregate intrinsic value	Weighted average exercise price	Number of shares	Weighted average remaining contractual life	Aggregate intrinsic value	Weighted average exercise price
$4.21 - $8.49	93,526	4.23	$ 602,640	$ 4.90	93,526	4.23	$ 602,640	$ 4.90
$8.67 - $13.40	1,847,878	3.44	725,157	$ 11.49	1,435,530	2.66	245,329	$ 11.87
$13.87 - $14.02	696,250	1.57		$ 14.02	696,250	1.57		$ 14.02
$4.21 - $14.02	2,637,654	2.97	$ 1,327,797	$ 11.92	2,225,306	2.38	$ 847,969	$ 12.25

During the six months ended June 30, 2012 and 2011, respectively, the Company granted approximately 677,000 and 306,600 shares of restricted stock pursuant to the Plans. Each restricted stock award granted in 2012 and 2011 is subject to lapse as to 25% of the award one year after the date of grant and ratably over the succeeding 36 months subject to a four year forfeiture schedule. The restricted stock awarded in 2008 vests 25% annually on the anniversary date of the award. Share based compensation cost will be recognized ratably over the four year vesting period. No restricted stock was granted pursuant to the 2004 Plan prior to 2008.

The Company determined that the fair value of restricted stock granted under the 2006 and 2004 Plans during the six-month periods ended June 30, 2012 and 2011, was approximately $7.3 million and $3.4 million, respectively. During the three-month periods ended June 30, 2012 and 2011, the Company expensed approximately $1.1 million and $756,000 of compensation expense related to restricted stock, respectively. During the six-month periods ended June 30, 2012 and 2011, the Company expensed approximately $1.8 million and $1.3 million of compensation expense related to restricted stock, respectively. As of June 30, 2012, there was approximately $10.5 million of total unrecognized compensation costs related to restricted stock. These costs are expected to be recognized over a weighted average period of 3.04 years.

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

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8. Earnings Per Share

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

(in thousands, except per share data)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Numerator				
Net increase in net assets resulting from operations	$ 48	$ 24,317	$ 17,153	$ 23,140
Less: Dividends declared-common and restricted shares	(11,928)	(9,646)	(23,340)	(19,205)
Undistributed earnings	(11,880)	14,671	(6,187)	3,935
Undistributed earnings-common shares	(11,880)	14,671	(6,187)	3,935
Add: Dividend declared-common shares	11,664	9,455	22,800	18,856
Numerator for basic and diluted change in net assets per common share	(216)	24,126	16,613	22,791
Denominator				
Basic weighted average common shares outstanding	48,616	42,971	47,817	42,843
Common shares issuable	71	342	131	368
Weighted average common shares outstanding assuming dilution	48,687	43,313	47,948	43,211
Change in net assets per common share				
Basic	$	$ 0.56	$ 0.35	$ 0.53
Diluted	$	$ 0.56	$ 0.35	$ 0.53

The calculation of change in net assets per common share assuming dilution, excludes all anti-dilutive shares. For the three and six-month periods ended June 30, 2012 and 2011, the number of anti-dilutive shares, as calculated based on the weighted average closing price of the Company s common stock for the periods, were approximately 2.6 million and 2.5 million shares, respectively.

9. Financial Highlights

Following is a schedule of financial highlights for the six months ended June 30, 2012 and 2011:

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

FINANCIAL HIGHLIGHTS

(unaudited)

(dollars in thousands, except per share amounts)

	Six Months Ended June 30,	
	2012	**2011**
Per share data:		
Net asset value at beginning of period	$ 9.83	$ 9.50
Net investment income	0.48	0.47
Net realized gain (loss) on investments	0.23	0.12
Net unrealized appreciation (depreciation) on investments	(0.37)	(0.05)
Total from investment operations	0.34	0.54
Net increase/(decrease) in net assets from capital share transactions	(0.20)	0.04
Distributions	(0.47)	(0.45)
Stock-based compensation expense included in investment income[(1)]	0.04	0.04
Net asset value at end of period	$ 9.54	$ 9.67
Ratios and supplemental data:		
Per share market value at end of period	$ 11.34	$ 10.52
Total return[(2)]	25.42%	5.77%
Shares outstanding at end of period	49,743	43,850
Weighted average number of common shares outstanding	47,817	42,843
Net assets at end of period	$ 474,781	$ 423,901
Ratio of operating expense to average net assets	9.44%	9.45%
Ratio of net investment income before provision for income tax expense and investment gains and losses to average net assets	9.92%	9.62%
Average debt outstanding	$ 302,084	$ 198,764
Weighted average debt per common share	$ 6.32	$ 4.64

(1) Stock option expense is a non-cash expense that has no effect on net asset value. Pursuant to ASC 718, net investment loss includes the expense associated with the granting of stock options which is offset by a corresponding increase in paid-in capital. The total return equals the change in the ending market value over the beginning of period price per share plus dividends paid per share during the period, divided by the beginning price.

(2) The total return equals the increase or decrease of ending market value over beginning market value, plus distributions, dividend by the beginning market value, assuming dividend reinvestment prices obtained under the Company s dividend reinvestment plan.

10. Commitments and Contingencies

In the normal course of business, the Company is party to financial instruments with off-balance sheet risk. These instruments consist primarily of unused commitments to extend credit, in the form of loans to the Company s portfolio companies. The balance of unfunded commitments to extend credit at June 30, 2012 totaled approximately $92.7 million. Approximately $32.6 million of these unfunded commitments are dependent upon the portfolio company reaching certain milestones before the Company s debt commitment becomes available. Since a portion of these

commitments may expire without being drawn, unfunded commitments do not

necessarily represent future cash requirements. In addition, the Company had approximately $48.0 million of non-binding term sheets outstanding to six new and existing companies at June 30, 2012. Non-binding outstanding term sheets are subject to completion of the Company s due diligence and final 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.

Certain premises are leased under agreements which expire at various dates through October 2018. Total rent expense amounted to approximately $288,000 and $573,000 during the three and six-month period ended June 30, 2012 respectively. There was approximately $277,000 and $553,000 recorded in the same periods ended June 30, 2011.

Future commitments under operating leases as of June 30, 2012 were as follows:

	Payments due by period (in thousands)				
Contractual Obligations[1][2]	**Total**	**Less than 1 year**	**1 - 3 years**	**3 - 5 years**	**After 5 years**
Borrowings[3] [4]	$ 317,774	$	$ 3,130	$ 70,894	$ 243,750
Operating Lease Obligations[5]	7,876	1,214	2,320	2,557	1,785
Total	$ 325,650	$ 1,214	$ 5,450	$ 73,451	$ 245,535

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

(2) The Company also has a warrant participation agreement with Citigroup. See Note 4.

(3) Includes $200,750 in borrowings under the SBA debentures, $3.1 million of outstanding borrowings under the Wells Facility, and $43.0 million in aggregate principal amount of the 2019 Notes issued in April 2012. In July 2012, the Company re-opened its 2019 Notes and issued an additional $41.5 million in aggregate principal amount of 2019 Notes, which includes exercise of an over-allotment option, bringing the total amount of 2019 Notes issued to approximately $84.5 million in aggregate principal amount. See Subsequent Events below.

(4) Except for the Convertible Senior Notes, all carrying values are the same as the principal amount outstanding. The aggregate principal amount outstanding of the Convertible Senior Notes less the unaccreted discount initially recorded upon issuance of the Convertible Senior Notes was $4,106 at June 30, 2012.

(5) Long-term facility leases.

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

11. Recent Accounting Pronouncements

In May 2011, the FASB issued *Accounting Standards Update No. 2011-04 Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, or ASU 2011-04. ASU 2011-04 clarifies the application of existing fair value measurement and disclosure requirements, changes the application of some requirements for measuring fair value and requires additional disclosure for fair value measurements. The highest and best use valuation premise is only applicable to non-financial assets. In addition, the disclosure requirements are expanded to include for fair value measurements categorized in Level 3 of the fair value hierarchy: (1) a quantitative disclosure of the unobservable inputs and assumptions used in the measurement; (2) a description of the valuation processes in place; and (3) a narrative description of the sensitivity of the fair value to changes in unobservable inputs and interrelationships between those inputs. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011, for public entities and as such the Company has adopted this ASU beginning with the quarter ended March 31, 2012.

The Company has increased the disclosures related to Level 3 fair value measurement, in addition to other required disclosures. There were no related impacts on our financial position or results of operations.

12. Subsequent Events

Liquidity and Capital Resources

7.00% Senior Notes Due 2019

On July 6, 2012 the Company re-opened its 2019 Notes and issued approximately $38.8 million in aggregate principal amount of the 2019 Notes pursuant to an underwriting agreement among the Company and Stifel, Nicolaus & Company, Incorporated, as representative of the several underwriters named therein, relating to the issuance, offer and sale of the additional 2019 Notes. The Company granted the underwriters an option to purchase up to an additional $5.8 million in aggregate principal amount of the 2019 Notes to cover overallotments, if any. Pursuant to this option, approximately $2.7 million in aggregate principal amount of the additional 2019 Notes were issued and sold on July 12, 2012. The sale of the additional 2019 Notes generated net proceeds to the Company, before expenses and excluding accrued interest, of approximately $40.2 million.

The 2019 Notes are a further issuance of, rank equally in right of payment with, and form a single series for all purposes under the Indenture (as defined below) including, without limitation, waivers, amendments, consents, redemptions and other offers to purchase and voting, with the $43.0 million aggregate principal amount of its 2019 Notes initially issued by the Company on April 17, 2012.

On April 17, 2012, the Company and U.S. Bank National Association, as Trustee (the Trustee) entered into the First Supplemental Indenture (the First Supplemental Indenture) to the Indenture (the Base Indenture, and together with the First Supplemental Indenture, the Indenture), between the Company and U.S. Bank National Association, as Trustee (the Trustee), dated March 6, 2012, relating to the issuance, offer and sale of the 2019 Notes. The additional 2019 Notes were offered under the same Indenture.

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

The 2019 Notes will be the Company s direct unsecured obligations and will rank: (i) *pari passu* with the Company s other outstanding and future senior unsecured indebtedness, including without limitation, the $75.0 million of Convertible Senior Notes; (ii) senior to any of the Company s future indebtedness that expressly provides it is subordinated to the 2019 Notes; (iii) effectively subordinated to all of the Company s 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 the Company s credit facilities; (iv) structurally subordinated to all existing and future indebtedness and other obligations of any of the Company s subsidiaries, including without limitation, the indebtedness of Hercules Technology II, L.P. and Hercules Technology III, L.P. and borrowings under the Company s revolving senior secured credit facility with Wells Fargo Capital Finance, LLC.

The Indenture, as supplemented by the First Supplemental Indenture, contains certain covenants including covenants requiring the Company to comply with (regardless of whether it is subject to) the asset coverage requirements set forth in Section 18(a)(1)(A) as modified by Section 61(a)(1) of the Investment Company Act of 1940, as amended, 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 Investment Company Act of 1940, as

amended, and to provide financial information to the holders of the 2019 Notes and the Trustee if the Company should no longer be subject to the reporting requirements under the Securities Exchange Act of 1934. These covenants are subject to important limitations and exceptions that are described in the Indenture, as supplemented by the First Supplemental Indenture. 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 2019 Notes in a series may declare such 2019 Notes immediately due and payable upon the occurrence of any event of default after expiration of any applicable grace period.

Wells Fargo Credit Facility

In August 2012 the Company amended its credit facility with Wells Fargo Capital Finance, LLC (WFCF) under which WFCF has committed $75.0 million in initial credit capacity under a $300.0 million accordion credit facility. The Company can increase the credit line up to an aggregate of $300.0 million, funded by additional lenders who may join the facility and with the agreement of WFCF and subject to other customary conditions. There can be no assurances that additional lenders will join the new credit facility.

The credit facility has an advance rate equal to 50% of eligible loans placed in the collateral pool. The credit facility generally requires payment of interest on a monthly basis. The Company paid an amendment fee of $375,000.

Borrowings under the credit facility will continue to be at an interest rate per annum equal to LIBOR plus 3.50%, consistent with prior facilities while the floor has been lowered from 5.00% to 4.25%, a 75 basis point reduction. Additionally, an amortization period of 12 months was added to pay down the principal balance as of the maturity date, the maturity date was extended by one year to August 2015, and the unused line fee was reduced. The amendment also increased the minimum tangible net worth when added to outstanding subordinated indebtedness from in excess of $314.0 million plus 90% of the cumulative amount of equity raised after March 31, 2011 to in excess of $362.0 million plus 90% of the cumulative amount of equity raised after June 30, 2012. The amendment is effective as of August 1, 2012.

The Company has various financial and operating covenants required by the credit facility. These covenants require the Company to maintain certain financial ratios and a minimum tangible net worth. The credit facility provides for customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, bankruptcy events and change of control.

Dividend Declaration

On July 30, 2012 the Board of Directors declared a cash dividend of $0.24 per share that will be payable on August 24, 2012 to shareholders of record as of August 17, 2012. This dividend represents the Company s twenty-eighth consecutive dividend declaration since its initial public offering, bringing the total cumulative dividend declared to date to $7.40 per share.

Renewal of Stock Repurchase Plan

On July 25, 2012, the Company approved the extension of the stock repurchase plan as previously approved under the same terms and conditions that allows the Company to repurchase up to $35.0 million of its common stock. Unless renewed, the stock repurchase plan will expire on February 26, 2013.

Portfolio Company Developments

In July 2012, the Company received payment of $2.0 million for its total debt investments in Maxvision Holding, L.L.C. As of June 30, 2012 the Company valued these debt investments, which had a total cost basis of approximately $7.1 million, at a fair value of approximately $169,000. These investments were accounted for on a non-accrual basis. In the third quarter of 2012, the Company will record a realized loss of approximately $5.1 million and a reversal of previously recorded unrealized depreciation of $6.9 million for the Maxvision debt investments.

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$200,000,000

Common Stock

Preferred Stock

Warrants

Subscription Rights

Debt Securities

This prospectus relates to the offer, from time to time, in one or more offerings or series, up to $200,000,000 of shares of our common stock, par value $0.001 per share, preferred stock, par value $0.001 per share, warrants representing rights to purchase shares of our common stock, preferred stock or debt securities, subscription rights or debt securities, which we refer to, collectively, as the securities. The preferred stock, debt securities, subscription rights and warrants offered hereby may be convertible or exchangeable into shares of our common stock. We may sell our securities through underwriters or dealers, at-the-market to or through a market maker into an existing trading market or otherwise directly to one or more purchasers, including existing stockholders in a rights offering, or through agents or through a combination of methods of sale. The identities of such underwriters, dealers, market makers or agents, as the case may be, will be described in one or more supplements to this prospectus. The securities may be offered at prices and on terms to be described in one or more supplements to this prospectus.

We may offer shares of common stock at a discount to net asset value per share in certain circumstances. On June 1, 2011, our common stockholders voted to allow us to issue common stock at a price below net asset value per share for a period of one year ending June 1, 2012. Sales of common stock at prices below net asset value per share dilute the interests of existing stockholders, have the effect of reducing our net asset value per share and may reduce our market price per share. In the event we offer common stock, the offering price per share will not be less than the net asset value per share of our common stock at the time we make the offering except (1) in connection with a rights offering to our existing stockholders, (2) with the consent of the holders of the majority of our voting securities and approval of our board of directors, or (3) under such circumstances as the Securities and Exchange Commission may permit. See Risk Factors for more information.

We are a specialty finance company that provides debt and equity growth capital to technology-related companies at various stages of development from seed and emerging growth to expansion and established stages of development, which include select publicly listed companies and lower middle market companies. We primarily finance privately-held companies backed by leading venture capital and private equity firms and also may finance certain publicly-traded companies that lack access to public capital or are sensitive to equity ownership dilution. We source our investments through our principal office located in Silicon Valley, as well as additional offices in Boston, MA, Boulder, CO and McLean, VA. Our goal is to be the leading structured debt financing provider of choice for venture capital and private equity backed technology-related companies requiring sophisticated and customized financing solutions. We invest primarily in structured debt with warrants and, to a lesser extent, in senior debt and equity investments.

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

Our common stock is traded on the Nasdaq Global Select Market under the symbol HTGC. On March 19, 2012, the last reported sale price of a share of our common stock on the Nasdaq Global Select Market was $10.79. The net asset value per share of our common stock at December 31, 2011 (the last date prior to the date of this prospectus on which we determined net asset value) was $9.83.

An investment in our securities may be speculative and involves risks including a heightened risk of total loss of investment. In addition, the companies in which we invest are subject to special risks. See Risk Factors beginning on page 16 to read about risks that you should consider before investing in our securities, including the risk of leverage.

Please read this prospectus before investing and keep it for future reference. It contains important information about us that a prospective investor ought to know before investing in our securities. We file annual, quarterly and current reports, proxy statements and other information about us with the Securities and Exchange Commission. The information is available free of charge by contacting us at 400 Hamilton Avenue, Suite 310, Palo Alto, California 94301 or by telephone calling collect at (650) 289-3060 or on our website at www.herculestech.com. The SEC also maintains a website at www.sec.gov that contains such information.

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

This prospectus may not be used to consummate sales of any securities unless accompanied by a prospectus supplement.

The date of this prospectus is March 29, 2012

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You should rely only on the information contained in this prospectus. We have not authorized any dealer, salesperson or other person to provide you with different information or to make representations as to matters not stated in this prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. This prospectus is not an offer to sell, or a solicitation of an offer to buy, any securities by any person in any jurisdiction where it is unlawful for that person to make such an offer or solicitation or to any person in any jurisdiction to whom it is unlawful to make such an offer or solicitation. The information in this prospectus is accurate only as of its date, and under no circumstances should the delivery of this prospectus or the sale of any securities imply that the information in this prospectus is accurate as of any later date or that the affairs of Hercules Technology Growth Capital, Inc. have not changed since the date hereof. This prospectus will be updated to reflect material changes.

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we have filed with the Securities and Exchange Commission using the shelf registration process. Under the shelf registration process, which constitutes a delayed offering in reliance on Rule 415 under the Securities Act of 1933, as amended, we may offer, from time to time, up to $200,000,000 of our common stock, preferred stock, warrants representing rights to purchase shares of our common stock, preferred stock or debt securities, subscription rights or debt securities on the terms to be determined at the time of the offering. We may sell our securities through underwriters or dealers, at-the-market to or through a market maker, into an existing trading market or otherwise directly to one or more purchasers, including existing stockholders in a rights offering, or through agents or through a combination of methods of sale. The identities of such underwriters, dealers, market makers or agents, as the case may be, will be described in one or more supplements to this prospectus. The securities may be offered at prices and on terms described in one or more supplements to this prospectus. This prospectus provides you with a general description of the securities that we may offer. Each time we use this prospectus to offer securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. Please carefully read this prospectus and any such supplements together with the additional information described under Where You Can Find Additional Information in the Summary and Risk Factors sections before you make an investment decision.

A prospectus supplement may also add to, update or change information contained in this prospectus.

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SUMMARY

This summary highlights some of the information in this prospectus 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 and the documents that are referenced in this prospectus, together with any accompanying supplements. In this prospectus, unless the context otherwise requires, the Company, Hercules Technology Growth Capital, we, us and our refer to Hercules Technology Growth Capital, Inc. and our wholly-owned subsidiaries.

Our Company

We are a specialty finance company that provides debt and equity growth capital to technology-related companies at various stages of development from seed and emerging growth to expansion and established stages of development, which include select publicly listed companies and select lower middle market technology companies. Our investment objective is to maximize our portfolio total return by generating current income from our debt investments and capital appreciation from our equity-related investments. We are an internally-managed, non-diversified closed-end investment company that has elected to be treated as a business development company under the Investment Company Act of 1940, or the 1940 Act.

As of December 31, 2011 our total assets were approximately $747.4 million, of which, our investments comprised $652.9 million at fair value and $656.5 million at cost. Our investments at fair value were comprised of our debt investments, warrant portfolio and equity investments valued at approximately $585.8 million, $37.1 million and $30.0 million, respectively, or 89.7%, 5.7% and 4.6% of total investments, respectively. Our total investments at fair value in foreign companies were approximately $18.1 million or 2.8% of total investments at December 31, 2011. During the year ended December 31, 2011, we made debt commitments totaling $628.3 million and funded approximately $433.4 million. During the year ended December 31, 2011, we made and funded equity commitments of approximately $2.1 million to four portfolio companies. Debt commitments for the year ended December 31, 2011 included commitments of approximately $402.5 million to 34 new portfolio companies and $225.8 million to 16 existing portfolio companies. Since inception through December 31, 2011, we have made debt and equity commitments of approximately $2.7 billion to our portfolio companies.

We also make investments in qualifying small businesses through two wholly-owned, small business investment company (SBIC) subsidiaries, Hercules Technology II, L.P. (HT II) and Hercules Technology III, L.P. (HT III). As SBICs, HT II and HT III are subject to a variety of regulations concerning, among other things, the size and nature of the companies in which they may invest and the structure of those investments. As of December 31, 2011, we held investments in HT II in 57 companies with a fair value of approximately $198.7 million. HT II s portfolio companies accounted for approximately 30.4% of our total portfolio at December 31, 2011. As of December 31, 2011, we held investments in HT III in 23 companies with a fair value of approximately $124.8 million. HT III s portfolio accounted for approximately 19.1% of our total portfolio at December 31, 2011.

We primarily finance privately-held companies backed by leading venture capital and private equity firms and also may finance certain select publicly-traded companies that lack access to public capital or are sensitive to equity ownership dilution. As of December 31, 2011, our proprietary SQL-based database system included over 26,500 technology-related companies and approximately 6,500 venture capital, private equity sponsors/investors, as well as various other industry contacts. Our principal executive office is located in Silicon Valley, and we have additional offices in Boston, MA, Boulder, CO and McLean, VA. Our goal is to be the leading structured debt financing provider of choice for venture capital and private equity backed technology-related companies requiring sophisticated and customized financing solutions. Our strategy is to evaluate and invest in a broad

range of technology-related companies including, clean technology, life science and select lower middle market technology companies and to offer a full suite of growth capital products up and down the capital structure. We invest primarily in structured debt with warrants and, to a lesser extent, in senior debt and equity investments. We use the term structured debt with warrants to refer to any debt investment, such as a senior or subordinated secured loan, that is coupled with an equity component, including warrants, options or rights to purchase common or preferred stock. Our structured debt with warrants investments will typically be secured by select or all of the assets of the portfolio company.

We focus our investments in companies active in technology industry sub-sectors characterized by products or services that require advanced technologies, including, but not limited to, computer software and hardware, networking systems, semiconductors, semiconductor capital equipment, information technology infrastructure or services, Internet consumer and business services, telecommunications, telecommunications equipment, renewable or alternative energy, media and life science. Within the life science sub-sector, we generally focus on medical devices, bio-pharmaceutical, drug discovery, drug delivery, health care services and information systems companies. Within the clean technology sub-sector, we focus on sustainable and renewable energy technologies and energy efficiency and monitoring technologies. We refer to all of these companies as technology-related companies and intend, under normal circumstances, to invest at least 80% of the value of our assets in such businesses.

Our investment objective is to maximize our portfolio total return by generating current income from our debt investments and capital appreciation from our equity-related investments. Our primary business objectives are to increase our net income, net operating income and net asset value by investing in structured debt with warrants and equity of venture capital and private equity backed technology-related companies with attractive current yields and the potential for equity appreciation and realized gains. Our structured debt investments typically include warrants or other equity interests, giving us the potential to realize equity-like returns on a portion of our investments. Our equity ownership in our portfolio companies may represent a controlling interest. In some cases, we receive the right to make additional equity investments in our portfolio companies including the right to convert some portion of our debt into equity in connection with future equity financing rounds. Capital that we provide directly to venture capital and private equity backed technology-related companies is generally used for growth and general working capital purposes as well as in select cases for acquisitions or recapitalizations.

Our portfolio is comprised of, and we anticipate that our portfolio will continue to be comprised of, investments in technology-related companies at various stages of development. Consistent with regulatory requirements, we invest primarily in United States based companies and to a lesser extent in foreign companies. See Regulation Qualifying Assets. Our investing emphasis has been primarily on private companies following or in connection with a subsequent institutional round of equity financing, which we refer to as expansion-stage companies and private companies in their later rounds of financing and certain public companies, which we refer to as established stage companies and lower middle market companies. We have also historically focused our investment activities in private companies following or in connection with the first institutional round of financing, which we refer to as emerging-growth companies.

As of December 31, 2011, our investment professionals, including Manuel A. Henriquez, our co-founder, Chairman, President and Chief Executive Officer, are currently comprised of 27 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.

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Our Market Opportunity

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

- Technology-related companies have generally been underserved by traditional lending sources;
- Unfulfilled demand exists for structured debt financing to technology-related companies as the number of lenders has declined due to the recent financial market turmoil; and
- Structured debt with warrants products are less dilutive and complement equity financing from venture capital and private equity funds.

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

The unique cash flow characteristics of many technology-related companies 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 emerging-growth and expansion-stage companies often include a disproportionately large amount of intellectual property assets, which can be difficult to value. Finally, the speed of innovation in technology and rapid shifts in consumer demand and market share add to the difficulty in evaluating technology-related companies.

Due to the difficulties described above, we believe traditional lenders are generally refraining from entering the structured mezzanine 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. During 2011, venture capital-backed companies received, in approximately 3,209 transactions, equity financing in an aggregate amount of approximately $32.6 billion, representing a 10.1% increase from the same period of the preceding year, as reported by Dow Jones VentureSource. In addition, overall, the median round size during the three month periods ended December 31, 2011 and 2010 was approximately $4.0 million and $4.1 million, respectively. We believe the larger number of venture-backed companies receiving financing provides us a greater opportunity to provide debt financing to these companies. Overall, seed- and first-round deals made up 45% of the deal flow in the three months ended December 31, 2011 and later-stage deals made up roughly 55% of the deal activity in the quarter.

We believe that demand for structured debt financing is currently underserved, in part because of the credit market collapse in 2008 and the resulting exit of debt capital providers to technology-related companies. The venture capital market for the technology-related companies in which we invest has been active and is continuing to show signs of increased investment activity. Therefore, to the extent we have capital available, we believe this is an opportune time to be active in the structured lending market for technology-related companies.

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

Our Business Strategy

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

Leverage the Experience and Industry Relationships of Our Management Team and Investment Professionals. We have assembled a team of experienced investment professionals with extensive experience as venture capitalists, commercial lenders, and originators of structured debt and equity investments in technology-related companies. Our investment professionals have, on average, more than 15 years of experience as equity investors in, and/or lenders to, technology-related companies.

Mitigate Risk of Principal Loss and Build a Portfolio of Equity-Related Securities. We expect that our investments have the potential to produce attractive risk adjusted returns through current income, in the form of interest and fee income, as well as capital appreciation from equity-related securities. We believe that we can mitigate the risk of loss on our debt investments through the combination of loan principal amortization, cash interest payments, relatively short maturities, security interests in the assets of our portfolio companies, and, on select investments, covenants requiring prospective portfolio companies to have certain amounts of available cash 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. Unlike many of our competitors that only invest in companies that fit a specific set of investment parameters, we have the flexibility to structure our investments to suit the particular needs of our portfolio companies. We offer customized financing solutions ranging from senior debt to equity capital, with a focus on structured debt with warrants.

Invest at Various Stages of Development. We provide growth capital to technology-related companies at all stages of development, from emerging-growth companies, to expansion-stage companies, including select publicly listed companies and select lower middle market companies and established-stage companies.

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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 mezzanine and 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 (SQL) database system to track various aspects of our investment process including sourcing, originations, transaction monitoring and post-investment performance. As of December 31, 2011, our proprietary SQL-based database system included over 26,500 technology-related companies and over 6,500 venture capital, private equity sponsors/investors, as well as various other industry contacts. This proprietary SQL system allows us to maintain, cultivate and grow our industry relationships while providing us with comprehensive details on companies in the technology-related industries and their financial sponsors.

Dividend Reinvestment Plan

We have adopted an opt-out dividend reinvestment plan through which distributions are paid to stockholders in the form of additional shares of our common stock, unless a stockholder elects to receive cash. See Dividend Reinvestment Plan. Those stockholders whose shares are held by a broker or other financial intermediary may receive distributions in cash by notifying their broker or other financial intermediary of their election.

Taxation

Prior to 2006, we were taxed as a corporation under Subchapter C of the Internal Revenue Code of 1986, as amended, which we refer to in this prospectus as the Code. We elected to be treated for federal income tax purposes as a regulated investment company (a RIC) under Subchapter M of the Code with the filing of our federal corporate income tax return for 2006, which election was effective as of January 1, 2006. As a RIC, we generally will not pay corporate-level federal income taxes on any ordinary income or capital gains that we distribute to our stockholders as dividends, which allows us to reduce or eliminate our corporate level tax. See Certain United States Federal Income Tax Considerations. To maintain our RIC status, we must meet specified source-of-income and asset diversification requirements and distribute annually an amount equal to at least 90% of the sum of our net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, out of assets legally available for distribution. There is no assurance that we will meet these tests and be able to maintain our RIC status. If we do not qualify as a RIC, we would be taxed as a C corporation.

Use of Proceeds

We intend to use the net proceeds from selling our securities for general corporate purposes, which includes investing in debt and equity securities, repayment of indebtedness and other general corporate purposes. The supplement to this prospectus relating to an offering will more fully identify the use of proceeds from such offering.

Leverage

We borrow funds to make additional investments, and we have granted, and may in the future grant, a security interest in our assets to a lender in connection with any such borrowings, including any borrowings by any of our subsidiaries. We use this practice, which is known as leverage, to attempt to increase returns to our common stockholders. However, leverage involves significant risks. See Risk Factors. With certain limited exceptions, we are only allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act,

equals at least 200% after such borrowing. Our asset coverage for senior indebtedness as of December 31, 2011 was 864.7% excluding our SBIC debentures as a result of our exemptive order from the SEC which allows us to exclude all SBA leverage from our asset coverage ratio. Total leverage when including our SBIC debentures was 237.5% at December 31, 2011. The amount of leverage that we employ will depend on our assessment of market and other factors at the time of any proposed borrowing.

Wells Facility

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

Borrowings under the Wells Facility will generally bear interest at a rate per annum equal to LIBOR plus 3.50%, with a floor of 5.00% and an advance rate of 50% against eligible loans. The Wells Facility is secured by loans in the borrowing base. The Wells Facility requires the monthly payment of a non-use fee of 0.3% for each payment date on or before September 1, 2011. The monthly payment of a non-use fee thereafter shall depend on the average balance that was outstanding on a scale between 0.0% and 0.75%. From September 1, 2011 through September 30, 2011, this non-use fee was 0.75%. On June 20, 2011 we paid an additional $1.1 million in structuring fees in connection with the Wells Facility which is being amortized through June 2014. There was approximately $10.2 million outstanding debt under the Wells Facility at December 31, 2011, which we repaid in full in January 2012.

The Wells Facility includes various financial and operating covenants applicable to us and our subsidiaries, in addition to those applicable to Hercules Funding II, LLC. These covenants require us to maintain certain financial ratios and a minimum tangible net worth in an amount, when added to outstanding subordinated indebtedness, that is in excess of $314.0 million plus 90% of the cumulative amount of equity raised after March 31, 2011. In addition, the tangible net worth covenant will increase by 90 cents on the dollar for every dollar of equity capital subsequently raised by the Company. The Wells Facility provides for customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, bankruptcy events and change of control. We were in compliance with all covenants at December 31, 2011.

Union Bank Facility

On February 10, 2010, we entered a $20.0 million one-year revolving senior secured credit facility with Union Bank (the Union Bank Facility). On November 2, 2011, we renewed and amended the Union Bank Facility and added a new lender under the Union Bank Facility. Union Bank and RBC Capital Markets have made commitments of $30.0 million and $25.0 million, respectively. The Union Bank Facility contains an accordion feature, in which we can increase the credit line up to an aggregate of $150.0 million, funded by additional lenders and with the agreement of Union Bank and subject to other customary conditions. We expect to continue discussions with various other potential lenders to join the new facility; however, there can be no assurances that additional lenders will join the Union Bank Facility.

Borrowings under the Union Bank Facility will generally bear interest at a rate per annum equal to LIBOR plus 2.25% with a floor of 4.0%. At September 30, 2011, there were no borrowings outstanding on this facility. The Union Bank Facility requires the payment of a non-use fee of 0.25% annually. The Union Bank Facility is collateralized by debt investments in our portfolio companies, and includes an advance rate equal to 50.0% of

eligible loans placed in the collateral pool. The Union Bank Facility generally requires payment of interest on a monthly basis. All outstanding principal is due upon maturity. At December 31, 2011, there were no borrowings outstanding on this facility.

The Union Bank Facility requires various financial and operating covenants. These covenants require us to maintain certain financial ratios and a minimum tangible net worth in an amount, when added to outstanding subordinated indebtedness, that is in excess of $314.0 million plus 90% of the amount of net cash proceeds received from the sale of common stock after March 31, 2011. The Union Bank Facility will mature on November 2, 2014, approximately three years from the date of issuance, revolving through the first 24 months with a term out provision for the remaining 12 months. The Union Bank Facility requires the payment of a non-use fee of 0.50% annually. Union Bank Facility also provides for customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, bankruptcy events and change of control. We were in compliance with all covenants at December 31, 2011.

SBICs

Hercules Technology II, L.P. (HT II) and Hercules Technology III, L.P. (HT III), our wholly owned subsidiaries, are licensed by the U.S. Small Business Administration (SBA) as small business investment companies (SBICs) under the Small Business Investment Act of 1958. As of December 31, 2011, we held investments in HT II in 57 companies with a fair value of approximately $198.7 million. HT II s portfolio companies accounted for approximately 30.4% of our total portfolio at December 31, 2011. As of December 31, 2011, we held investments in HT III in 23 companies with a fair value of approximately $124.8 million. HT III s portfolio accounted for approximately 19.1% of our total portfolio at December 31, 2011.

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. As of September 30, 2010, the maximum statutory limit on the dollar amount of outstanding SBA guaranteed debentures issued by a single SBIC is $150.0 million, subject to periodic adjustments by the SBA. With our net investment of $75.0 million in HT II as of December 31, 2011, HT II has the capacity to issue a total of $125.0 million of SBA guaranteed debentures, subject to SBA approval, of which $125.0 million was outstanding as of December 31, 2011. As of December 31, 2011, HT II has paid the SBA commitment fees of approximately $1.5 million.

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. As of December 31, 2011, HT III had the potential to borrow up to $100.0 million of SBA-guaranteed debentures under the SBIC program. With our net investment of $50.0 million in HT III as of December 31, 2011, HT III has the capacity to issue a total of $100.0 million of SBA guaranteed debentures, subject to SBA approval, of which $100.00 million was outstanding as of December 31, 2011. As of December 31, 2011, HT III has paid the SBA commitment fees of approximately $1.0 million. There is no assurance that HT II or HT III will be able to draw up to the maximum limit available under the SBIC program.

In aggregate, HT II and HT III hold approximately $217.2 million and $167.1 million in assets, respectively, and accounted for approximately 21.7% and 16.7%, respectively, of our total assets prior to consolidation at December 31, 2011.

Convertible Senior Notes

In April 2011, we issued $75.0 million in aggregate principal amount of 6.00% convertible senior notes (the Convertible Senior Notes) due 2016. As of December 31, 2011, 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 $70.4 million.

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

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

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

As of December 31, 2011, we are in compliance with the terms of the indentures governing the Convertible Senior Notes.

Distributions

As a RIC, we are required to distribute annually to our stockholders at least 90% of the sum of our net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any. We are not subject to corporate level income taxation on income we timely distribute to our stockholders as dividends. See Certain Material United States Federal Income Tax Considerations. We pay regular quarterly dividends based upon an estimate of annual taxable income available for distribution to shareholders and the amount of taxable income carried over from the prior year for distribution in the current year.

Principal Risk Factors

Investing in our common stock may be speculative and involves certain risks relating to our structure and our investment objective that you should consider before deciding whether to invest. In addition, we expect that our portfolio will continue to consist primarily of securities issued by privately-held technology-related companies, which generally require additional capital to become profitable. These investments may involve a high degree of business and financial risk, and they are generally illiquid. Our portfolio companies typically will require additional outside capital beyond our investment in order to succeed or to fully repay the amounts owed to us. A large number of entities compete for the same kind of investment opportunities as we seek.

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We borrow funds to make our investments in portfolio companies. As a result, we are exposed to the risks of leverage, which may be considered a speculative investment technique. Borrowings magnify the potential for gain and loss on amounts invested and, therefore increase the risks associated with investing in our common stock. Also, we are subject to certain risks associated with valuing our portfolio, changing interest rates, accessing additional capital, fluctuating quarterly results, and operating in a regulated environment. See Risk Factors for a discussion of factors you should carefully consider before deciding whether to invest in our securities.

Certain Anti-Takeover Provisions

Our charter and bylaws, as well as certain statutes and regulations, contain provisions that may have the effect of discouraging a third party from making an acquisition proposal for our company. This could delay or prevent a transaction that could give our stockholders the opportunity to realize a premium over the price for their securities.

Recent Developments

Portfolio Update

As of February 29, 2011, we have:

a. Closed commitments of approximately $36.9 million to new and existing portfolio companies, and funded approximately $30.0 million since the close of the fourth quarter of 2011.

b. Pending commitments (signed non-binding term sheets) of approximately $51.0 million.

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

Closed and Pending Commitments (in millions)	
Q1-12 Closed Commitments (as of February 29, 2012) (a,b)	$ 36.9
Pending Commitments (as of February 29, 2012) (b)	51.0
Year-to-date 2012 Closed and Pending Commitments	$ 87.9

Notes:

a. 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.

Dividend Declaration

On February 27, 2012, the Board of Directors increased the quarterly dividend by 5.0% and declared a cash dividend of $0.23 per share that will be payable on March 15, 2012 to shareholders of record as of March 12, 2012. This dividend would represent the Company s twenty-sixth consecutive dividend declaration since its initial public offering, bringing the total cumulative dividend declared to date to $6.92 per share.

Liquidity and Capital Resources

In January 2012, we closed a public offering of 5,000,000 shares of common stock at $9.61 per share, resulting in proceeds of $48,050,000 before deducting offering expenses.

In January 2012, we repaid the entire principal balance outstanding (approximately $10.2 million as of December 31, 2011) under the Wells Fargo facility.

In February 2012, we repaid six SBA debentures with principal totaling $24.25 million under our first license. The weighted average interest rate on repaid debentures (including the 0.906% SBA annual charge levied on each debenture) was 6.63%. The total amount paid, including unpaid interest and annual charges through March 1, 2012, was approximately $24.3 million

Portfolio Company Developments

On February 3, 2012, Cempra, Inc. completed its initial public offering of 8,400,000 shares of common stock at a price to the public of $6.00 per share. At December 31, 2011, we held approximately 371,000 warrants in Cempra, Inc.

In January 2012, BÂRRX Medical, Inc. completed the sale of all of its outstanding shares to Coviden plc in a transaction for an aggregate consideration of approximately $325.0 million, net of cash and short-term investments. In connection with the sale, we expect to realize a net gain of approximately $2.2-$2.3 million in the first quarter of 2012 and a full repayment of our loan to BÂRRX Medical.

In January 2012, Hercules received full repayment of its $5.0 million term loan with Merrion Pharmaceuticals, Inc.

In December 2011, Hercules entered into an agreement to acquire approximately $9.6 million through a secondary marketplace in Facebook, Inc., the social networking company for an aggregate of 307,500 shares at an average price of $31.08 per share. The investments were subject to certain closing conditions and a right of first refusal by Facebook, Inc. which expired thirty days after the date of investment. At December 31, 2011 these assets were held as Other Assets. In February 2012, Hercules was notified that Facebook Inc. had not exercised its repurchase right with respect to any of the shares and had executed all documents necessary to fully transfer the ownership of the shares to Hercules.

Hercules Cleantech

On June 15, 2011, Hercules Clean Technology Capital, Inc., or Hercules Cleantech, filed its registration statement on Form N-2 in contemplation of its IPO. Hercules Cleantech is a specialty finance company formed for the purpose of lending to, and investing in, privately held and select publicly traded clean technology or clean technology related companies. The investment activities of Hercules Cleantech will be managed by Olympus Advisers, LLC. It is intended that the investment professionals of Olympus Advisers, LLC, including Manuel Henriquez, our Chairman, President and Chief Executive Officer, will be members of our management team. We also will provide the administrative services necessary for Hercules Cleantech to operate. There can be no assurance that Hercules Cleantech will complete its IPO in a timely process or at all.

General Information

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

We file annual, quarterly and current periodic reports, proxy statements and other information with the SEC under the Securities Exchange Act of 1934, which we refer to as 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.

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FEES AND EXPENSES

The following table is intended to assist you in understanding the various costs and expenses that an investor in our securities will bear directly or indirectly. However, we caution you that some of the percentages indicated in the table below are estimates and may vary. Except where the context suggests otherwise, whenever this prospectus contains a reference to fees or expenses paid by you or us or that we will pay fees or expenses, stockholders will indirectly bear such fees or expenses as investors in the Company.

Stockholder Transaction Expenses (as a percentage of the public offering price):	
Sales load (as a percentage of offering price)(1)	%
Offering expenses (as a percentage of offering price)	%(2)
Dividend reinvestment plan fees	%(3)
Total stockholder transaction expenses (as a percentage of the public offering price)	%
Annual Expenses (as a percentage of net assets attributable to common stock):(10)	
Operating expenses	5.8%(4)(5)
Interest payments on borrowed funds	3.2%(6)
Fees paid in connection with borrowed funds	0.6%(7)
Acquired fund fees and expenses(8)	0.0%
Total annual expenses	9.6%(9)

(1) In the event that the securities to which this prospectus relates are sold to or through underwriters, a corresponding prospectus supplement will disclose the applicable sales load and the Example will be updated accordingly.
(2) The related prospectus supplement will disclose the public offering price, applicable offering expenses and total stockholder transaction expenses.
(3) The expenses associated with the administration of our dividend reinvestment plan are included in Operating expenses. We pay all brokerage commissions incurred with respect to open market purchases, if any, made by the administrator under the plan. For more details about the plan, see Dividend Reinvestment Plan.
(4) Operating expenses represent our operating expenses for the year ended December 31, 2011 including income tax expense (benefit) including excise tax, excluding interests and fees on indebtedness. See Management s Discussion and Analysis and Results of Operations, Management, and Compensation of Executive Officers and Directors.
(5) We do not have an investment adviser and are internally managed by our executive officers under the supervision of our Board of Directors. As a result, we do not pay investment advisory fees, but instead we pay the operating costs associated with employing investment management professionals.
(6) Interest payments on borrowed funds represents interest payments on borrowed funds for 2011 including our Wells Facility, Union Bank Facility, the Convertible Senior Notes, the Citigroup Warrant Participation Agreement and the SBA debentures.
(7) Fees paid in connection with borrowed funds represents fees paid in connection with borrowed funds for 2011 including our Wells Facility, Union Bank Facility, Convertible Senior Notes, Citigroup Warrant Participation Agreement and the SBA debentures. This item is based on our assumption that our borrowings and interest costs after an offering will remain similar to those prior to such offering. The prospectus supplement related to the offering of any debt securities pursuant to this prospectus will calculate this item based on the effects of our borrowings and interest costs after the issuance of such debt securities. The amount of leverage that we employ at any particular time will depend on, among other things, our board of directors assessment of market and other factors at the time of any proposed borrowing. See Risk Factors. This percentage for the year ended December 31, 2011 was approximately 0.75%.
(8) For the year ended December 31, 2011, we did not have any investments in shares of Acquired Funds that are not consolidated and, as a result, we did not directly or indirectly incur any fees from Acquired Funds.
(9) Total annual expenses is the sum of operating expenses, interest payments on borrowed funds and fees paid in connection with borrowed funds.
(10) Average net assets attributable to common stock equals the weighted estimated average net assets for 2011 which is $419.1 million.

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Example

The following example demonstrates the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in our common stock. These amounts are based upon our payment of annual operating expenses at the levels set forth in the table above and assume no additional leverage.

	1 Year	3 Years	5 Years	10 Years
You would pay the following expenses on a $1,000 common stock investment, assuming a 5% annual return	$ 152	$ 316	$ 466	$ 785

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

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 2009, 2008, and 2007 and the selected statement of operations data for fiscal 2009, 2008 and 2007 have been derived from our audited financial statements for these years, which have been audited by Ernst & Young LLP, our former independent registered public accounting firm. The historical data are not necessarily indicative of results to be expected for any future period. The selected balance sheet data as of the end of fiscal 2011 and 2010 and the financial statement of operations data for fiscal 2011 and 2010 have been derived from our audited financial statements, which have been audited by PricewaterhouseCoopers LLP, our independent registered public accounting firm.

	For the year ended December 31,				
	2011	2010	2009	2008	2007
Investment income:					
Interest	$ 70,346	$ 54,700	$ 62,200	$ 67,283	$ 48,757
Fees	9,509	4,774	12,077	8,552	5,127
Total operating income	79,855	59,474	74,277	75,835	53,884
Operating expenses:					
Interest	13,252	8,572	9,387	13,121	4,404
Loan fees	2,635	1,259	1,880	2,649	1,290
General and administrative	7,992	7,086	7,281	6,899	5,437
Employee Compensation:					
Compensation and benefits	13,260	10,474	10,737	11,595	9,135
Stock-based compensation	3,128	2,709	1,888	1,590	1,127
Total employee compensation	16,388	13,183	12,625	13,185	10,262
Total operating expenses	40,267	30,100	31,173	35,854	21,393
Net investment income before provision for income taxes and investment gains and losses	39,588	29,374	43,104	39,981	32,491
Provision for income taxes					2
Net investment income	39,588	29,374	43,104	39,981	32,489
Net realized gain (loss) on investments	2,741	(26,382)	(30,801)	2,643	2,791
Provision for Excise Tax				(203)	(139)
Net increase (decrease) in unrealized appreciation on investments	4,607	1,990	1,269	(21,426)	7,268
Net realized and unrealized gain (loss)	7,348	(24,392)	(29,532)	(18,986)	9,920
Net increase (decrease) in net assets resulting from operations	$ 46,936	$ 4,982	$ 13,572	$ 20,995	$ 42,409
Cash and stock dividends declared per common share	$ 0.88	$ 0.80	$ 1.26	$ 1.32	$ 1.20

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($ in thousands, except per share data)	As of December 31, 2011	2010	2009	2008	2007
Balance sheet data:					
Investments, at value	$ 652,870	$ 472,032	$ 374,669	$ 578,211	$ 525,492
Cash and cash equivalents	64,474	107,014	124,828	17,242	7,856
Total assets	747,394	591,247	508,967	608,672	541,943
Total liabilities	316,354	178,716	142,452	226,214	141,206
Total net assets	431,041	412,531	366,515	382,458	400,737
Other Data:					
Total debt investments, at value	$ 585,767	$ 401,618	$ 325,134	$ 536,964	$ 477,643
Total warrant investments, at value	30,045	23,690	14,450	17,883	21,646
Total equity investments, at value	37,058	46,724	35,085	23,364	26,203
Unfunded commitments	168,196	117,200	11,700	82,000	130,602
Net asset value per share[1]	$ 9.83	$ 9.50	$ 10.29	$ 11.56	$ 12.31

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

The following tables set forth certain quarterly financial information for each of the twelve quarters up to and ending December 31, 2011. This information was derived from our unaudited consolidated financial statements. Results for any quarter are not necessarily indicative of results for the full year or for any future quarter.

(Amounts in thousands, except per share data)	For the Quarter End December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011
Selected Quarterly Data (unaudited):				
Total investment income	$ 21,200	$ 18,684	$ 20,820	$ 19,152
Net investment income before provision for income taxes and investment gains and losses	10,831	8,593	10,360	9,804
Net increase (decrease) in net assets resulting from operations	17,574	6,223	24,317	(1,177)
Net increase (decrease) in net assets resulting from operations per common share (basic)	$ 0.25	$ 0.14	$ 0.24	$ 0.23

(Amounts in thousands, except per share data)	For the Quarter End December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010
Selected Quarterly Data (unaudited):				
Total investment income	$ 16,807	$ 15,646	$ 14,501	$ 12,520
Net investment income before provision for income taxes and investment gains and losses	8,751	8,148	6,863	5,612
Net increase (decrease) in net assets resulting from operations	11,721	(7,823)	(4,630)	5,714
Net increase (decrease) in net assets resulting from operations per common share (basic)	$ 0.30	$ (0.23)	$ (0.14)	$ 0.16

(Amounts in thousands, except per share data)	For the Quarter End December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009
Selected Quarterly Data (unaudited):				
Total investment income	$ 16,666	$ 17,681	$ 19,480	$ 20,450
Net investment income before provision for income taxes and investment gains and losses	9,377	10,347	11,821	11,558
Net increase (decrease) in net assets resulting from operations	8,459	13,690	(13,059)	4,482
	$ 0.24	$ 0.39	$ (0.38)	$ 0.14

Net increase (decrease) in net assets resulting from operations per common share (basic)

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RISK FACTORS

Investing in our securities may be speculative and involves a high degree of risk. Before you invest in our securities, you should be aware of various risks, including those described below. You should carefully consider these risks, together with all of the other information included in this prospectus, before you decide whether to make an investment in our securities. The risks set forth below are not the only risks we face. If any of the following risks occur, our business, financial condition and results of operations could be materially adversely affected. In such case, our net asset value and the trading price of our securities could decline, and you may lose all or part of your investment.

Risks Related to our Business Structure

We have a limited operating history as a business development company, which may affect our ability to manage our business and may impair your ability to assess our prospects.

The 1940 Act and the Code impose numerous constraints on the operations of BDCs and RICs. For example, under the 1940 Act, BDCs are required to invest at least 70% of their total assets primarily in securities of private or thinly traded U.S. public companies, cash, cash equivalents, U.S. government securities and other high quality debt investments that mature in one year or less. Moreover, qualification for taxation as a RIC under subchapter M of the Code requires satisfaction of source-of-income and diversification requirements and our ability to avoid corporate level taxes on our income and gains depends on our satisfaction of distribution requirements. The failure to comply with these provisions in a timely manner could prevent us from qualifying as a BDC or RIC or could force us to pay unexpected taxes and penalties, which could be material. These constraints, among others, may hinder our ability to take advantage of attractive investment opportunities and to achieve our investment objective. Our experience operating under these constraints is limited to the period since our inception.

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

We are subject to changing rules and regulations of federal and state government as well as the stock exchange on which our common stock is listed. These entities, including the Public Company Accounting Oversight Board, the SEC and the Nasdaq Stock Market, have issued a significant number of new and increasingly complex requirements and regulations over the course of the last several years and continue to develop additional regulations and requirements in response to laws enacted by Congress. On July 21, 2010, the Dodd-Frank Wall Street Reform and Protection Act, or the Dodd-Frank Act, was enacted. There are significant corporate governance and executive compensation-related provisions in the Dodd-Frank Act that require the SEC to adopt additional rules and regulations in these areas such as say on pay and proxy access. Our efforts to comply with these requirements have resulted in, and are likely to continue to result in, an increase in expenses and a diversion of management s time from other business activities.

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

Under applicable Treasury regulations and certain private rulings issued by the Internal Revenue Service, RICs are permitted to treat certain distributions payable in up to 80% in their stock, as taxable dividends that will satisfy their annual distribution obligations for federal income tax and excise tax purposes provided that shareholders have the opportunity to elect to receive the distribution in cash. Taxable stockholders receiving such dividends will be required to include the full amount of the dividend as ordinary income (or as long-term capital gain to the extent such distribution is properly designated as a capital gain dividend) to the extent of our current and accumulated earnings and profits for United States federal income tax purposes. As a result, a U.S. stockholder may be required to pay tax with respect to such dividends in excess of any cash received. If a U.S. stockholder sells the stock it receives as a dividend in order to pay this tax, the sales proceeds may be less than

the amount included in income with respect to the dividend, depending on the market price of our stock at the time of the sale. Furthermore, with respect to non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. In addition, if a significant number of our stockholders determine to sell shares of our stock in order to pay taxes owed on dividends, then such sales may put downward pressure on the trading price of our stock. We previously determined to pay a portion of our first quarter 2009 dividend in shares of newly issued common stock, and we may in the future determine to distribute taxable dividends that are payable in part in our common stock.

We are dependent upon key management personnel for their time availability and 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.

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

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

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

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

A number of entities compete with us to make the types of investments that we plan to make in prospective portfolio companies. We compete with a large number of venture capital and private equity firms, as well as with other investment funds, investment banks and other sources of financing, including traditional financial services companies such as commercial banks and finance companies. Many of our competitors are substantially larger and have considerably greater financial, technical, marketing and other resources than we do. For example, some competitors may have a lower cost of funds and/or access to funding sources that are not available to us. This may enable some competitors to make commercial loans with interest rates that are comparable to or lower than the rates that we typically offer. We may lose prospective portfolio companies if we do not match competitors pricing, terms and structure. If we do match competitors pricing, terms or structure, we may experience decreased net interest income and increased risk of credit losses. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments, establish more relationships and build their market shares. Furthermore, many potential competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a business development company

or that the Code would impose on us as a RIC. If we are not able to compete effectively, our business, financial condition, and results of operations will be adversely affected. As a result of this competition, there can be no assurance that we will be able to identify and take advantage of attractive investment opportunities that we identify, or that we will be able to fully invest our available capital.

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

In order to satisfy the tax requirements applicable to a RIC, to avoid payment of excise taxes and to minimize or avoid payment of income taxes, we intend to distribute to our stockholders substantially all of our ordinary income and realized net capital gains except for certain realized net long-term capital gains, which we may retain, pay applicable income taxes with respect thereto and elect to treat as deemed distributions to our stockholders. As a business development company, we generally are required to meet a coverage ratio of total assets to total borrowings and other senior securities, which includes all of our borrowings and any preferred stock that we may issue in the future, of at least 200%. This requirement limits the amount that we may borrow. This limitation may prevent us from incurring debt and require us to raise additional equity at a time when it may be disadvantageous to do so. We cannot assure you that debt and equity financing will be available to us on favorable terms, or at all, and debt financings may be restricted by the terms of any of our outstanding borrowings. If we are unable to incur additional debt, we may be required to raise additional equity at a time when it may be disadvantageous to do so. In addition, shares of closed-end investment companies have recently traded at discounts to their net asset values. This characteristic of closed-end investment companies is separate and distinct from the risk that our net asset value per share may decline. We cannot predict whether shares of our common stock will trade above, at or below our net asset value. If our common stock trades below its net asset value, we generally will not be able to issue additional shares of our common stock at its market price without first obtaining the approval for such issuance from our stockholders and our independent directors. If additional funds are not available to us, we could be forced to curtail or cease new lending and investment activities, and our net asset value could decline. In addition, our results of operations and financial condition could be adversely affected.

Because we borrow money, 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 leveraging would cause the net asset value attributable to our common stock to increase more than it otherwise would have had we not leveraged. Conversely, if the value of our assets decreases, leveraging would cause the net asset value attributable to our common stock to decline more than it otherwise would have had we not leveraged. Similarly, any increase in our revenue in excess of interest expense on our borrowed funds would cause our net income to increase more than it would without the leverage. Any decrease in our revenue would cause our net income to decline more than it would have had we not borrowed funds and could negatively affect our ability to make distributions on common stock. Our ability to service any debt that we incur will depend largely on our financial performance and will be subject to prevailing economic conditions and competitive pressures. We and, indirectly, our stockholders will bear the cost associated with our leverage activity. Our secured credit facilities with Wells Fargo Capital Finance LLC and RBC Capital Markets and Union Bank, N.A. and RBC Capital Markets and our Convertible Senior Notes contain financial and operating covenants that could restrict our business activities, including our ability to declare dividends if we default under certain provisions.

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As of December 31, 2011, we did not have any outstanding borrowings under our credit facility with Union Bank and approximately $10.2 million outstanding under our credit facility with Wells Fargo. In addition, as of December 31, 2011, we had approximately $225.0 million of indebtedness outstanding incurred by our SBIC subsidiaries and $75.0 million of Convertible Senior Notes payable. There can be no assurance that we will be successful in obtaining any additional debt capital on terms acceptable to us or at all. If we are unable to obtain debt capital, then our equity investors will not benefit from the potential for increased returns on equity resulting from leverage to the extent that our investment strategy is successful and we may be limited in our ability to make new commitments or fundings to our portfolio companies.

As a business development company, generally we are not permitted to incur indebtedness unless immediately after such borrowing we have an asset coverage for total borrowings of at least 200% (i.e., the amount of debt may not exceed 50% of the value of our assets). In addition, we may not be permitted to declare any cash dividend or other distribution on our outstanding common shares, or purchase any such shares, unless, at the time of such declaration or purchase, we have asset coverage of at least 200% after deducting the amount of such dividend, distribution, or purchase price. If this ratio declines below 200%, we may not be able to incur additional debt and may need to sell a portion of our investments to repay some debt when it is disadvantageous to do so, and we may not be able to make distributions. As of December 31, 2011 our asset coverage ratio under our regulatory requirements as a business development company was 864.7%, excluding our SBIC debentures as a result of our exemptive order from the SEC which allows us to exclude all SBA leverage from our asset coverage ratio. Total leverage when including our SBIC debentures was 237.5% at December 31, 2011.

	Assumed Return on Our Portfolio (Net of Expenses)				
	(10)%	**(5)%**	**0%**	**5%**	**10%**
Corresponding return to stockholder[1]	(44.1%)	(25.81%)	(7.49%)	10.83%	29.14%

(1) Assumes $934.2 million in total assets, $305.5 million in debt outstanding, $617.8 million in stockholders equity, and an average cost of funds of 6.25%, which is the approximate average cost of funds of the SBA debentures for the period ended December 31, 2011. Actual interest payments may be different.

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

At December 31, 2011, portfolio investments, which are valued at fair value by the Board of Directors, were approximately 87.4% of our total assets. We expect our investments to continue to consist primarily of securities issued by privately-held companies, the fair value of which is not readily determinable. In addition, we are not permitted to maintain a general reserve for anticipated loan losses. Instead, we are required by the 1940 Act to specifically value each investment and record an unrealized gain or loss for any asset that we believe has increased or decreased in value.

There is no single standard for determining fair value in good faith. We value these securities at fair value as determined in good faith by our Board of Directors, based on the recommendations of our Valuation Committee. The Valuation Committee uses its best judgment in arriving at the fair value of these securities. As a result, determining fair value requires that judgment be applied to the specific facts and circumstances of each portfolio investment while applying a valuation process for the types of investments we make which includes, but is not limited to, deriving a hypothetical exit price. However, the Board of Directors retains ultimate authority as to the appropriate valuation of each investment. Because such valuations are inherently uncertain and may be based on estimates, our determinations of fair value may differ materially from the values that would be assessed if a ready market for these securities existed. We adjust quarterly the valuation of our portfolio to reflect the Board of Directors determination of the fair value of each investment in our portfolio. Any changes in fair value are recorded in our statement of operations as net change in unrealized appreciation or depreciation. Our net asset value could be adversely affected if our determinations regarding the fair value of our investments were materially higher than the values that we ultimately realize upon the disposal of such securities.

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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, 2011 that represent greater than 5% of net assets:

	December 31, 2011	
(in thousands)	**Fair Value**	**Percentage of Net Assets**
Women s Marketing, Inc.	$ 29,796	6.9%
Aveo Pharmaceuticals, Inc.	$ 28,997	6.7%
Tectura Corporation	$ 27,154	6.3%
Pacira Pharmaceuticals, Inc.	$ 26,396	6.1%
Anthera Pharmaceuticals, Inc.	$ 26,185	6.1%
Brightsource Energy, Inc.	$ 25,549	5.9%
Revance Therapeutics, Inc.	$ 21,944	5.1%

Women s Marketing, Inc. is a media solutions company, delivering premium media at value pricing across all platforms.

Aveo Pharmaceuticals, Inc. is a biopharmaceutical company dedicated to the discovery and development of new, targeted cancer therapeutics.

Tectura Corporation is an IT services firm that specializes in Microsoft Business Solutions applications.

Pacira Pharmaceuticals, Inc. is an emerging specialty pharmaceutical company focused on the development, commercialization and manufacture of new pharmaceutical products.

Anthera Pharmaceuticals, Inc. is a biopharmaceutical company focused on developing and commercializing products to treat serious diseases, including cardiovascular and autoimmune diseases.

Brightsource Energy, Inc. designs, develops and sells solar thermal power systems that deliver reliable, clean energy to utilities and industrial companies.

Revance Therapeutics, Inc. is a biopharmaceutical company developing products that transport drugs across skin to deliver at specific and targeted depths.

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

Our equity ownership in a portfolio company may represent a control investment. Our ability to exit an investment in a timely manner because we are in a control position or have access to inside information in the portfolio company could result in a realized loss on the investment.

If we obtain a control investment in a portfolio company our ability to divest ourselves from a debt or equity investment could be restricted due to illiquidity in a private stock, limited trading volume on a public company s stock, inside information on a company s performance, insider blackout periods, or other factors that could prohibit us from disposing of the investment as we would if it were not a control investment. Additionally, we may choose not to take certain actions to protect a debt investment in a control investment portfolio company. As a result, we could experience a decrease in the value of our portfolio company holdings and potentially incur a realized loss on the investment.

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

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

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

In addition to issuing securities to raise capital as described above, we anticipate that, in the future, we may securitize our loans to generate cash for funding new investments. The securitization market has effectively shut down with the recent financial market collapse and we cannot assure you that will be able to securitize our loans in the near future, or at all. An inability to successfully securitize our loan portfolio could limit our ability to grow our business and fully execute our business strategy.

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

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

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

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

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

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

If we fail to continuously qualify as a business development company, we might be subject to regulation as a registered closed-end investment company under the 1940 Act, which would significantly decrease our operating flexibility. In addition, failure to comply with the requirements imposed on business development companies by the 1940 Act could cause the SEC to bring an enforcement action against us. For additional information on the qualification requirements of a business development company, see Regulation.

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

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

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

Other features of the debt instruments that we hold may also cause such instruments to generate an original issue discount, resulting in a dividend distribution requirement in excess of current cash interest received. Since

in certain cases we may recognize income before or without receiving cash representing such income, we may have difficulty meeting the RIC tax requirement to distribute at least 90% of our net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any. Under such circumstances, we may have to sell some of our assets, raise additional debt or equity capital or reduce new investment originations to meet these distribution requirements. If we are unable to obtain cash from other sources and are otherwise unable to satisfy such distribution requirements, we may fail to qualify for the federal income tax benefits allowable to RICs and, thus, become subject to a corporate-level income tax on all our income. See Certain United States Federal Income Tax Considerations.

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

We intend to make distributions on a quarterly basis to our stockholders. We cannot assure you that we will achieve investment results, or our business may not perform in a manner that will allow us to make a specified level of distributions or year-to-year increases in cash distributions. In addition, due to the asset coverage test applicable to us as a business development company, we may be limited in our ability to make distributions. Also, our credit facilities limit our ability to declare dividends if we default under certain provisions.

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

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

Our quarterly and annual operating results are subject to fluctuation as a result of the nature of our business, and if we fail to achieve our investment objective, the net asset value of our common stock may decline.

We could experience fluctuations in our quarterly and annual operating results due to a number of factors, some of which are beyond our control, including, but not limited to, the interest rate payable on the debt securities that we acquire, the default rate on such securities, the level of our expenses, variations in and the timing of the recognition of realized and unrealized gains or losses, changes in our portfolio composition, the degree to which we encounter competition in our markets and general economic conditions. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods. In addition, any of these factors could negatively impact our ability to achieve our investment objectives, which may cause our net asset value of our common stock to decline.

Fluctuations in interest rates may adversely affect our profitability.

A portion of our income will depend upon the difference between the rate at which we borrow funds and the interest rate on the debt securities in which we invest. Because we will borrow money to make investments, our net investment income is dependent upon the difference between the rate at which we borrow funds and the rate at which we invest these funds. Typically, we anticipate that our interest-earning investments will accrue and pay interest at both variable and fixed rates, and that our interest-bearing liabilities will accrue interest at variable rates. As a result, 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. We anticipate using a combination of equity and long-term and short-term borrowings to finance our investment activities.

A significant increase in market interest rates could harm our ability to attract new portfolio companies and originate new loans and investments. We expect that most of our current initial investments in debt securities will be at floating rate with a floor. However, in the event that we make investments in debt securities at variable rates, a significant increase in market interest rates could also result in an increase in our non-performing assets and a decrease in the value of our portfolio because our floating-rate loan portfolio companies may be unable to meet higher payment obligations. In periods of rising interest rates, our cost of funds would increase, resulting in a decrease in our net investment income. In addition, a decrease in interest rates may reduce net income, because new investments may be made at lower rates despite the increased demand for our capital that the decrease in interest rates may produce. We may, but will not be required to, hedge against the risk of adverse movement in interest rates in our short-term and long-term borrowings relative to our portfolio of assets. If we engage in hedging activities, it may limit our ability to participate in the benefits of lower interest rates with respect to the hedged portfolio. Adverse developments resulting from changes in interest rates or hedging transactions could have a material adverse effect on our business, financial condition, and results of operations.

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

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

During the year ended December 31, 2011, the Company recorded an increase on participation liability and decreased its unrealized gains by a net amount of approximately $217,000 for Citigroup s participation. Since inception of the agreement, we have paid Citigroup approximately $1.1 million under the warrant participation agreement thereby reducing our realized gains. In addition, our realized gains will be reduced by the amounts owed to Citigroup under the warrant participation agreement. The value of Citigroup s participation right on unrealized gains in the related equity investments since inception of the agreement was approximately $715,000 at December 31, 2011 and is included in accrued liabilities and decreased the unrealized gain recognized by us at December 31, 2011. Citigroup s rights under the warrant participation agreement increase our cost of borrowing and reduce our realized gains.

It is likely that the terms of any long-term or revolving credit or warehouse facility we may enter into in the future, such as the Wells Facility and the Union Bank Facility, could constrain our ability to grow our business.

In August 2008, we entered into the Wells Facility, which we renewed on June 20, 2011. Under this three-year senior secured facility, Wells Fargo Capital Finance has made commitments of $75.0 million. The facility contains an accordion feature, in which we can increase the credit line up to an aggregate of $300.0 million, funded by additional lenders and with the agreement of Wells Fargo Capital Finance and subject to other customary conditions. We expect to continue discussions with various other potential lenders to join the new facility; however, there can be no assurances that additional lenders will join the Wells Facility.

Borrowings under the Wells Facility will generally bear interest at a rate per annum equal to LIBOR plus 3.50%, with a floor of 5.00% and an advance rate of 50% against eligible loans. The Wells Facility is secured by loans in the borrowing base. The Wells Facility requires the monthly payment of a non-use fee of 0.3% for each payment date on or before September 1, 2011. The monthly payment of a non-use fee thereafter shall depend on the average balance that was outstanding on a scale between 0.0% and 0.75%. From September 1, 2011 through September 30, 2011, this non-use fee was 0.75%. On June 20, 2011 we paid an additional $1.1 million in structuring fees in connection with the Wells Facility which is being amortized through June 2014.

At December 31, 2011, we had approximately $10.2 million outstanding under the Wells Facility, which we repaid in full in January 2012.

The Wells Facility includes various financial and operating covenants applicable to us and our subsidiaries, in addition to those applicable to Hercules Funding II, LLC. These covenants require us to maintain certain financial ratios and a minimum tangible net worth in an amount, when added to outstanding subordinated indebtedness, that is in excess of $314.0 million plus 90% of the cumulative amount of equity raised after March 31, 2011. In addition, the tangible net worth covenant will increase by 90 cents on the dollar for every dollar of equity capital subsequently raised by the Company. The Wells Facility provides for customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, bankruptcy events and change of control. We were in compliance with all covenants at December 31, 2011.

On February 10, 2010, we entered into the Union Bank Facility. On November 2, 2011, we renewed and amended the Union Bank Facility and added a new lender under the Union Bank Facility. Union Bank and RBC Capital Markets have made commitments of $30.0 million and $25.0 million, respectively. The Union Bank Facility contains an accordion feature, in which we can increase the credit line up to an aggregate of $150.0 million, funded by additional lenders and with the agreement of Union Bank and subject to other customary conditions. We expect to continue discussions with various other potential lenders to join the new facility; however, there can be no assurances that additional lenders will join the Union Bank Facility.

Borrowings under the Union Bank Facility will generally bear interest at a rate per annum equal to LIBOR plus 2.25% with a floor of 4.0%. At December 31, 2011, there were no borrowings outstanding under the Union Bank Facility. The Union Bank Facility requires the payment of a non-use fee of 0.25% annually. The Union Bank Facility is collateralized by debt investments in our portfolio companies, and includes an advance rate equal to 50.0% of eligible loans placed in the collateral pool. The Union Bank Facility generally requires payment of interest on a monthly basis. All outstanding principal is due upon maturity.

The Union Bank Facility requires various financial and operating covenants. These covenants require us to maintain certain financial ratios and a minimum tangible net worth in an amount, when added to outstanding subordinated indebtedness, that is in excess of $314.0 million plus 90% of the amount of net cash proceeds received from the sale of common stock after March 31, 2011. The Union Bank Facility will mature on November 2, 2014, approximately three years from the date of issuance, revolving through the first 24 months with a term out provision for the remaining 12 months. The Union Bank Facility requires the payment of a non-use fee of 0.50% annually. Union Bank Facility also provides for customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, bankruptcy events and change of control. We were in compliance with all covenants at December 31, 2011.

The current lenders under the Wells Facility and the Union Bank Facility have, and any future lender or lenders will have, fixed dollar claims on our assets that are senior to the claims of our stockholders and, thus, will have a preference over our stockholders with respect to our assets in the collateral pool. In addition, we may grant a security interest in our assets in connection with any such borrowing. These facilities contain customary default provisions such as a minimum net worth amount, a profitability test, and a restriction on changing our business and loan quality standards. In addition, such facilities require or are expected to require the repayment of all outstanding debt on the maturity which may disrupt our business and potentially, the business our portfolio companies that are financed through the facilities. An event of default under these facilities would likely result, among other things, in termination of the availability of further funds under that facility and an accelerated maturity date for all amounts outstanding under the facility, which would likely disrupt our business and, potentially, the business of the portfolio companies whose loans we financed through the facility. This could reduce our revenues and, by delaying any cash payment allowed to us under our facility until the lender has been paid in full, reduce our liquidity and cash flow and impair our ability to grow our business and maintain our status as a RIC.

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The terms of future available financing may place limits on our financial and operating flexibility. If we are unable to obtain sufficient capital in the future, we may:

- be forced to reduce or discontinue our operations;
- not be able to expand or acquire complementary businesses; and
- not be able to develop new services or otherwise respond to changing business conditions or competitive pressures.

In addition to regulatory restrictions that restrict our ability to raise capital, the Wells Facility, the Union Bank Facility and the Convertible Senior Notes contain various covenants which, if not complied with, could accelerate repayment under the facility or require us to repurchase the Convertible Senior Notes, thereby materially and adversely affecting our liquidity, financial condition, results of operations and ability to pay dividends.

The credit agreements governing the Wells Facility and the Union Bank Facility and the Convertible Senior Notes require us to comply with certain financial and operational covenants. These covenants require us to, among other things, maintain certain financial ratios, including asset coverage, debt to equity and interest coverage. Our ability to continue to comply with these covenants in the future depends on many factors, some of which are beyond our control. There are no assurances that we will be able to comply with these covenants. Failure to comply with these covenants would result in a default which, if we were unable to obtain a waiver from the lenders under the Wells Facility and the Union Bank facility or the trustee or holders under the Convertible Senior Notes, could accelerate repayment under the facilities or the Convertible Senior Notes and thereby have a material adverse impact on our liquidity, financial condition, results of operations and ability to pay dividends. In addition, holders of the Convertible Senior Notes will have the right to require us to repurchase the Convertible Senior Notes upon the occurrence of a fundamental change at a repurchase price equal to 100% of their principal amount, plus accrued and unpaid interest, if any. We may not have enough available cash or be able to obtain financing at the time we are required to make repurchases. See Management s Discussion and Analysis of Results of Operations and Financial Condition Borrowings.

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

Our wholly-owned subsidiaries HT II and HT III are licensed to act as SBICs and are regulated by the SBA. As of December 31, 2011, HT II s and HT III s portfolio companies accounted for approximately 30.4% and 19.1%, respectively, of our total portfolio. The SBIC licenses allow our SBIC subsidiaries to obtain leverage by issuing SBA-guaranteed debentures, subject to the issuance of a capital commitment by the SBA and other customary procedures. The SBA regulations require, among other things, that a licensed SBIC be examined periodically and audited by an independent auditor to determine the SBIC s compliance with the relevant SBA regulations.

Under current SBA regulations, a licensed SBIC can provide capital to those entities that have a tangible net worth not exceeding $18.0 million and an average annual net income after Federal income taxes not exceeding $6.0 million for the two most recent fiscal years. In addition, a licensed SBIC must devote 25.0% of its investment activity to those entities that have a tangible net worth not exceeding $6.0 million and an average annual net income after Federal income taxes not exceeding $2.0 million for the two most recent fiscal years. The SBA regulations also provide alternative size standard criteria to determine eligibility, which depend on the industry in which the business is engaged and are based on factors such as the number of employees and gross sales. The SBA regulations permit licensed SBICs to make long term loans to small businesses, invest in the equity securities of such businesses and provide them with consulting and advisory services. The SBA also places certain limitations on the financing terms of investments by SBICs in portfolio companies and prohibits SBICs from providing funds for certain purposes or to businesses in a few prohibited industries. Compliance with SBA requirements may cause HT II and HT III to forego attractive investment opportunities that are not permitted under SBA regulations.

Further, the SBA regulations require that a licensed SBIC be periodically examined and audited by the SBA to determine its compliance with the relevant SBA regulations. The SBA prohibits, without prior SBA approval,

a change of control of an SBIC or transfers that would result in any person (or a group of persons acting in concert) owning 10.0% or more of a class of capital stock of a licensed SBIC. If either HT II or HT III fail to comply with applicable SBA regulations, the SBA could, depending on the severity of the violation, limit or prohibit HT II s or HT III s use of debentures, declare outstanding debentures immediately due and payable, and/ or limit HT II or HT III from making new investments. Such actions by the SBA would, in turn, negatively affect us because HT II and HT III are our wholly owned subsidiaries. HT II and HT III were in compliance with the terms of the SBIC s leverage as of December 31, 2011 as a result of having sufficient capital as defined under the SBA regulations. See Regulation Small Business Administration Regulations.

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

In order for us to continue to qualify for RIC tax treatment and to minimize corporate-level taxes, we will be required to distribute substantially all of our net ordinary income and net capital gain income, including income from certain of our subsidiaries, which includes the income from our SBIC subsidiaries. We will be partially dependent on our SBIC subsidiaries for cash distributions to enable us to meet the RIC distribution requirements. Our SBIC subsidiaries may be limited by the Small Business Investment Act of 1958, and SBA regulations governing SBICs, from making certain distributions to us that may be necessary to maintain our status as a RIC. We may have to request a waiver of the SBA s restrictions for our SBIC subsidiaries to make certain distributions to maintain our RIC status. We cannot assure you that the SBA will grant such waiver. If our SBIC subsidiaries are unable to obtain a waiver, compliance with the SBA regulations may result in loss of RIC tax treatment and a consequent imposition of an entity-level tax on us. See Regulation Small Business Administration Regulations.

There is no assurance that HT II or HT III will be able to draw up to the maximum limit available under the SBIC program.

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. As of September 30, 2011, HT II had the potential to borrow up to $125.0 million of SBA-guaranteed debentures under the SBIC program. With our net investment of $75.0 million in HT II as of September 30, 2011, HT II has the capacity to issue a total of $125.0 million of SBA guaranteed debentures, subject to SBA approval, of which $125.0 million is outstanding as of December 31, 2011.

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. As of September 30, 2011, HT III had the potential to borrow up to $100.0 million of SBA-guaranteed debentures under the SBIC program. With our net investment of $50.0 million in HT III as of September 30, 2011, HT III has the capacity to issue a total of $100.0 million of SBA guaranteed debentures, subject to SBA approval, of which $100.0 million was outstanding as of December 31, 2011.

On December 31, 2011, there was $225.0 million principal amount of indebtedness outstanding incurred by our SBIC subsidiaries. Should HT II or HT III pay down any amount of debentures, or should the maximum limit be increased in excess of $225 million, there is no assurance that HT II or HT III will be able to draw up to the maximum limit available under the SBIC program. Access to the remaining leverage is subject to SBA approval and compliance with SBA regulations.

In January 2011, we repaid $25.0 million of SBA debentures under HT II, priced at approximately 6.63%, including annual fees. In February 2011, we submitted a request to the SBA to borrow $25.0 million under a new capital commitment and in April 2011, the SBA approved a $25.0 million dollar commitment for HT III bringing the total available borrowings to $225.0 million, of which $125.0 million was available in HT II and $100.0 million was available in HT III.

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In February 2012, we repaid $24.3 million of SBA debentures under HT II, priced at 6.63%, including annual fees. We plan to submit a request to the SBA to borrow the $24.3 million under a new capital commitment under HT III, subject to SBA approval. There can be no assurances that the SBA will approve our new capital commitment request or that the pricing will be consistent with the September 2011 pricing or that we will have drawn on any possible commitment.

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

We elected to be treated as a RIC for federal income tax purposes with the filing of our federal corporate income tax return for 2006. We will not qualify for the tax treatment allowable to RICs if we are unable to comply with the source of income, asset diversification and distribution requirements contained in Subchapter M of the Code, or if we fail to maintain our election to be regulated as a business development company under the 1940 Act. If we fail to qualify for the federal income tax benefits allowable to RICs for any reason and become subject to a corporate-level income tax, the resulting taxes could substantially reduce our net assets, the amount of income available for distribution to our stockholders and the actual amount of our distributions. Such a failure would have a material adverse effect on us, the net asset value of our common stock and the total return, if any, obtainable from your investment in our common stock. Any net operating losses that we incur in periods during which we qualify as a RIC will not offset net capital gains (i.e., net realized long-term capital gains in excess of net realized short-term capital losses) that we are otherwise required to distribute, and we cannot pass such net operating losses through to our stockholders. In addition, net operating losses that we carry over to a taxable year in which we qualify as a RIC normally cannot offset ordinary income or capital gains.

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

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

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

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

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. Despite actions of the United States federal government and foreign governments, these events contributed to worsening general economic conditions that have materially and adversely impacted the broader financial and credit markets and reduced the availability of debt and equity capital for the market as a whole and financial services firms in particular. While indicators suggest improvement in the capital markets, these conditions could deteriorate 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.

The impact of recent financial reform legislation on us is uncertain.

In light of current conditions in the U.S. and global financial markets and the U.S. and global economy, legislators, the presidential administration and regulators have increased their focus on the regulation of the financial services industry. The Dodd-Frank Act institutes a wide range of reforms that will have an impact on all financial institutions. Many of these provisions are subject to rule making procedures and studies that will be conducted in the future. Accordingly, we cannot predict the effect the Dodd-Frank Act or its implementing regulations will have on our business, results of operations or financial condition.

If we cannot obtain additional capital because of either regulatory or market price constraints, we could be forced to curtail or cease our new lending and investment activities, our net asset value could decrease and our level of distributions and liquidity could be affected adversely.

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

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 of December 31, 2011, we did not have any outstanding borrowings under the Union Bank Facility and had approximately $10.2 million of borrowings outstanding under the Wells Facility. In addition, as of December 31, 2011, we had approximately $225.0 million principal amount of indebtedness outstanding incurred by our SBIC subsidiaries and $75.0 million of Senior Convertible Notes payable. Available borrowing capacity under these facilities as of December 31, 2011 was $119.8 million and subject to terms and conditions and approvals of the SBA.

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

As of December 31, 2011, we had unfunded origination activity commitments of approximately $168.2 million. Approximately $92.0 million of these unfunded debt commitments are dependent upon the portfolio company reaching certain milestones before the debt commitment becomes available. These commitments will be subject to the same underwriting and ongoing portfolio maintenance. Since these commitments may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. Closed commitments generally fund 70-80% of the committed amount in aggregate over the life of the commitment. We intend to use cash flow from normal and early principal repayments, SBA debentures, our Wells Facility, our Union Bank Facility and proceeds from Convertible Senior Notes to fund these commitments. However, there can be no assurance that we will have sufficient capital available to fund these commitments as they come due.

Risks Related to Our Investments

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

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

As of December 31, 2011, approximately 57.5% of the fair value of our portfolio was composed of investments in four industries: 20.1% was composed of investments in the drug discovery and development industry, 18.0% was composed of investments in the internet consumer and business services industry; 9.8% was composed of investments in the clean technology industry and 9.6% was composed of investments in the drug delivery industry. As a result, a downturn in technology-related industry sectors and particularly those in which we are heavily concentrated could materially adversely affect our financial condition.

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

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

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

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

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

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

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

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

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

Our investments in clean technology, or cleantech, companies are subject to substantial operational risks, such as underestimated cost projections, unanticipated operation and maintenance expenses, loss of government subsidies, and inability to deliver cost-effective alternative energy solutions compared to traditional energy products. In addition, energy companies employ a variety of means of increasing cash flow, including increasing utilization of existing facilities, expanding operations through new construction or acquisitions, or securing

additional long-term contracts. Thus, some energy companies may be subject to construction risk, acquisition risk or other risks arising from their specific business strategies. Furthermore, production levels for solar, wind and other renewable energies may be dependent upon adequate sunlight, wind, or biogas production, which can vary from market to market and period to period, resulting in volatility in production levels and profitability. In addition, our cleantech companies may have narrow product lines and small market shares, which tend to render them more vulnerable to competitors actions and market conditions, as well as to general economic downturns. The revenues, income (or losses) and valuations of clean technology companies can and often do fluctuate suddenly and dramatically and the markets in which clean technology companies operate are generally characterized by abrupt business cycles and intense competition. Demand for cleantech and renewable energy is also influenced by the available supply and prices for other energy products, such as coal, oil and natural gases. A change in prices in these energy products could reduce demand for alternative energy. Our investments in cleantech companies also face potential litigation, including significant warranty and product liability claims, as well as class action and government claims arising from the increased attention to the industry from the failure of Solyndra. Such litigation could adversely affect the business and results of operations of our cleantech portfolio companies. There is also particular uncertainty about whether agreements providing incentives for reductions in greenhouse gas emissions, such as the Kyoto Protocol, will continue and whether countries around the world will enact or maintain legislation that provides incentives for reductions in greenhouse gas emissions, without which such investments in clean technology dependent portfolio companies may not be economical or financing for such projects may become unavailable. As a result, these portfolio company investments face considerable risk, including the risk that favorable regulatory regimes expire or are adversely modified. This could, in turn, materially adversely affect the value of the clean technology companies in our portfolio.

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

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

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

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

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

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

As a business development company, we are required to carry our investments at market value or, if no market value is ascertainable, at fair market value as determined in good faith by or under the direction of our board of directors. As part of the valuation process, we may take into account the following types of factors, if relevant, in determining the fair value of our investments: the enterprise value of a portfolio company (an estimate of the total fair value of the portfolio company s debt and equity), the nature and realizable value of any collateral, the portfolio company s ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business, a comparison of the portfolio company s securities to publicly traded securities, changes in the interest rate environment and the credit markets generally that may affect the price at which similar investments may be made in the future and other relevant factors. When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, we use the pricing indicated by the external event to corroborate our valuation. Decreases in the market values or fair values of our investments are recorded as unrealized depreciation.

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

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

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

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

debt or secured debt, depending on the facts and circumstances, including the extent to which we actually provided significant managerial assistance, if any, to that portfolio company, a bankruptcy court might re-characterize our debt holding and subordinate all or a portion of our claim to that of other creditors. These events could materially adversely affect our financial condition and operating results.

Generally, we do not control our portfolio companies. These portfolio companies may face intense competition, including competition from companies with greater financial resources, more extensive research and development, manufacturing, marketing and service capabilities and greater number of qualified and experienced managerial and technical personnel. They may need additional financing which they are unable to secure and which we are unable or unwilling to provide, or they may be subject to adverse developments unrelated to the technologies they acquire.

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

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

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

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

To the extent venture capital or private equity firms decrease or discontinue funding to their portfolio companies, our portfolio companies may not be able to meet their obligations under the debt securities that we hold.

Most of our portfolio companies rely heavily on future rounds of funding from venture capital or private equity firms in order to continue operating their businesses and repaying their obligations to us under the debt securities that we hold. Venture capital and private equity firms in turn rely on their limited partners to pay in capital over time in order to fund their ongoing and future investment activities.

To the extent that venture capital and private equity firms limited partners are unable to fulfill their ongoing funding obligations, the venture capital or private equity firms may be unable to continue financially supporting the ongoing operations of our portfolio companies. As a result, our portfolio companies may be unable to repay their obligations under the debt securities that we hold, which would harm our financial condition and results of operations.

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

We believe that our portfolio companies generally will be able to repay our loans from their available capital, from future capital-raising transactions, or from cash flow from operations. However, to attempt to mitigate credit risks, we will typically take a security interest in the available assets of these portfolio companies, including the equity interests of their subsidiaries and, in some cases, the equity interests of our portfolio companies held by their stockholders. In many cases, our loans will include a period of interest-only payments. There is a risk that the collateral securing our loans may decrease in value over time, may be difficult to sell in a timely manner, may be difficult to appraise and may fluctuate in value based upon the success of the business and market conditions, including as a result of the inability of a portfolio company to raise additional capital. In some circumstances, our lien could be subordinated to claims of other creditors. Additionally, deterioration in a portfolio company s financial condition and prospects, including its inability to raise additional capital, may be accompanied by deterioration in the value of the collateral for the loan. Moreover, in the case of some of our structured debt with warrants, we may not have a first lien position on the collateral. Consequently, the fact that a loan is secured does not guarantee that we will receive principal and interest payments according to the loan s terms, or that we will be able to collect on the loan should we be forced to enforce our remedies.

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

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

Economic downturns or recessions could impair the value of the collateral for our loans to our portfolio companies, increase our funding costs, limit our access to the credit and capital markets, impair the ability of a portfolio company to satisfy covenants imposed by its lenders and consequently increase the possibility of an adverse effect on our business, financial condition and results of operations.

Many of our portfolio companies are susceptible to economic recessions and may be unable to repay our loans during such periods. Therefore, our non-performing assets are likely to increase and the value of our portfolio is likely to decrease during such periods. Adverse economic conditions may also decrease the value of collateral securing some of our loans and the value of our equity investments.

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

Economic slowdowns or recessions could lead to financial losses in our portfolio and a decrease in revenues, net income and assets. Unfavorable economic conditions also could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us.

A portfolio company s failure to satisfy financial or operating covenants imposed by us or other lenders could lead to defaults and, potentially, termination of the portfolio company s loans and foreclosure on its

secured assets, which could trigger cross-defaults under other agreements and jeopardize the portfolio company s ability to meet its obligations under the debt securities that we hold. We may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms with a defaulting portfolio company.

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

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

In the event of bankruptcy of a portfolio company, we may not have full recourse to its assets in order to satisfy our loan, or our loan may be subject to equitable subordination. In addition, certain of our loans are subordinate to other debt of the portfolio company. If a portfolio company defaults on our loan or on debt senior to our loan, or in the event of a portfolio company bankruptcy, our loan will be satisfied only after the senior debt receives payment. Where debt senior to our loan exists, the presence of intercreditor arrangements may limit our ability to amend our loan documents, assign our loans, accept prepayments, exercise our remedies (through standstill periods) and control decisions made in bankruptcy proceedings relating to the portfolio company. Bankruptcy and portfolio company litigation can significantly increase collection losses and the time needed for us to acquire the underlying collateral in the event of a default, during which time the collateral may decline in value, causing us to suffer losses.

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

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

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

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

We invest primarily in privately-held companies. Generally, very little public information exists about these companies, and we are required to rely on the ability of our management team to obtain adequate information to evaluate the potential returns from investing in these companies. If we are unable to uncover all material information about these companies, then we may not make a fully informed investment decision, and we may not receive the expected return on our investment or lose some or all of the money invested in these companies.

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

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

If our portfolio companies are unable to protect their intellectual property rights, then our business and prospects could be harmed. If our portfolio companies are required to devote significant resources to protecting their intellectual property rights, then the value of our investment could be reduced.

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

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

We may from time-to-time provide loans that will be collateralized only by equipment of the portfolio company. If the portfolio company defaults on the loan we would take possession of the underlying equipment to satisfy the outstanding debt. The residual value of the equipment at the time we would take possession may not be sufficient to satisfy the outstanding debt and we could experience a loss on the disposition of the equipment.

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

Our investment strategy contemplates that a portion of our investments may be in securities of foreign companies. Our total investments at value in foreign companies were approximately $18.1 million or 2.8% of

total investments at December 31, 2011. Investing in foreign companies may expose us to additional risks not typically associated with investing in U.S. companies. These risks include changes in exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than is generally the case in the U.S., higher transaction costs, less government supervision of exchanges, brokers and issuers, less developed bankruptcy laws, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility.

Some of our portfolio companies may need additional capital, which may not be readily available.

Our portfolio companies will often require substantial additional equity financing to satisfy their continuing working capital and other requirements, and in most instances to service the interest and principal payments on our investment. Each round of venture financing is typically intended to provide a company with only enough capital to reach the next stage of development. We cannot predict the circumstances or market conditions under which our portfolio companies will seek additional capital. It is possible that one or more of our portfolio companies will not be able to raise additional financing or may be able to do so only at a price or on terms unfavorable to us, either of which would negatively impact our investment returns. Some of these companies may be unable to obtain sufficient financing from private investors, public capital markets or traditional lenders. Accordingly, financing these types of companies may entail a higher risk of loss than would financing companies that are able to utilize traditional credit sources.

We may be unable or decide not to make additional cash investments in our portfolio companies which could result in our losing our initial investment if the portfolio company fails.

We may have to make additional cash investments in our portfolio companies to protect our overall investment value in the particular company. We retain the discretion to make any additional investments as our management determines. The failure to make such additional investments may jeopardize the continued viability of a portfolio company, and our initial (and subsequent) investments. Moreover, additional investments may limit the number of companies in which we can make initial investments. In determining whether to make an additional investment our management will exercise its business judgment and apply criteria similar to those used when making the initial investment. We cannot assure you that we will have sufficient funds to make any necessary additional investments, which could adversely affect our success and result in the loss of a substantial portion or all of our investment in a portfolio company.

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

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

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

After our initial investment in a portfolio company, we may be called upon from time to time to provide additional funds to such company or have the opportunity to increase our investment in a successful situation, for example, the exercise of a warrant to purchase common stock. Any decision we make not to make a follow-on

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investment or any inability on our part to make such an investment may have a negative impact on a portfolio company in need of such an investment or may result in a missed opportunity for us to increase our participation in a successful operation and may dilute our equity interest or otherwise reduce the expected yield on our investment. Moreover, a follow-on investment may limit the number of companies in which we can make initial investments. In determining whether to make a follow-on investment, our management will exercise its business judgment and apply criteria similar to those used when making the initial investment. There is no assurance that we will make, or will have sufficient funds to make, follow-on investments and this could adversely affect our success and result in the loss of a substantial portion or all of our investment in a portfolio company.

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

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

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

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

Our portfolio companies may incur debt that ranks equally with, or senior to, our investments in such companies.

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

liquidation, dissolution, reorganization or bankruptcy. In addition, we would not be in a position to control any portfolio company by investing in its debt securities. As a result, we are subject to the risk that a portfolio company in which we invest may make business decisions with which we disagree and the management of such companies, as representatives of the holders of their common equity, may take risks or otherwise act in ways that do not best serve our interests as debt investors.

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

When we invest in debt securities, we generally expect to acquire warrants or other equity securities as well. Our goal is ultimately to dispose of these equity interests and realize gains upon disposition of such interests. Over time, the gains that we realize on these equity interests may offset, to some extent, losses that we experience on defaults under debt securities that we hold. However, the equity interests that we receive may not appreciate in value and, in fact, may decline in value. Accordingly, we may not be able to realize gains from our equity interests, and any gains that we do realize on the disposition of any equity interests may not be sufficient to offset any other losses that we experience.

We may not realize expected returns on warrants received in connection with our debt investments.

We generally receive warrants in connection with our debt investments. At December 31, 2011, we held warrant positions received in connection with our debt investments in approximately 4.6% of our total portfolio investments. If we do not receive the returns that are anticipated on the warrants, our investment returns on our portfolio companies, and the value of an investment in us, may be lower than expected.

We generally do not control our portfolio companies and therefore our portfolio companies may make decisions with which we disagree.

Generally, we do not control any of our portfolio companies, even though we may have board observation rights and our debt agreements may contain certain restrictive covenants. As a result, we are subject to the risk that a portfolio company in which we invest may make business decisions with which we disagree and the management of such company, as representatives of the holders of their common equity, may take risks or otherwise act in ways that do not serve our interests as debt investors.

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

In 2011, we received early loan repayments and pay down of working capital loans of approximately $247.3 million. We are subject to the risk that the investments we make in our portfolio companies may be repaid prior to maturity. When this occurs, we will generally reinvest these proceeds in temporary investments, pending their future investment in new portfolio companies. These temporary investments will typically have substantially lower yields than the debt being prepaid and we could experience significant delays in reinvesting these amounts. Any future investment in a new portfolio company may also be at lower yields than the debt that was repaid. As a result, our results of operations could be materially adversely affected if one or more of our portfolio companies elect to prepay amounts owed to us. Additionally, prepayments could negatively impact our return on equity, which could result in a decline in the market price of our common stock.

We may not realize gains from our equity investments.

When we invest in debt securities, we generally expect to acquire warrants or other equity securities as well. However, the equity interests we receive may not appreciate in value and, in fact, may decline in value. Accordingly, we may not be able to realize gains from our equity interests, and any gains that we do realize on the disposition of any equity interests may not be sufficient to offset any other losses we experience.

Our financial results could be negatively affected if we are unable to recover our principal investment as a result of a negative pledge on the intellectual property of our portfolio companies.

In some cases, we collateralize our investments by obtaining a first priority security interest in a portfolio companies assets, which may include their intellectual property. In other cases, we may obtain a first priority security interest in a portion of a portfolio company s assets and a negative pledge covering a company s intellectual property and a first priority security interest in the proceeds from such intellectual property. In the case of a negative pledge, the portfolio company cannot encumber or pledge their intellectual property without our permission. In the event of a default on a loan, the intellectual property of the portfolio company will most likely be liquidated to provide proceeds to pay the creditors of the company. As a result, a negative pledge may affect our ability to fully recover our principal investment. In addition, there can be no assurance that our security interest in the proceeds of the intellectual property will be enforceable in a court of law or bankruptcy court.

At December 31, 2011, approximately 63.0% of our portfolio company loans were secured by a first priority security in all of the assets of the portfolio company, 36.0% of the loans were to portfolio companies that were prohibited from pledging or encumbering their intellectual property and 1.0% of portfolio company loans had an equipment only lien.

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

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

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

Courts may apply the doctrine of equitable subordination to subordinate the claim or lien of a lender against a borrower to claims or liens of other creditors of the borrower, when the lender or its affiliates is found to have engaged in unfair, inequitable or fraudulent conduct. The courts have also applied the doctrine of equitable subordination when a lender or its affiliates is found to have exerted inappropriate control over a client, including control resulting from the ownership of equity interests in a client. We have made direct equity investments or received warrants in connection with loans. These investments represent approximately 10.3% of the outstanding balance of our portfolio as of December 31, 2011. Payments on one or more of our loans, particularly a loan to a client in which we also hold an equity interest, may be subject to claims of equitable subordination. If we were deemed to have the ability to control or otherwise exercise influence over the business and affairs of one or more of our portfolio companies resulting in economic hardship to other creditors of that company, this control or influence may constitute grounds for equitable subordination and a court may treat one or more of our loans as if it were unsecured or common equity in the portfolio company. In that case, if the portfolio company were to liquidate, we would be entitled to repayment of our loan on a pro-rata basis with other unsecured debt or, if the effect of subordination was to place us at the level of common equity, then on an equal basis with other holders of the portfolio company s common equity only after all of its obligations relating to its debt and preferred securities had been satisfied.

Risks Related to Our Securities

Investing in our securities may involve an above average degree of risk.

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

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

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

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

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

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

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

Any sale or other issuance of shares of our common stock at a price below net asset value per share has resulted and will continue to result in an immediate dilution to your interest in our common stock and a reduction of our net asset value per share. This dilution would occur as a result of a proportionately greater decrease in a stockholder s interest in our earnings and assets and voting interest in us than the increase in our assets resulting from such issuance. Because the number of future shares of common stock that may be issued below our net asset value per share and the price and timing of such issuances are not currently known, we cannot predict the actual dilutive effect of any such issuance. We also cannot determine the resulting reduction in our net asset

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value per share of any such issuance at this time. We caution you that such effects may be material, and we undertake to describe all the material risks and dilutive effects of any offering that we make at a price below our then current net asset value in the future in a prospectus supplement issued in connection with any such offering. We cannot predict whether shares of our common stock will trade above, at or below our net asset value.

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

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

At our Annual Meeting of Stockholders on June 1, 2011, our stockholders approved a proposal authorizing us to sell up to 20% of our common stock at a price below the Company s net asset value per share, subject to Board approval of the offering. If we were to issue shares at a price below net asset value, such sales would result in an immediate dilution to existing common stockholders, which would include a reduction in the net asset value per share as a result of the issuance. This dilution would also include a proportionately greater decrease in a stockholder s interest in our earnings and assets and voting interest in us than the increase in our assets resulting from such issuance.

In addition, if we determined to conduct additional offerings in the future there may be even greater discounts if we determine to conduct such offerings at prices below net asset value. As a result, investors will experience further dilution and additional discounts to the price of our common stock. Because the number of shares of common stock that could be so issued and the timing of any issuance is not currently known, the actual dilutive effect of an offering cannot be predicted. We did not sell any of our common stocks at a price below our net asset value during the year ended December 31, 2011.

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

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

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

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

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

We cannot assure you that the issuance of preferred stock and/or debt securities would result in a higher yield or return to the holders of our common stock. The issuance of preferred stock, debt securities or convertible debt would likely cause the net asset value and market value of our common stock to become more volatile. If the dividend rate on the preferred stock, or the interest rate on the debt securities, were to approach the net rate of return on our investment portfolio, the benefit of leverage to the holders of our common stock would be reduced. If the dividend rate on the preferred stock, or the interest rate on the debt securities, were to exceed the net rate of return on our portfolio, the use of leverage would result in a lower rate of return to the holders of common stock

than if we had not issued the preferred stock or debt securities. Any decline in the net asset value of our investment would be borne entirely by the holders of our common stock. Therefore, if the market value of our portfolio were to decline, the leverage would result in a greater decrease in net asset value to the holders of our common stock than if we were not leveraged through the issuance of preferred stock. This decline in net asset value would also tend to cause a greater decline in the market price for our common stock.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

may pay a price per share that exceeds the tangible book value per share after such offering.

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

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

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

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 $11.89 per share of common stock, in each case subject to adjustment in certain circumstances. If we elect to deliver shares of common stock upon a conversion at the time our tangible book value per share exceeds the conversion price in effect at such time, our stockholders may incur dilution. In addition, our stockholders will experience dilution in their ownership percentage of common stock upon our issuance of common stock in connection with the conversion of the Convertible Senior Notes and any dividends paid on our common stock will also be paid on shares issued in connection with such conversion after such issuance.

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

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

- price and volume fluctuations in the overall stock market from time to time;
- significant volatility in the market price and trading volume of securities of RICs, business development companies or other financial services companies;
- any inability to deploy or invest our capital;
- fluctuations in interest rates;
- any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;
- the financial performance of specific industries in which we invest in on a recurring basis;
- announcement of strategic developments, acquisitions, and other material events by us or our competitors, or operating performance of companies comparable to us;
- changes in regulatory policies or tax guidelines with respect to RICs, SBICs or business development companies;
- losing RIC status;
- actual or anticipated changes in our earnings or fluctuations in our operating results, or changes in the expectations of securities analysts;
- changes in the value of our portfolio of investments;

- realized losses in investments in our portfolio companies;
- general economic conditions and trends;
- inability to access the capital markets;
- loss of a major funded source; or
- departures of key personnel.

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

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FORWARD-LOOKING STATEMENTS

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

- our future operating results;
- our business prospects and the prospects of our prospective portfolio companies;
- the impact of investments that we expect to make;
- the impact of a protracted decline in the liquidity of credit markets on our business;
- our informal relationships with third parties including in the venture capital industry;
- the expected market for venture capital investments and our addressable market;
- the dependence of our future success on the general economy and its impact on the industries in which we invest;
- our ability to access debt markets and equity markets;
- the ability of our portfolio companies to achieve their objectives;
- our expected financings and investments;
- our regulatory structure and tax status;
- our ability to operate as a business development company, a small business investment company and a RIC;
- the adequacy of our cash resources and working capital;

- the timing of cash flows, if any, from the operations of our portfolio companies;
- the timing, form and amount of any dividend distributions;
- the impact of fluctuations in interest rates on our business;
- the valuation of any investments in portfolio companies, particularly those having no liquid trading market; and
- our ability to recover unrealized losses.

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

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

We have compiled certain industry estimates presented in this 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 common stock could be materially adversely affected.

USE OF PROCEEDS

We intend to use the net proceeds from selling our securities for funding investments in debt and equity securities in accordance with our investment objective and other general corporate purposes. The supplement to this prospectus relating to an offering will more fully identify the use of proceeds from such offering.

We anticipate that substantially all of the net proceeds from any offering of our securities will be used as described above within twelve months, but in no event longer than two years. Pending such uses and investments, we will invest the net proceeds primarily in cash, cash equivalents, U.S. government securities or high-quality debt securities maturing in one year or less from the time of investment. Our ability to achieve our investment objective may be limited to the extent that the net proceeds of any offering, pending full investment, are held in lower yielding short-term instruments.

PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS

Our common stock is traded on the Nasdaq Global Select Market under the symbol HTGC.

The following table sets forth the range of high and low sales prices of our common stock as reported on the Nasdaq Global Select Market, the sales price as a percentage of net asset value and the dividends declared by us for each fiscal quarter. The stock quotations are interdealer quotations and do not include markups, markdowns or commissions.

		Price Range		Premium/ Discount of High Sales	Premium/ Discount	Cash
	NAV[(1)]	High	Low	Price to NAV	of Low Sales Price to NAV	Dividend per Share[(2)]
2010						
First quarter	$ 10.11	$ 11.15	$ 9.16	110.3%	90.6%	$ 0.200
Second quarter	$ 9.80	$ 11.50	$ 8.62	117.3%	88.0%	$ 0.200
Third quarter	$ 9.36	$ 10.57	$ 9.13	112.9%	97.5%	$ 0.200
Fourth quarter	$ 9.50	$ 10.91	$ 9.87	114.8%	103.8%	$ 0.200
2011						
First quarter	$ 9.20	$ 11.40	$ 10.42	123.9%	113.3%	$ 0.220
Second quarter	$ 9.67	$ 11.36	$ 10.09	117.5%	104.3%	$ 0.220
Third quarter	$ 9.61	$ 10.80	$ 8.51	112.4%	88.6%	$ 0.220
Fourth quarter	$ 9.83	$ 9.99	$ 8.20	101.6%	116.6%	$ 0.220
2012						
First quarter (through March 13, 2012)	*	$ 10.93	$ 9.53	*	*	$ 0.230

(1) Net asset value per share is generally determined as of the last day in the relevant quarter and therefore may not reflect the net asset value per share on the date of the high and low sales prices. The net asset values shown are based on outstanding shares at the end of each period.
(2) Represents the dividend declared in the specified quarter. The dividend paid in the first quarter of 2009 was comprised of cash and stock.
* Net asset value has not yet been calculated for this period.

The last reported price for our common stock on March 13, 2012 was $10.93 per share.

Shares of business development companies may trade at a market price that is less than the value of the net assets attributable to those shares. The possibility that our shares of common stock will trade at a discount from net asset value or at premiums that are unsustainable over the long term are separate and distinct from the risk that our net asset value will decrease. At times, our shares of common stock have traded at a premium to net asset value and at times our shares of common stock have traded at a discount to the net assets attributable to those shares. It is not possible to predict whether the shares offered hereby will trade at, above, or below net asset value.

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Dividends

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

Date Declared	Record Date	Payment Date	Amount Per Share	
October 27, 2005	November 1, 2005	November 17, 2005	$	0.025
December 9, 2005	January 6, 2006	January 27, 2006		0.300
April 3, 2006	April 10, 2006	May 5, 2006		0.300
July 19, 2006	July 31, 2006	August 28, 2006		0.300
October 16, 2006	November 6, 2006	December 1, 2006		0.300
February 7, 2007	February 19, 2007	March 19, 2007		0.300
May 3, 2007	May 16, 2007	June 18, 2007		0.300
August 2, 2007	August 16, 2007	September 17, 2007		0.300
November 1, 2007	November 16, 2007	December 17, 2007		0.300
February 7, 2008	February 15, 2008	March 17, 2008		0.300
May 8, 2008	May 16, 2008	June 16, 2008		0.340
August 7, 2008	August 15, 2008	September 15, 2008		0.340
November 6, 2008	November 14, 2008	December 15, 2008		0.340
February 12, 2009	February 23, 2009	March 30, 2009		0.320*
May 7, 2009	May 15, 2009	June 15, 2009		0.300
August 6, 2009	August 14, 2009	September 14, 2009		0.300
October 15, 2009	October 20, 2009	November 23, 2009		0.300
December 16, 2009	December 24, 2009	December 30, 2009		0.040
February 11, 2010	February 19, 2010	March 19, 2010		0.200
May 3, 2010	May 12, 2010	June 18, 2010		0.200
August 2, 2010	August 12, 2010	September 17, 2010		0.200
November 4, 2010	November 10, 2010	December 17, 2010		0.200
March 1, 2011	March 10, 2011	March 24, 2011		0.220
May 5, 2011	May 11, 2011	June 23, 2011		0.220
August 4, 2011	August 15, 2011	September 15, 2011		0.220
November 3, 2011	November 14, 2011	November 29, 2011		0.220
February 27, 2012	March 12, 2012	March 15, 2012		0.230
			$	6.915

* Dividend paid in cash and stock

On February 27, 2012, the Board of Directors announced a cash dividend of $0.23 per share which was paid on March 15, 2012 to shareholders of record as of March 12, 2012. This dividend was the Company s twenty-seventh consecutive quarterly dividend declaration since its initial public offering, and brings the total cumulative dividend declared to date to $6.92 per share.

Our Board of Directors maintains a variable dividend policy with the objective of distributing four quarterly distributions in an amount that approximates 90 100% of our taxable quarterly income or potential annual income for a particular year. In addition, at the end of the year, we may also pay an additional special dividend or fifth dividend, such that we may distribute approximately all of our annual taxable income in the year it was earned, while maintaining the option to spill over our excess taxable income.

Distributions in excess of our current and accumulated earnings and profits would generally be treated first as a return of capital to the extent of the stockholder s tax basis, and any remaining distributions would be treated as a capital gain. The determination of the tax attributes of our distributions is made annually as of the end of our fiscal year based upon our taxable income for the full year and distributions paid for the full year. Of the dividends declared during the year ended December 31, 2011 and 2010, 100% were distributions of ordinary

income. There can be no certainty to stockholders that this determination is representative of what the tax attributes of our 2012 distributions to stockholders will actually be.

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

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

We intend to distribute quarterly dividends to our stockholders. In order to avoid certain excise taxes imposed on RICs, we currently intend to distribute during each calendar year an amount at least equal to the sum of (1) 98% of our ordinary income for the calendar year, (2) 98.2% of our capital gains in excess of capital losses for the one year period ending on October 31 of the calendar year, and (3) any ordinary income and net capital gains for the preceding year that were not distributed during such year. 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). In order to obtain the tax benefits applicable to RICs, we will be required to distribute to our stockholders with respect to each taxable year at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses.

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. See Regulation .

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

Our ability to make distributions will be limited by the asset coverage requirements under the 1940 Act.

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RATIO OF EARNINGS TO FIXED CHARGES

For the years ended December 31, 2011, 2010, 2009, 2008 and 2007, our ratio of earnings to fixed charges, computed as set forth below, were as follows:

	For the year ended December 31, 2011	For the year ended December 31, 2010	For the year ended December 31, 2009	For the year ended December 31, 2008	For the year ended December 31, 2007
Earnings to Fixed Charges(1)	2.95	0.51	1.20	1.33	7.45

For purposes of computing the ratios of earnings to fixed charges, earnings represent net increase in stockholders equity resulting from operations plus (or minus) income tax expense (benefit) including excise tax expense 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.

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 report. In addition to historical information, the following discussion and other parts of this report contain forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated by such forward-looking information due to the factors discussed under Risk Factors and Forward-Looking Statements appearing elsewhere herein.

Overview

We are a specialty finance firm providing customized loans to public and private technology-related companies, including clean technology, life science and select lower middle market technology companies at all stages of development. We primarily finance privately-held companies backed by leading venture capital and private equity firms, and also may finance certain publicly-traded companies that lack access to public capital or are sensitive to equity ownership dilution. We source our investments through our principal office located in Silicon Valley, as well as through additional offices in Boston, MA, Boulder, CO, and McLean, VA.

Our goal is to be the leading structured debt financing provider of choice for venture capital and private equity backed technology-related companies requiring sophisticated and customized financing solutions. Our strategy is to evaluate and invest in a broad range of technology-related companies including clean technology, life science and select lower middle market technology companies and to offer a full suite of growth capital products up and down the capital structure. We invest primarily in structured debt with warrants and, to a lesser extent, in senior debt and equity investments. We use the term structured debt with warrants to refer to any debt investment, such as a senior or subordinated secured loan, that is coupled with an equity component, including warrants, options or rights to purchase common or preferred stock. Our structured debt with warrants investments will typically be secured by some or all of the assets of the portfolio company.

Our investment objective is to maximize our portfolio total return by generating current income from our debt investments and capital appreciation from our equity-related investments. Our primary business objectives are to increase our net income, net operating income and net asset value by investing in structured debt with warrants and equity of venture capital and private equity backed technology-related companies with attractive current yields and the potential for equity appreciation and realized gains. Our structured debt investments typically include warrants or other equity interests, giving us the potential to realize equity-like returns on a portion of our investments. Our equity ownership in our portfolio companies may represent a controlling interest. 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 and private equity backed technology-related companies is generally used for growth and general working capital purposes as well as in select cases for acquisitions or recapitalizations.

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

From incorporation through December 31, 2005, we were taxed as a corporation under Subchapter C of the Internal Revenue Code, or the Code. As of January 1, 2006, we have elected to be treated for federal income tax purposes as a regulated investment company, or a RIC, under Subchapter M of the Code. Pursuant to this election, we generally will not have to pay corporate-level taxes on any income that we distribute to our stockholders. However, such an election and qualification to be treated as a RIC requires that we comply with

certain requirements contained in Subchapter M of the Code. For example, a RIC must meet certain requirements, including source-of income, asset diversification and income distribution requirements. The income source requirement mandates that we receive 90% or more of our income from qualified earnings, typically referred to as good income. Qualified earnings may exclude such income as management fees received in connection with our SBIC or other potential outside managed funds and certain other fees.

Our portfolio is comprised of, and we anticipate that our portfolio will continue to be comprised of, investments primarily in technology-related companies at various stages of their development. Consistent with regulatory requirements, we invest primarily in United States based companies and to a lesser extent in foreign companies. Our investing emphasis has been primarily on private companies following or in connection with a subsequent institutional round of equity financing, which we refer to as expansion-stage companies and private companies in later rounds of financing and certain public companies, which we refer to as established-stage companies and select lower middle market companies. We have focused our investment activities in private companies following or in connection with the first institutional round of financing, which we refer to as emerging-growth companies.

Portfolio and Investment Activity

The total value of our investment portfolio was $652.9 million at December 31, 2011 as compared to $472.0 million at December 31, 2010.

During the year ended December 31, 2011 we made debt commitments to new and existing portfolio companies, including restructured loans, totaling $628.3 million. Debt commitments for the year ended December 31, 2011 included commitments of approximately $402.5 million to 34 new portfolio companies and $225.8 million to 16 existing companies.

During the year ended December 31, 2011, we funded approximately $433.4 million of debt investments. During the year ended December 31, 2011 we made and funded equity commitments of approximately $2.1 million to four existing companies.

At December 31, 2011, we had unfunded contractual commitments of approximately $168.2 million to twenty-nine new and existing companies. Approximately $92.0 million of these unfunded origination activity commitments are dependent upon the portfolio company reaching certain milestones before the Hercules debt commitment becomes available.

These commitments will be subject to the same underwriting and ongoing portfolio maintenance as the on-balance sheet financial instruments that we hold. Since these commitments may expire without being drawn, unfunded commitments do not necessarily represent future cash requirements. In addition, we have approximately $82.5 million of non-binding term sheets outstanding to seven new and existing companies at December 31, 2011. Non-binding outstanding term sheets are subject to completion of our due diligence and final 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 the loan portfolio at December 31, 2011 was approximately $585.8 million, compared to a fair value of approximately $401.5 million at December 31, 2010. The fair value of the equity portfolio at December 31, 2011 and 2010 was approximately $37.1 million and $46.7 million, respectively. The fair value of our warrant portfolio at December 31, 2011 and 2010 was approximately $30.0 million and $23.7 million, respectively.

We receive payments in our loan portfolio based on scheduled amortization of the outstanding balances. In addition, we receive repayments of some of our loans prior to their scheduled maturity date. The frequency or

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volume of these repayments may fluctuate significantly from period to period. During the year ended December 31, 2011, we received normal principal amortization repayments of approximately $65.2 million, and early repayments and working line of credit pay-downs of approximately $182.1 million, including approximately $23.8 million in early repayments associated with the sale of Infologix, Inc. During the year ended December 31, 2011, we restructured our debt investments in three portfolio companies for approximately $8.1 million, $4.7 million and $3.3 million, converted $4.4 million of debt to equity.

Total portfolio investment activity (inclusive of unearned income) as of and for each of the years ended December 31, 2011 and 2010 was as follows:

(in millions)	December 31, 2011	December 31, 2010
Beginning Portfolio	$ 472.0	$ 374.7
Purchase of debt investments	433.4	320.4
Equity Investments	2.1	2.3
Sale of Investments	(18.6)	(34.2)
Principal payments received on investments	(65.2)	(81.6)
Early pay-offs and recoveries	(182.1)	(114.5)
Accretion of loan discounts and paid-in-kind principal	6.6	3.3
Net change in unrealized depreciation in investments	4.7	1.6
Restructure fundings	16.1	78.4
Restructure payoffs	(16.1)	(78.4)
Ending Portfolio	$ 652.9	$ 472.0

The following table shows the fair value of our portfolio of investments by asset class as of December 31, 2011 and December 31, 2010 (excluding unearned income).

	December 31, 2011		December 31, 2010	
(in thousands)	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
Senior secured debt with warrants	$ 482,268	73.9%	$ 357,963	75.8%
Senior secured debt	133,544	20.4%	59,251	12.6%
Preferred stock	30,181	4.6%	26,813	5.7%
Senior debt-second lien with warrants		0.0%	8,094	1.7%
Common Stock	6,877	1.1%	19,911	4.2%
	$ 652,870	100.0%	$ 472,032	100.0%

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

	December 31, 2011		December 31, 2010	
(in thousands)	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
United States	$ 634,736	97.2%	$ 438,585	92.9%
England	8,266	1.3%	10,653	2.3%
Iceland	4,970	0.7%		0.0%
Ireland	3,842	0.6%		0.0%
Canada	672	0.1%	20,876	4.4%
Israel	384	0.1%	1,918	0.4%

	$ 652,870	100.00%	$ 472,032	100.00%

Our portfolio companies are primarily privately held expansion-and established-stage companies in the biotechnology, drug discovery, drug delivery, specialty pharmaceuticals, therapeutics, clean technology,

communications and networking, consumer and business products, electronics and computers, information services, internet consumer and business services and products, surgical devices, semiconductor and software industry sectors. These sectors are characterized by high margins, high growth rates, consolidation and product and market extension opportunities. Value is often vested in intangible assets and intellectual property.

The largest portfolio companies vary from year to year as new loans are recorded and loans pay off. Loan revenue, consisting of interest, fees, and recognition of gains on equity interests, can fluctuate dramatically when a loan is paid off or a related equity interest is sold. Revenue recognition in any given year can be highly concentrated among several portfolio companies.

For years ended December 31, 2011 and 2010, our ten largest portfolio companies represented approximately 37.9% and 57.5% of the total fair value of our investments in portfolio companies, respectively. At December 31, 2011 and 2010, we had seven and six investments, respectively, that represented 5% or more of our net assets. At December 31, 2011, we had seven equity investments representing approximately 63.8% of the total fair value of our equity investments, and each represented 5% or more of the total fair value of our equity investments.

At December 31, 2010, we had three equity investments which represented approximately 48.0% of the total fair value of our equity investments, and each represented 5% or more of the total fair value of such investments.

As of December 31, 2011, approximately 57.5% of the fair value of our portfolio was composed of investments in four industries: 20.1% was composed of investments in the drug discovery and development industry, 18.0% was composed of investments in the internet consumer and business services industry; 9.8% was composed of investments in the clean technology industry and 9.6% was composed of investments in the drug delivery industry.

As of December 31, 2011, over 99% of our debt investments were in a senior secured first lien position, and more than 90.7% 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 rates increase. Our investments in senior secured debt with warrants have equity enhancement features, typically in the form of warrants or other equity-related securities designed to provide us with an opportunity for capital appreciation. Our warrant coverage generally ranges from 3% to 20% of the principal amount invested in a portfolio company, with a strike price equal to the most recent equity financing round. As of December 31, 2011, we held warrants in 109 portfolio companies, with a fair value of approximately $30.0 million. The fair value of the warrant portfolio has increased by approximately 26.6% as compared to the fair value of $23.7 million at December 31, 2010. These warrant holdings would require us to invest approximately $73.7 million to exercise such warrants. Warrants may appreciate or depreciate in value depending largely upon the underlying portfolio company s performance and overall market conditions. Of the warrants which have monetized since inception, we have realized warrant gain multiples in the range of approximately 1.04x to 8.74x based on the historical rate of return on our investments. However, these warrants may not appreciate in value and, in fact, may decline in value. Accordingly, we may not be able to realize gains from our warrant interests.

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. Generally, under the 1940 Act, we are deemed to control a company in which we have invested if 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 us, as defined in the 1940 Act, which are not Control Investments. We are deemed to be an affiliate of a company in which we have invested if we own 5% or more but less than 25% of the voting securities of such company. Non-control/ non-affiliate Investments are investments that are neither control investments nor affiliate investments.

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The following table summarizes our realized and unrealized gain and loss and changes in our unrealized appreciation and depreciation on control and affiliate investments at December 31, 2011 and December 31, 2010:

(in thousands)		December 31, 2011				
Portfolio Company	**Type**	**Fair Value at December 31, 2011**	**Investment Income**	**Unrealized (Depreciation)/ Appreciation**	**Reversal of Unrealized (Depreciation)/ Appreciation**	**Realized Gain/(Loss)**
MaxVision Holding, LLC.	Control	$ 1,027	$ 889	$ (5,158)	$	$
E-Band Communiations, Corp.	Non-Controlled Affiliate		14	(3,425)		
Total		$ 1,027	$ 903	$ (8,583)	$	$

(in thousands)		December 31, 2010				
Portfolio Company	**Type**	**Fair Value at December 31, 2010**	**Investment Income**	**Unrealized (Depreciation) /Appreciation**	**Reversal of Unrealized (Depreciation) /Appreciation**	**Realized Gain/(Loss)**
InfoLogix, Inc.	Control	$ 40,181	$ 3,013	$ 77	$ 128	$ 2,517
E-Band Communiations, Corp.	Non-Controlled Affiliate	3,069		795		
Total		$ 43,250	$ 3,013	$ 872	$ 128	$ 2,517

Our investment in InfoLogix, Inc., a company that was a control investment as of December 31, 2010, was sold to Stanley Black & Decker (NYSE:SWK) in January 2011. Approximately $8.3 million of realized gains and $8.4 million of net change in unrealized depreciation was recognized on this control investment during the three-month period ended March 31, 2011.

The following table shows the fair value of our portfolio by industry sector at December 31, 2011 and December 31, 2010 (excluding unearned income):

	December 31, 2011		December 31, 2010	
(in thousands)	**Investments at Fair Value**	**Percentage of Total Portfolio**	**Investments at Fair Value**	**Percentage of Total Portfolio**
Drug Discovery & Development	$ 131,428	20.1%	$ 52,777	11.2%
Internet Consumer & Business Services	117,542	18.0%	7,255	1.5%
Clean Technology	64,587	9.9%	25,722	5.4%
Drug Delivery	62,665	9.6%	35,250	7.5%
Information Services	45,850	7.0%	10,857	2.3%
Specialty Pharma	39,384	6.0%	63,607	13.5%
Media/Content/Info	38,476	5.9%	25,300	5.4%
Therapeutic	35,911	5.5%	2,223	0.5%
Communications & Networking	28,618	4.4%	65,098	13.8%
Software	27,850	4.3%	96,508	20.4%
Biotechnology Tools	18,693	2.9%	5,987	1.3%
Diagnostic	15,158	2.3%	14,911	3.2%
Surgical Devices	11,566	1.8%	10,172	2.1%
Semiconductors	9,733	1.5%	3,227	0.7%
Consumer & Business Products	4,186	0.6%	45,316	9.6%
Electronics & Computer Hardware	1,223	0.2%	7,819	1.6%

Energy		0.0%	3	0.0%
	$ 652,870	100.0%	$ 472,032	100.0%

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We use an investment grading system, which grades each debt investment on a scale of 1 to 5, to characterize and monitor our expected level of risk on the debt investments in our portfolio with 1 being the highest quality. See Item 1. Business Investment Process Loan and Compliance Administration. The following table shows the distribution of our outstanding debt investments on the 1 to 5 investment grading scale at fair value as of December 31, 2011 and 2010, respectively:

	December 31, 2011		December 31, 2010	
(in thousands)	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
Investment Grading				
1	$ 104,516	17.8%	$ 65,345	16.3%
2	403,114	68.8%	232,713	57.9%
3	70,388	12.0%	90,739	22.6%
4	6,722	1.2%	8,776	2.2%
5	1,027	0.2%	4,045	1.0%
	$ 585,767	100.0%	$ 401,618	100.0%

As of December 31, 2011, our investments had a weighted average investment grading of 2.01 as compared to 2.21 at December 31, 2010. 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 and 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 have therefore been downgraded until their funding is complete or their operations improve. At December 31, 2011, 43 portfolio companies were graded 2, twelve portfolio companies were graded 3, two portfolio companies were graded 4, and two were graded 5 as compared to 23, eight, two and two portfolio companies, respectively, at December 31, 2010. The improvement in investment grading for the period ended December 31, 2011 was driven in part by meaningful progress in the economy and among our portfolio companies, many of which have experienced improved operating performance and greater access to the venture capital market as they secure new equity financings. At December 31, 2011, we had one loan on non accrual with a fair market value of approximately $1.0 million compared to two loans at December 31, 2010 with a fair value of approximately $4.0 million.

The effective yield on our debt investments during the year was 17.2% and was attributed in part to interest charges and fees related to loan restructurings and acceleration of fee income recognition from early loan repayments. The overall weighted average yield to maturity of our loan investments was approximately 12.64% at December 31, 2011, a slight decrease compared to 13.92% at December 31, 2010, impacted primarily by the early pay off of higher yielding investments during 2011. The weighted average yield to maturity is computed using the interest rates in effect at the inception of each of the loans, and includes amortization of the loan facility fees, commitment fees and market premiums or discounts over the expected life of the debt investments, weighted by their respective costs when averaged and based on the assumption that all contractual loan commitments have been fully funded and held to maturity.

We generate revenue in the form of interest income, primarily from our investments in debt securities, and commitment and facility fees. Fees generated in connection with our debt investments are recognized over the life of the loan or, in some cases, recognized as earned. In addition, we generate revenue in the form of capital gains, if any, on warrants or other equity-related securities that we acquire from our portfolio companies. Our investments generally range from $1.0 million to $25.0 million. Our debt investments have a term of between two and seven years and typically bear interest at a rate ranging from Prime to approximately 14.0 % as of December 31, 2011. In addition to the cash yields received on our loans, in some instances, our loans may also include any of the following: end-of-term payments, exit fees, balloon payment fees, commitment fees, success fees, PIK provisions or prepayment fees which may be required to be included in income prior to receipt.

Loan origination and commitment fees received in full at the inception of a loan are deferred and amortized into fee income as an enhancement to the related loan s yield over the contractual life of the loan. We recognize nonrecurring fees amortized over the remaining term of the loan commencing in the quarter relating to specific loan modifications. Loan exit fees to be paid at the termination of the loan are accreted into interest income over the contractual life of the loan. We had approximately $4.5 million and $6.6 million of unamortized fees at December 31, 2011 and December 31, 2010, respectively, and approximately $4.4 million and $5.1 million in exit fees receivable at December 31, 2011 and December 31, 2010, respectively.

We have loans in our portfolio that contain a PIK provision. The PIK interest, computed at the contractual rate specified in each loan agreement, is added to the principal balance of the loan and recorded as interest income. To maintain our status as a RIC, this non-cash source of income must be paid out to stockholders in the form of dividends even though we have not yet collected the cash. Amounts necessary to pay these dividends may come from available cash or the liquidation of certain investments. We recorded approximately $1.7 million and $2.3 million in PIK income in the twelve month periods ended December 31, 2011 and 2010.

In some cases, we may collateralize our investments by obtaining a first priority security interest in a portfolio company s assets, which may include their intellectual property. In other cases, we may obtain a negative pledge covering a company s intellectual property.

At December 31, 2011, approximately 63.0% of our portfolio company loans were secured by a first priority security in all of the assets of the portfolio company, 36.0% of the loans were to portfolio companies that were prohibited from pledging or encumbering their intellectual property and 1.0% of portfolio company loans had an equipment only lien.

Interest on debt securities is generally payable monthly, with amortization of principal typically occurring over the term of the security for emerging-growth, expansion-stage and established-stage companies. In addition, certain loans may include an interest-only period ranging from three to eighteen months for emerging-growth and expansion-stage companies and longer for established-stage companies. 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.

Results of Operations

Comparison of periods ended December 31, 2011 and 2010

Investment Income

Interest income totaled approximately $70.3 million and $54.7 million for 2011 and 2010, respectively. Income from commitment, facility and loan related fees totaled approximately $9.5 million 2011, compared with $4.8 million for 2010. The increase in interest income was directly related to an increase in the average investment portfolio outstanding in 2011 than in 2010.

In 2011 and 2010, interest income included approximately $7.4 million and $6.2 million of income from accrued exit fees, respectively. The year over year increase is attributed to an increase in the average investment portfolio outstanding in 2011 than in 2010.

At December 31, 2011 and 2010, we had approximately $10.3 million and $6.6 million of deferred income related to commitment, facility and loan related fees, respectively. The increase in deferred income was attributed to increased investment originations in 2011.

The following table shows the PIK-related activity for the years ended December 31, 2011 and 2010, at cost:

(in thousands)	Twelve months ended December 31, 2011	2010
Beginning PIK loan balance	$ 3,955	$ 2,315
PIK interest capitalized during the period	2,093	3,054
Payments received from PIK loans	(3,567)	(1,084)
PIK converted to other securities	(440)	
Realized Loss		(330)
Ending PIK loan balance	$ 2,041	$ 3,955

The increase in payments received from PIK loans during the year ended December 31, 2011 includes $1.5 million of PIK collected in conjunction with the sale of our investment in Infologix, Inc. in the first quarter of 2011.

Operating Expenses

Operating expenses, which are comprised of interest and fees, general and administrative and employee compensation, totaled approximately $40.3 million and $30.1 million during the periods ended December 31, 2011 and 2010, respectively.

Interest and fees totaled approximately $15.9 million and $9.8 million during the periods ended December 31, 2011 and 2010, respectively. This $6.1 million year over year increase is largely attributed to $1.4 million of incremental interest and fee expense due to the increase in SBA debentures from $170.0 million as of December 31, 2010 to $225.0 million as of December 31, 2011 and $4.5 million of interest and fee expenses during the period ended December 31, 2011 related to the $75.0 million of Convertible Senior Notes issued on April 15, 2011. Additionally, we incurred approximately $767,000 of non cash interest expense during the period ended December 31, 2011 attributed to the accretion of the fair value of the conversion feature on the Convertible Senior Notes. We had a weighted average cost of debt comprised of interest and fees of approximately 6.23% at December 31, 2011, as compared to 6.27% as of December 31, 2010. The decrease was primarily attributed to the weighted average cost of debt on the senior convertible notes of 8.1% offset by a lower weighted average cost of debt on outstanding SBA debentures at 5.0% in 2011 as compared to 6.1% in 2010.

General and administrative expenses include legal, consulting, accounting fees, printer fees, insurance premiums, rent, workout and various other expenses. Expenses increased to approximately $8.0 million from $7.1 million for the periods ended December 31, 2011 and 2010, respectively, largely due to an increase in accounting and printer fees from approximately $1.0 million to $1.6 million during the same periods, respectively.

Employee compensation and benefits totaled approximately $13.3 million and $10.5 million during the periods ended December 31, 2011 and 2010, respectively. The $2.8 million increase is due to $1.6 million of increases in compensation expense attributable to increases in headcount, executive severance payments and payroll taxes associated with restricted stock vesting and $1.2 million in increases in variable compensation expense. Stock-based compensation totaled approximately $3.1 million and $2.7 million during the periods ended December 31, 2011 and 2010, respectively. This increase is due to the incremental expense attributed to restricted stock grants issued in the first quarter of 2011.

Net Investment Income Before Income Tax Expense and Investment Gains and Losses

Net investment income before income tax expense for the year ended December 31, 2011 totaled $39.6 million as compared with a net investment income before income tax expense in 2010 of approximately $29.4 million. The changes are made up of the items described above under Investment Income and Operating Expenses.

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Net Investment Realized Gains and Losses and 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 the investment without regard to unrealized appreciation or depreciation previously recognized, and includes investments charged 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.

In 2011, we generated realized gains totaling approximately $11.1 million primarily due to the sale of warrants and equity investments in 3 portfolio companies. We recognized realized losses in 2011 of approximately $8.4 million on the disposition of investments in 13 portfolio companies. We recognized realized gains of approximately $4.7 million during the year ended December 31, 2010 primarily due to the sale of warrants and common stock of twelve portfolio companies. We recognized realized losses in 2010 of approximately $31.1 million on the disposition of investments in ten portfolio companies. A summary of realized gains and losses for the years end December 31, 2011 and 2010 is as follows:

	December 31,	
(in millions)	**2011**	**2010**
Realized gains	$ 11,092	$ 4,677
Realized losses	(8,351)	(31,059)
Net realized gains (losses)	$ 2,741	$ (26,382)

During the year ended December 31, 2011 net change in unrealized appreciation totaled approximately $4.6 million from loan, warrant and equity investments. Approximately $9.0 million was due to net unrealized appreciation on debt investments attributable to reversal of unrealized depreciation to realized loss of approximately $5.0 million on one technology debt investment and due to the reversal of unrealized depreciation of approximately $3.1 million on one life science debt investment as a result of improvements at the portfolio company. Approximately $5.8 million of net unrealized depreciation on equity investments during the year ended December 31, 2011, was primarily attributable to the sale of InfoLogix, Inc. resulting in the reversal of $7.7 million of unrealized appreciation on equity investments to realized gains offset by approximately $1.9 million of net appreciation due to net increases in private and public portfolio company valuations. For the year ended December 31, 2010 approximately $ 3.1 million and approximately $500,000 of the net unrealized depreciation was attributable to debt and warrant investments, respectively, and approximately $5.2 million of appreciation that was attributable to equity investments. During the year ended December 31, 2011, net unrealized investment appreciation recognized by the Company was reduced by approximately $217,000 due to the warrant participation agreement with Citigroup. For a more detailed discussion of the warrant participation agreement, see the discussion set forth under Borrowings.

The following table itemizes the change in net unrealized appreciation (depreciation) of investments for 2011 and 2010:

	December 31,	
(in thousands)	**2011**	**2010**
Gross unrealized appreciation on portfolio investments	$ 58,980	$ 40,696
Gross unrealized depreciation on portfolio investments	(49,327)	(64,465)
Reversal of prior period net unrealized appreciation upon a realization event	(13,224)	(3,902)
Reversal of prior period net unrealized depreciation upon a realization event	8,395	29,674
Citigroup Warrant Participation	(217)	(13)
Net unrealized appreciation/(depreciation) on portfolio investments	$ 4,607	$ 1,990

For a more detailed discussion, see the discussion set forth under Critical Accounting Policies Valuation of Portfolio Investments.

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Income and Excise Taxes

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

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

For the year ended December 31, 2011 net increase in net assets resulting from operations totaled approximately $46.9 million compared to approximately $5.0 million for the period ended December 31, 2010. These changes are made up of the items previously described.

Basic and fully diluted net change in net assets per common share were $1.08 and $1.07, respectively, for the year ended December 31, 2011, compared to a basic and fully diluted net income per share of $0.12 and $0.12, respectively, for the year ended December 31, 2010.

Comparison of periods ended December 31, 2010 and 2009

Investment Income

Interest income totaled approximately $54.7 million and $62.2 million for 2010 and 2009, respectively. The decrease in interest income was directly related to a lower average investment portfolio outstanding in 2010 than in 2009. In 2010 and 2009, interest income included approximately $6.2 million and $6.7 million of income from accrued exit fees, respectively. Income from commitment, facility and loan related fees such as amendment fees and pre-payment penalties totaled approximately $4.8 million and $12.1 million for 2010 and 2009, respectively. At December 31, 2010 and 2009, we had approximately $6.6 million and $2.4 million of deferred income related to commitment and facility fees, respectively. The increase in deferred income was attributed to increased investment originations in 2010.

Operating Expenses

Operating expenses, which are comprised of interest and fees, general and administrative and employee compensation, totaled approximately $30.1 million and $31.2 million during the periods ended December 31, 2010 and 2009, respectively.

Interest and fees totaled approximately $9.8 million and $11.3 million during the periods ended December 31, 2010 and 2009, respectively. This $1.5 million year over year decrease is primarily attributable to the interest expense and one time fees incurred in 2009 on the Citigroup Credit Facility that was paid off in full in March of 2009 offset by an increase in interest expense on higher borrowings under our SBA debentures.

General and administrative expenses include legal, consulting and accounting fees, insurance premiums, rent, workout and various other expenses. Expenses decreased to $7.1 million from $7.3 million for the periods ended December 31, 2010 and 2009, respectively, primarily due to lower workout related expenses.

Employee compensation and benefits totaled approximately $10.5 million and $10.7 million during the periods ended December 31, 2010 and 2009, respectively. This decrease is primarily due to a lower bonus accrual during the period ended December 31, 2010 as compared to 2009. Stock-based compensation totaled approximately $2.7 million and $1.9 million during the periods ended December 31, 2010 and 2009, respectively. These increases were due to the higher expense attributed to restricted stock grants issued in the first quarter of 2010.

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Net Investment Income Before Income Tax Expense and Investment Gains and Losses

Net investment income before income tax expense for the year ended December 31, 2010 totaled $29.4 million as compared with a net investment income before income tax expense in 2009 of approximately $43.1 million. The changes are made up of the items described above under Investment Income and Operating Expenses.

Net Investment Realized Gains and Losses and 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 the investment without regard to unrealized appreciation or depreciation previously recognized, and include investments charged 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.

In 2010, we generated realized gains totaling approximately $4.7 million primarily due to the sale of warrants and common stock of 12 portfolio companies. We recognized realized losses in 2010 of approximately $31.1 million on the disposition of investments in 10 portfolio companies. We recognized realized gains of approximately $3.7 million during the year ended December 31, 2009 primarily due to the sale of warrants and common stock of four portfolio companies. We recognized realized losses in 2009 of approximately $34.5 million on the disposition of investments in 16 portfolio companies. A summary of realized gains and losses for the years end December 31, 2010 and 2009 is as follows:

	December 31,	
(in thousands)	**2010**	**2009**
Realized gains	$ 4,677	$ 3,738
Realized losses	(31,059)	(34,539)
Net realized (losses)	$ (26,382)	$ (30,801)

For the year ended December 31, 2010, net unrealized appreciation totaled approximately $2.0 million and for the year ended December 31, 2009, net unrealized appreciation totaled approximately $1.3 million. The year to year increase is primarily due to the reversal of unrealized depreciation to realized losses.

The net unrealized appreciation and depreciation of investments is based on portfolio asset valuations determined in good faith by our Board of Directors. During the year ended December 31, 2010, net unrealized investment appreciation recognized by the company was reduced by approximately $13,000 for a warrant participation agreement with Citigroup. For a more detailed discussion, see the discussion set forth under Borrowings. The following table itemizes the change in net unrealized appreciation (depreciation) of investments for 2010 and 2009:

	December 31,	
(in thousands)	**2010**	**2009**
Gross unrealized appreciation on portfolio investments	$ 40,696	$ 42,272
Gross unrealized depreciation on portfolio investments	(64,465)	(73,969)
Reversal of prior period net unrealized appreciation upon a realization event	(3,902)	(2,319)
Reversal of prior period net unrealized depreciation upon a realization event	29,674	35,256
Citigroup Warrant Participation	(13)	29
Net unrealized appreciation/(depreciation) on portfolio investments	$ 1,990	$ 1,269

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

For the year ended December 31, 2010 net increase in net assets resulting from operations totaled approximately $5.0 million compared to net income of approximately $13.6 million for the period ended December 31, 2009. These changes are made up of the items previously described.

Basic and fully diluted net change in net assets per common share were $0.12 and $0.12, respectively, for the year ended December 31, 2010, compared to a basic and fully diluted net income per share of $0.38 and $0.37, respectively, for the year ended December 31, 2009.

Financial Condition, Liquidity and Capital Resources

Our liquidity and capital resources are derived from our credit facilities, SBA debentures, Convertible Senior Notes 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 credit facilities, SBA debentures and the proceeds from the rotation of our portfolio and from public and private offerings of securities to finance our investment objectives. We may raise additional equity or debt capital through both registered offerings off a shelf registration and private offerings of securities, by securitizing a portion of our investments or borrowing from the SBA through our SBIC subsidiaries, among other sources.

At December 31, 2011, we had approximately $10.2 million of outstanding borrowings under the Wells Facility, $75.0 million of Convertible Senior Notes payable and $225.0 million SBA debentures payable. We had no borrowings outstanding under the Union Bank Facility. As of December 31, 2010, we had $170.0 million of SBA debentures payable and no borrowings outstanding under our credit facilities.

At December 31, 2011, we had $184.3 million in available liquidity, including $64.5 million in cash and $119.8 million in credit facilities. At December 31, 2011, we had available borrowing capacity of approximately $65.0 million under the Wells Facility and $55.0 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.

During the year ended December 31, 2011, our operating activities used $139.5 million of cash and cash equivalents, compared to $93.2 million used during the year ended December 31, 2010. The $46.3 million increase in cash used in operating activities resulted primarily from increased investing activity. During the year ended December 31, 2011, our financing activities provided $97.2 million of cash, compared to $75.3 million during the year ended December 31, 2010. This $21.9 million increase in cash provided by financing activities was due primarily due to the issuance of $75.0 million of Convertible Senior Notes in April 2011.

As of December 31, 2011, net assets totaled $431.0 million, with a net asset value per share of $9.83. We intend to generate additional cash primarily from cash flows from operations, including income earned from investments in our portfolio companies and, to a lesser extent, from the temporary investment of cash in U.S. government securities and other high-quality debt investments that mature in one year or less as well as from future borrowings as required to meet our lending activities. Our primary use of funds will be investments in portfolio companies and cash distributions to holders of our common stock.

We expect to raise additional capital to support our future growth through future equity offerings, issuances of senior securities and/or future borrowings, to the extent permitted by the 1940 Act. To the extent we determine to raise additional equity through an offering of our common stock at a price below net asset value, existing investors will experience dilution. During our 2011 Annual Shareholder Meeting held on June 1, 2011, our shareholders authorized us, with the approval of its Board of Directors, to sell up to 20% of our outstanding common stock at a price below our then current net asset value per share and to offer and issue debt with warrants or debt convertible into shares of our common stock at an exercise or conversion price that will not be

less than the fair market value per share but may be below the then current net asset value per share. However, there can be no assurance that these capital resources will be available given the credit constraints of the banking and capital markets.

As required by the 1940 Act, our asset coverage must be at least 200% after each issuance of senior securities. As of December 31, 2011 our asset coverage ratio under our regulatory requirements as a business development company was 864.7%, excluding our SBIC debentures as a result of our exemptive order from the SEC which allows us to exclude all SBA leverage from our asset coverage ratio. Total leverage when including our SBIC debentures was 237.5% at December 31, 2011. As a result of the SEC exemptive order, our ratio of total assets on a consolidated basis to outstanding indebtedness may be less than 200%, which while providing increased investment flexibility, also may increase our exposure to risks associated with leverage.

At December 31, 2011 and December 31, 2010, we had the following borrowing capacity and outstanding amounts:

	December 31, 2011		December 31, 2010	
	Total Available	Carrying Value[(1)]	Total Available	Carrying Value[(1)]
Union Bank Facility	$ 55,000	$	$ 20,000	$
Wells Facility	75,000	10,187	50,000	
Convertible Senior Notes[(2)]	75,000	70,353		
SBA Debenture[(3)]	225,000	225,000	225,000	170,000
Total	$ 430,000	$ 305,540	$ 295,000	$ 170,000

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

(2) Represents the aggregate principal amount outstanding of the Convertible Senior Notes (as defined below) less the unaccreted discount initially recorded upon issuance of the Convertible Senior Notes. The total unaccreted discount for the Convertible Senior Notes was $4,647 at December 31, 2011.

(3) In January 2011, we repaid $25.0 million of SBA debentures under HT II, priced at approximately 6.63%, including annual fees. In February 2011, we submitted a request to the SBA to borrow $25.0 million under a new capital commitment and in April 2011, the SBA approved a $25.0 million dollar commitment for HT III bringing the total available borrowings to $225.0 million, of which $125.0 million was available in HT II and $100.0 million was available in HT III.
In February 2012, we repaid $24.3 million of SBA debentures under HT II, priced at approximately 6.63%, including annual fees. We plan to submit a request to the SBA to borrow the $24.3 million under a new capital commitment under HT III, subject to SBA approval. There can be no assurances that the SBA will approve our new capital commitment request or the pricing to be consistent with the September 2011 pricing or that we will have drawn on any possible commitment.

On September 27, 2006, HT II received a license and on May 26, 2010 HT III received a license to operate as SBICs under the SBIC program and are able to borrow funds from the SBA against eligible investments. As of December 31, 2011, all required contributed capital from the Company has been invested into HT II and HT III. The Company is the sole limited partner of HT II and HT III and HTM is the general partner. HTM is a wholly-owned subsidiary of the Company. 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, 2011 as a result of having sufficient capital as defined under the SBA regulations. HT II and HT III hold approximately $217.2 million and $167.1 million in assets, respectively, and accounted for approximately 21.7% and 16.7% of our total assets prior to consolidation at December 31, 2011.

With our net investment of $75.0 million in HT II as of December 31, 2011, HT II has the capacity to issue a total of $125.0 million of SBA guaranteed debentures, of which $125.0 million was outstanding at

December 31, 2011. As of December 31, 2011, the maximum statutory limit on the dollar amount of outstanding SBA guaranteed debentures issued by a single SBIC is $150.0 million, subject to periodic adjustments by the SBA. As of December 31, 2011, HT II has paid the SBA commitment fees of approximately $1.5 million. As of December 31, 2011, we held investments in HT II in 57 companies with a fair value of approximately $198.7 million, accounting for approximately 30.4% of our total portfolio at December 31, 2011.

As of December 31, 2011, the maximum statutory limit on the dollar amount of combined outstanding SBA guaranteed debentures is $225.0 million, subject to periodic adjustments by the SBA. As of December 31, 2011, HT III had the potential to borrow up to $100.0 million of SBA-guaranteed debentures under the SBIC program. With our net investment of $50.0 million in HT III as of December 31, 2011, HT III has the capacity to issue a total of $100.0 million of SBA guaranteed debentures, subject to SBA approval, of which $100.0 million was outstanding at December 31, 2011. As of December 31, 2011, HT III has paid the SBA commitment fees of approximately $1.0 million. As of December 31, 2011, we held investments in HT III in 23 companies with a fair value of approximately $124.8 million accounting for approximately 19.1% of our total portfolio at December 31, 2011.

In February 2012, we repaid $24.3 million of SBA debentures under HT II, priced at 6.63%, including annual fees. We plan to submit a request to the SBA to borrow the $24.3 million under a new capital commitment under HT III, subject to SBA approval. There can be no assurances that the SBA will approve our new capital commitment request or the pricing to be consistent with the September 2011 pricing or that we will have drawn on any possible commitment.

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

Commitments and Contingencies

Our commitments and contingencies consist primarily of unfunded commitments to extend credit, in the form of loans, to our portfolio companie**s.** Unfunded commitments to provide funds to portfolio companies are not reflected on our balance sheet. Our unfunded commitments may be significant from time to time.

As of December 31, 2011, we had unfunded origination activity commitments of approximately $168.2 million. Approximately $92.0 million of these unfunded debt commitments are dependent upon the portfolio company reaching certain milestones before the debt commitment becomes available. These commitments will be subject to the same underwriting and ongoing portfolio maintenance as are the on-balance sheet financial instruments that we hold. Since these commitments may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. Closed commitments generally fund 70-80% of the committed amount in aggregate over the life of the commitment. We intend to use cash flow from normal and early principal repayments, SBA debentures, our Wells Facility, our Union Bank Facility and proceeds from Convertible Senior to fund these commitments. However, there can be no assurance that we will have sufficient capital available to fund these commitments as they come due.

In addition, we had approximately $82.5 million of non-binding term sheets with seven companies outstanding, which generally convert to contractual commitments within approximately 45 to 60 days of signing. Non-binding outstanding term sheets are subject to completion of the Company s due diligence and final 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.

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Contractual Obligations

The following table shows our contractual obligations as of December 31, 2011:

		Payments due by period (in thousands)			
Contractual Obligations[1][2]	**Total**	**Less than 1 year**	**1 - 3 years**	**3 - 5 years**	**After 5 years**
Borrowings[3][4]	$ 305,540	$	$ 10,187	$ 70,353	$ 225,000
Operating Lease Obligations[5]	8,497	1,244	2,294	2,520	2,439
Total	$ 314,037	$ 1,244	$ 12,481	$ 72,873	$ 227,439

(1) Excludes commitments to extend credit to our portfolio companies.
(2) We also have warrant participation with Citigroup. See Borrowings.
(3) Includes borrowings under the Wells Facility, Union Bank Facility and the SBA debentures. There were no outstanding borrowings under the Union Bank Facility at December 31, 2011.
(4) Except for the Convertible Senior Notes, all carrying values are the same as the principal amount outstanding. The aggregate principal amount outstanding of the Convertible Senior Notes less the unaccreted discount initially recorded upon issuance of the Convertible Senior Notes was $4,647 at December 31, 2011.
(5) Long-term facility leases.

Certain premises are leased under agreements which expire at various dates through December 2013. Total rent expense amounted to approximately $1.1 million, $1.0 million and $966,000 during the years ended December 31, 2011, 2010 and 2009, respectively.

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

Borrowings

Long-term SBA Debentures

On September 27, 2006, HT II received a license to operate as a SBIC under the SBIC program and is able to borrow funds from the SBA against eligible investments and regulatory capital. Under the Small Business Investment Company Act and current SBA policy applicable to SBICs, a SBIC can have outstanding at any time SBA guaranteed debentures up to twice the amount of its regulatory capital. As of December 31, 2011, the maximum statutory limit on the dollar amount of outstanding SBA guaranteed debentures issued by a single SBIC is $150.0 million, subject to periodic adjustments by the SBA. HT II has a total of $125.0 million of SBA guaranteed debentures outstanding as of December 31, 2011 and has paid the SBA commitment fees of approximately $1.5 million. As of December 31, 2011, the Company held investments in HT II in 57 companies with a fair value of approximately $198.7 million, accounting for approximately 30.4% of our total portfolio at December 31, 2011.

On May 26, 2010, HT III received a license to operate as a SBIC under the SBIC program and is able to borrow funds from the SBA against eligible investments and additional contributions to regulatory capital. With the Company s net investment of $50.0 million in HT III as of December 31, 2011, HT III has the capacity to issue a total of $100.0 million of SBA guaranteed debentures, subject to SBA approval, of which $100.0 million was outstanding as of December 31, 2011. As of December 31, 2011, HT III has paid commitment fees of approximately $1.0 million. As of December 31, 2011, the Company held investments in HT III in 23 companies with a fair value of approximately $124.8 million accounting for approximately 19.1% of our total portfolio at December 31, 2011.

There is no assurance that HT II or HT III will be able to draw up to the maximum limit available under the SBIC program.

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 $18 million and have average annual fully taxed net income not exceeding $6.0 million for the two most recent fiscal years. In addition, SBICs must devote 25.0% of its investment activity to smaller concerns as defined by the SBA. A smaller concern is one that has a tangible net worth not exceeding $6.0 million and has average annual fully taxed net income not exceeding $2.0 million for the two most recent fiscal years. SBA regulations also provide alternative size standard criteria to determine eligibility, which depend on the industry in which the business is engaged and are based on such factors as the number of employees and gross sales. According to SBA regulations, SBICs may make long-term loans to small businesses, invest in the equity securities of such businesses and provide them with consulting and advisory services. Through its wholly-owned subsidiaries HT II and HT III, the Company plans to provide long-term loans to qualifying small businesses, and in connection therewith, make equity investments.

HT II and HT III are periodically examined and audited by the SBA s staff to determine their compliance with SBA regulations. If HT II or HT III fails to comply with applicable SBA regulations, the SBA could, depending on the severity of the violation, limit or prohibit HT II s or HT III s use of debentures, declare outstanding debentures immediately due and payable, and/or limit HT II or HT III from making new investments. In addition, HT II or HT III may also be limited in their ability to make distributions to the Company if they do not have sufficient capital in accordance with SBA regulations. Such actions by the SBA would, in turn, negatively affect us because HT II and III are our wholly owned subsidiaries. HT II and HT III were in compliance with the terms of the SBIC s leverage as of December 31, 2011 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 April 2007 are set semiannually in March and September and range from 2.88% to 5.73%. Interest payments on SBA debentures are payable semi-annually. 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 April 2007, the initial maturity of SBA debentures will occur in April 2017. 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 the underlying commitment was closed in. The annual fee related to HT III debentures that pooled on September 21, 2011 was 0.285%. The annual fees on other debentures have been set at 0.906%. The average amount of debentures outstanding for the year ended December 31, 2011 for HT II was approximately $125.5 million with an average interest rate of approximately 6.0%. The average amount of debentures outstanding for the year ended December 31, 2011 for HT III was approximately $60.0 million with an average interest rate of approximately 3.0%.

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We reported the following SBA debentures outstanding as of December 31, 2011 and December 31, 2010:

(in thousands) Issuance/Pooling Date	Maturity Date	Interest Rate[1]	December 31, 2011	December 31, 2010
SBA Debentures				
September 26, 2007	September 1, 2017	6.43%	$ 12,000	$ 12,000
March 26, 2008	March 1, 2018	6.38%	58,050	58,050
September 24, 2008	September 1, 2018	6.63%	13,750	38,750
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	32,900
March 29, 2011	March 1, 2021	4.37%	28,750	
September 21, 2011	September 1, 2021	3.16%	25,000	
October 18, 2011	March 1, 2022	1.35%[2]	36,250	
Total SBA Debentures			**$ 225,000**	**$ 170,000**

(1) Interest rate includes annual charge

(2) Interim interest on the October 18, 2011 borrowing will pool on March 20, 2012 at which date the principal interest rate will be set.

In January 2011, we repaid $25.0 million of SBA debentures under HT II, priced at approximately 6.63%, including annual fees. In February 2011, we submitted a request to the SBA to borrow $25.0 million under a new capital commitment and in April 2011, the SBA approved a $25.0 million dollar commitment for HT III bringing the total available borrowings to $225.0 million, of which $125.0 million was available in HT II and $100.0 million was available in HT III.

In February 2012, we repaid $24.3 million of SBA debentures under HT II, priced at 6.63%, including annual fees. We plan to submit a request to the SBA to borrow the $24.3 million under a new capital commitment under HT III, subject to SBA approval. There can be no assurances that the SBA will approve our new capital commitment request or the pricing to be consistent with the September 2011 pricing or that we will have drawn on any possible commitment.

Wells Facility

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

Borrowings under the Wells Facility will generally bear interest at a rate per annum equal to LIBOR plus 3.50%, with a floor of 5.00% and an advance rate of 50% against eligible loans. The Wells Facility is secured by loans in the borrowing base. The Wells Facility requires the monthly payment of a non-use fee of 0.3% for each payment date on or before September 1, 2011. The monthly payment of a non-use fee thereafter shall depend on the average balance that was outstanding on a scale between 0.0% and 0.75%. From September 1, 2011 through September 30, 2011, this non-use fee was 0.75%. On June 20, 2011 we paid an additional $1.1 million in structuring fees in connection with the Wells Facility which is being amortized through June 2014. There was approximately $10.2 million outstanding debt under the Wells Facility at December 31, 2011. In January 2012, we repaid the entire principal balance outstanding, approximately $10.2 million, as of December 31, 2011 under the Wells Fargo facility.

The Wells Facility includes various financial and operating covenants applicable to us and our subsidiaries, in addition to those applicable to Hercules Funding II, LLC. These covenants require us to maintain certain financial ratios and a minimum tangible net worth in an amount, when added to outstanding subordinated indebtedness, that is in excess of $314.0 million plus 90% of the cumulative amount of equity raised after March 31, 2011. In addition, the tangible net worth covenant will increase by 90 cents on the dollar for every dollar of equity capital that we subsequently raise. The Wells Facility provides for customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, bankruptcy events and change of control. We were in compliance with all covenants at December 31, 2011.

Union Bank Facility

On February 10, 2010, we entered a $20.0 million one-year revolving senior secured credit facility with Union Bank (the Union Bank Facility). On November 2, 2011, we renewed and amended the Union Bank Facility and added a new lender under the Union Bank Facility. Union Bank and RBC Capital Markets have made commitments of $30.0 million and $25.0 million, respectively. The Union Bank Facility contains an accordion feature, in which we can increase the credit line up to an aggregate of $150.0 million, funded by additional lenders and with the agreement of Union Bank and subject to other customary conditions. We expect to continue discussions with various other potential lenders to join the new facility; however, there can be no assurances that additional lenders will join the Union Bank Facility.

Borrowings under the Union Bank Facility will generally bear interest at a rate per annum equal to LIBOR plus 2.25% with a floor of 4.0%. The Union Bank Facility requires the payment of a non-use fee of 0.25% annually. The Union Bank Facility is collateralized by debt investments in our portfolio companies, and includes an advance rate equal to 50.0% of eligible loans placed in the collateral pool. The Union Bank Facility generally requires payment of interest on a monthly basis. All outstanding principal is due upon maturity. At December 31, 2011, there were no borrowings outstanding on this facility.

The Union Bank Facility requires various financial and operating covenants. These covenants require us to maintain certain financial ratios and a minimum tangible net worth in an amount, when added to outstanding subordinated indebtedness, that is in excess of $314.0 million plus 90% of the amount of net cash proceeds received from the sale of common stock after March 31, 2011. The Union Bank Facility will mature on November 2, 2014, approximately three years from the date of issuance, revolving through the first 24 months with a term out provision for the remaining 12 months. The Union Bank Facility requires the payment of a non-use fee of 0.50% annually. Union Bank Facility also provides for customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, bankruptcy events and change of control. We were in compliance with all covenants at December 31, 2011.

Convertible Senior Notes

In April 2011, we issued $75.0 million in aggregate principal amount of 6.00% convertible senior notes (the Convertible Senior Notes) due 2016. As of December 31, 2011, 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 $70.4 million.

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

existing and future indebtedness (including trade payables) incurred by our subsidiaries, financing vehicles or similar facilities.

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

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

In accounting for the Convertible Senior Notes, we estimated that the values of the debt and the embedded conversion feature of the Convertible Senior Notes were approximately 92.8% and 7.2%, respectively. The original issue discount of 7.2% attributable to the conversion feature of the Convertible Senior Notes has initially be recorded in capital in excess of par value in the consolidated statement of assets and liabilities. As a result, we record interest expense comprised of both stated interest expense as well as accretion of the original issue discount resulting in an estimated effective interest rate of approximately 8.2%.

As of December 31, 2011, the components of the carrying value of the Convertible Senior Notes were as follows:

(in thousands)	As of December 31, 2011
Principal amount of debt	$ 75,000
Original issue discount, net of accretion	(4,647)
Carrying value of debt	$ 70,353

For the three and twelve months ended December 31, 2011, the components of interest expense and cash paid for interest expense for the Convertible Senior Notes were as follows:

(in thousands)	Three Months Ended December 31, 2011	Twelve Months Ended December 31, 2011
Stated interest expense	$ 1,125	$ 3,187
Accretion of original issue discount	271	767
Amortization of debt issuance cost	144	409
Total interest expense	$ 1,540	$ 4,363
Cash paid for interest expense	$ 2,250	$ 2,250

As of December 31, 2011, we are in compliance with the terms of the indentures governing the Convertible Senior Notes. See Note 4 to our consolidated financial statements for more detail on the Convertible Senior Notes.

Citibank Credit Facility

We, through Hercules Funding Trust I, an affiliated statutory trust, had a securitized credit facility (the Citibank Credit Facility) with Citigroup Global Markets Realty Corp. which expired under normal terms. During the first quarter of 2009, we paid off all remaining principal and interest owed under the Credit Facility. Citigroup has an equity participation right through a warrant participation agreement on the pool of loans and warrants collateralized under the Credit Facility. Pursuant to the warrant participation agreement, we granted to Citigroup a 10% participation in all warrants held as collateral. However, no additional warrants were included in collateral subsequent to the facility amendment on May 2, 2007. As a result, Citigroup is entitled to 10% of the realized gains on the warrants until the realized gains paid to Citigroup pursuant to the agreement equal $3,750,000 (the Maximum Participation Limit). The obligations under the warrant participation agreement continue even after the Credit Facility is terminated until the Maximum Participation Limit has been reached. The value of their participation right on unrealized gains in the related equity investments was approximately $715,000 as of December 31, 2011 and is included in accrued liabilities. There can be no assurances that the unrealized appreciation of the warrants will not be higher or lower in future periods due to fluctuations in the value of the warrants, thereby increasing or reducing the effect on the cost of borrowing. Since inception of the agreement, we have paid Citigroup approximately $1.1 million under the warrant participation agreement thereby reducing its realized gains by this amount. We will continue to pay Citigroup under the warrant participation agreement until the Maximum Participation Limit is reached or the warrants expire.

At December 31, 2011 and December 31, 2010, the Company had the following borrowing capacity and outstanding borrowings:

	December 31, 2011		December 31, 2010	
	Total Available	Carrying Value[1]	Total Available	Carrying Value
Union Bank Facility	$ 55,000	$	$ 20,000	$
Wells Facility	75,000	10,187	50,000	
Convertible Senior Notes[2]	75,000	70,353		
SBA Debenture[3]	225,000	225,000	225,000	170,000
Total	$ 430,000	$ 305,540	$ 295,000	$ 170,000

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

(2) Represents the aggregate principal amount outstanding of the Convertible Senior Notes (as defined below) less the unaccreted discount initially recorded upon issuance of the Convertible Senior Notes. The total unaccreted discount for the Convertible Senior Notes was $4,647 at December 31, 2011.

(3) In January 2011, we repaid $25.0 million of SBA debentures under HT II, priced at approximately 6.63%, including annual fees. In February 2011, we submitted a request to the SBA to borrow $25.0 million under a new capital commitment and in April 2011, the SBA approved a $25.0 million dollar commitment for HT III bringing the total available borrowings to $225.0 million, of which $125.0 million was available in HT II and $100.0 million was available in HT III.
In February 2012, we repaid $24.3 million of SBA debentures under HT II, priced at approximately 6.63%, including annual fees. We plan to submit a request to the SBA to borrow the $24.3 million under a new capital commitment under HT III, subject to SBA approval. There can be no assurances that the SBA will approve our new capital commitment request or the pricing to be consistent with the September 2011 pricing or that we will have drawn on any possible commitment.

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Dividends

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

Date Declared	Record Date	Payment Date	Amount Per Share	
October 27, 2005	November 1, 2005	November 17, 2005	$	0.03
December 9, 2005	January 6, 2006	January 27, 2006		0.30
April 3, 2006	April 10, 2006	May 5, 2006		0.30
July 19, 2006	July 31, 2006	August 28, 2006		0.30
October 16, 2006	November 6, 2006	December 1, 2006		0.30
February 7, 2007	February 19, 2007	March 19, 2007		0.30
May 3, 2007	May 16, 2007	June 18, 2007		0.30
August 2, 2007	August 16, 2007	September 17, 2007		0.30
November 1, 2007	November 16, 2007	December 17, 2007		0.30
February 7, 2008	February 15, 2008	March 17, 2008		0.30
May 8, 2008	May 16, 2008	June 16, 2008		0.34
August 7, 2008	August 15, 2008	September 19, 2008		0.34
November 6, 2008	November 14, 2008	December 15, 2008		0.34
February 12, 2009	February 23, 2009	March 30, 2009		0.32*
May 7, 2009	May 15, 2009	June 15, 2009		0.30
August 6, 2009	August 14, 2009	September 14, 2009		0.30
October 15, 2009	October 20, 2009	November 23, 2009		0.30
December 16, 2009	December 24, 2009	December 30, 2009		0.04
February 11, 2010	February 19, 2010	March 19, 2010		0.20
May 3, 2010	May 12, 2010	June 18, 2010		0.20
August 2, 2010	August 12, 2010	September 17,2010		0.20
November 4, 2010	November 10, 2010	December 17, 2010		0.20
March 1, 2011	March 10, 2011	March 24, 2011		0.22
May 5, 2011	May 11, 2011	June 23, 2011		0.22
August 4, 2011	August 15, 2011	September 15, 2011		0.22
November 3, 2011	November 14, 2011	November 29, 2011		0.22
February 27, 2012	March 12, 2012	March 15, 2012		0.23
			$	6.92

* Dividend paid in cash and stock.

On February 27, 2012 the Board of Directors increased the quarterly dividend by 5.0% and declared a cash dividend of $0.23 per share that is to be paid on March 15, 2012 to shareholders of record as of March 12, 2012. This dividend is the Company s twenty-sixth consecutive quarterly dividend declaration since its initial public offering, and will bring the total cumulative dividend declared to date to $6.92 per share.

Our Board of Directors maintains a variable dividend policy with the objective of distributing four quarterly distributions in an amount that approximates 90 100% of our taxable quarterly income or potential annual income for a particular year. In addition, at the end of the year, we may also pay an additional special dividend or fifth dividend, such that we may distribute approximately all of our annual taxable income in the year it was earned, while maintaining the option to spill over our excess taxable income.

Distributions in excess of our current and accumulated earnings and profits would generally be treated first as a return of capital to the extent of the stockholder s tax basis, and any remaining distributions would be treated as a capital gain. The determination of the tax attributes of our distributions is made annually as of the end of our fiscal year based upon our taxable income for the full year and distributions paid for the full year. Of the dividends declared during the year ended December 31, 2011 and 2010, 100% were distributions of ordinary income. There can be no certainty to stockholders that this determination is representative of what the tax attributes of our 2012 distributions to stockholders will actually be.

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

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

We intend to distribute quarterly dividends to our stockholders. In order to avoid certain excise taxes imposed on RICs, we currently intend to distribute during each calendar year an amount at least equal to the sum of (1) 98% of our ordinary income for the calendar year, (2) 98.2% of our capital gains in excess of capital losses for the one year period ending on October 31 of the calendar year, and (3) any ordinary income and net capital gains for the preceding year that were not distributed during such year. 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). In order to obtain the tax benefits applicable to RICs, we will be required to distribute to our stockholders with respect to each taxable year at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses.

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. See Item 1 Regulation .

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

Our ability to make distributions will be limited by the asset coverage requirements under the 1940 Act.

Critical Accounting Policies

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

Valuation of Portfolio Investments

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

Our investments are carried at fair value in accordance with the 1940 Act and Accounting Standards Codification (ASC) topic 820 Fair Value Measurements and Disclosures, (formerly known as SFAS No. 157, Fair Value Measurements). At December 31, 2011, approximately 87.4% of the Company s total assets represented investments in portfolio companies that are valued at fair value by the Board of Directors. Value, as defined in Section 2(a)(41) of the 1940 Act, is (i) the market price for those securities for which a market quotation is readily available and (ii) for all other securities and assets, fair value is as determined in good faith by the Board of Directors. Our debt securities are primarily invested in equity sponsored technology-related companies including life science, clean technology and select lower middle market technology companies. Given the nature of lending to these types of businesses, our investments in these portfolio companies are generally considered Level 3 assets under ASC 820 because there is no known or accessible market or market indexes for these investment securities to be traded or exchanged. As such, it values substantially all of its investments at fair value as determined in good faith pursuant to a consistent valuation policy and our Board of Directors in accordance with the provisions of ASC 820 and the 1940 Act. Due to the inherent uncertainty in determining the fair value of investments that do not have a readily available market value, the fair value of our investments determined in good faith by our Board 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.

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

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

(1) our quarterly valuation process begins with the initial valuation of each portfolio company or investment by the investment professionals responsible for the portfolio investment;

(2) preliminary valuation conclusions are then documented and discussed with our investment committee;

(3) the valuation committee of the Board of Directors reviews the preliminary valuation of the investment committee and that of the independent valuation firm and responds to the valuation recommendation of the independent valuation firm to reflect any comments, if any, and

(4) the Board of Directors 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 valuation committee.

We adopted ASC 820 on January 1, 2008. ASC 820 establishes a framework for measuring the fair value of the assets and liabilities and outlines a fair value hierarchy which prioritizes the inputs used to measure fair value and the effect of fair value measures on earnings. ASC 820 also enhances disclosure requirements for fair value measurements based on the level within the hierarchy of the information used in the valuation. ASC 820 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

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

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

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 equity sponsored technology, life science and clean technology companies. 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 these investment securities to be traded or exchanged.

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. 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 loan 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 loan 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 valuation 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 related equity. We periodically review the valuation of our portfolio companies that have not been involved in a qualifying external event to determine if the enterprise value of the portfolio company may have increased or decreased since the last valuation measurement date.

Income Recognition.

We record interest income on the accrual basis and we recognize it as earned in accordance with the contractual terms of the loan agreement to the extent that such amounts are expected to be collected. Original Issue Discount (OID) initially represents the value of detachable equity warrants obtained in conjunction with the acquisition of debt securities and is accreted into interest income over the term of the loan as a yield enhancement. When a loan becomes 90 days or more past due, or if management otherwise does not expect the portfolio company to be able to service its debt and other obligations, we will generally place the loan on non-accrual status and cease recognizing interest income on that loan until all principal has been paid. Any uncollected interest related to prior periods is reversed from income in the period that collection of the interest receivable is determined to be doubtful. However, we may make exceptions to this policy if the investment has sufficient collateral value and is in the process of collection. As of December 31, 2011, we had one portfolio company on non-accrual status with an approximate cost of $7.7 million and a fair value of approximately $1.0 million. There were two loans on non-accrual status with an aggregate cost of approximately $11.4 million and a fair value of approximately $4.0 million as of December 31, 2010. During the three months ended March 31, 2011 we recognized a realized loss of approximately $5.2 million on our warrant, equity and debt investments in one of these portfolio companies.

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. For the year ended December 31, 2011, 2010 and 2009, approximately $1.7 million, $2.3 million and $2.9 million in PIK income was recorded 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, excluding underwriters fees, are charged against the proceeds from equity offerings when received.

Debt Issuance Costs

Debt issuance costs are being 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.

Federal Income Taxes.

We intend to operate so as to qualify to be taxed as a RIC under Subchapter M of the Code and, as such, will not be subject to federal income tax on the portion of our taxable income and gains distributed to stockholders. To qualify as a RIC, we are required to distribute at least 90% of our investment company taxable income, as defined by the Code. We are subject to a non-deductible federal excise tax if we do not distribute at least 98% of our taxable income and 98.2% of our capital gain net income for each one year period ending on October 31. At December 31, 2011 , 2010 and 2009, no excise tax was recorded. 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 May 2011, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and

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Disclosure Requirements in U.S. GAAP and IFRSs (ASU 2011-04). ASU 2011-04 was issued concurrently with International Financial Reporting Standards No.13 (IFRS 13), Fair Value Measurements, to provide largely identical guidance about fair value measurement and disclosure requirements as is currently required under ASU 2010-06, Fair Value Measurements and Disclosures (Topic 820). The new standards do not extend the use of fair value but, rather, provide guidance about how fair value should be applied where it already is required or permitted under IFRS or GAAP. For GAAP, most of the changes are clarifications of existing guidance or wording changes to align with IFRS 13. ASU 2011-04 eliminates the concepts of in-use and in-exchange when measuring fair value of all financial instruments. For Level 3 fair value measurements, the ASU requires that our disclosure include quantitative information about significant unobservable inputs, a qualitative discussion about the sensitivity of the fair value measurement to changes in the unobservable inputs and the interrelationship between inputs, and a description of our valuation process. Public companies are required to apply ASU 2011-04 prospectively for interim and annual periods beginning after December 15, 2011. We are currently evaluating the impact of the adoption of ASU 2011-04 on our financial statements and disclosures.

Subsequent Events

As of February 29, 2011, we have:

a. Closed commitments of approximately $36.9 million to new and existing portfolio companies, and funded approximately $30.0 million since the close of the fourth quarter of 2011.

b. Pending commitments (signed non-binding term sheets) of approximately $51.0 million.

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

Closed and Pending Commitments (in millions)	
Q1-12 Closed Commitments (as of February 29, 2012) (a,b)	$ 36.9
Pending Commitments (as of February 29, 2012) (b)	51.0
Year-to-date 2012 Closed and Pending Commitments	$ 87.9

Notes:

a. 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.

Dividend Declaration

On February 27, 2012 the Board of Directors increased the quarterly dividend by 5.0% and declared a cash dividend of $0.23 per share that will be payable on March 15, 2012 to shareholders of record as of March 12, 2012. This dividend would represent the Company s twenty-sixth consecutive dividend declaration since its initial public offering, bringing the total cumulative dividend declared to date to $6.92 per share.

Liquidity and Capital Resources

In January 2012, we closed a public offering of 5,000,000 shares of common stock at $9.61 per share, resulting in proceeds of $48,050,000 before deducting offering expenses.

In January 2012, we repaid the entire principal balance outstanding (approximately $10.2 million as of December 31, 2011) under the Wells Fargo facility.

In February 2012, we repaid six SBA debentures with principal totaling $24.25 million under our first license. The weighted average interest rate on repaid debentures (including the 0.906% SBA annual charge levied on each debenture) was 6.63%. The total amount paid, including unpaid interest and annual charges through March 1, 2012, was approximately $24.3 million

Portfolio Company Developments

On February 3, 2012, Cempra, Inc. completed its initial public offering of 8,400,000 shares of common stock at a price to the public of $6.00 per share. At December 31, 2011, we held approximately 371,000 warrants in Cempra, Inc.

In January 2012, BÂRRX Medical, Inc. completed the sale of all of its outstanding shares to Coviden plc in a transaction for an aggregate consideration of approximately $325.0 million, net of cash and short-term investments. In connection with the sale, we expect to realize a net gain of approximately $2.2-$2.3 million in the first quarter of 2012 and a full repayment of our loan to BÂRRX Medical.

In January 2012, Hercules received full repayment of its $5.0 million term loan with Merrion Pharmaceuticals, Inc.

In December 2011, Hercules entered into an agreement to acquire approximately $9.6 million through a secondary marketplace in Facebook, Inc., the social networking company for an aggregate of 307,500 shares at an average price of $31.08 per share. The investments were subject to certain closing conditions and a right of first refusal by Facebook, Inc. which expired thirty days after the date of investment. At December 31, 2011 these assets were held as Other Assets. In February 2012, Hercules was notified that Facebook Inc. had not exercised its repurchase right with respect to any of the shares and had executed all documents necessary to fully transfer the ownership of the shares to Hercules.

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 the general level of interest rates can affect our net investment income, which is the difference between the interest income earned on interest earning assets and our interest expense incurred in connection with our interest bearing debt and liabilities. 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.

As of December 31, 2011, approximately 90.7% of our portfolio loans were at variable rates or variable rates with a floor and 9.3% of our loans were at fixed rates. Over time additional investments may be at variable rates. 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. Interest rates on our borrowings are based primarily on LIBOR. Borrowings under our SBA program are fixed at the ten year treasury rate every March and September for borrowings of the preceding six months. Borrowings under the program are charged interest based on ten year treasury rates plus a spread and the rates are generally set for a pool of debentures issued by the SBA in six-month periods. The rates of borrowings under the various draws from the SBA beginning in April 2007 and set semiannually in March and September range from 2.88% to 5.73%. 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 fee related to HT III debentures that pooled on September 21, 2011 was 0.285%. The annual fees related to HT II debentures that pooled on

September 22, 2010 were 0.406% and 0.285%, depending upon the year the underlying commitment was closed in. The annual fees on other debentures have been set at 0.906%. The average amount of debentures outstanding for the year ended December 31, 2011 for HT II was approximately $125.5 million with an average interest rate of approximately 6.0%, and for HT III was approximately $60.0 million with an average interest rate of approximately 3.0%. Interest is payable semiannually and there are no principal payments required on these issues prior to maturity. Debentures under the SBA generally mature ten years after being borrowed. Based on the initial draw down date of April 2007, the initial maturity of SBA debentures will occur in April 2017.

Borrowings under the Wells Facility will generally bear interest at a rate per annum equal to LIBOR plus 3.50% with a floor of 5.0%. The Wells Facility is collateralized by debt investment in our portfolio companies, and includes an advance rate equal to 50% of eligible loans placed in the collateral pool. The Wells Facility generally requires payment of interest on a monthly basis. The Wells Facility requires the monthly payment of a non-use fee of 0.3% for each payment date on or before September 1, 2011. From September 1, 2011 through September 30, 2011, this non-use fee was 0.75%. The monthly payment of a non-use fee thereafter shall depend on the average balance that was outstanding on a scale between 0.0% and 0.75%**.** All outstanding principal is due upon maturity. There were approximately $10.2 million of borrowings outstanding under this facility at December 31, 2011. The facility expires in June 2014.

Borrowings under the Union Bank Facility will generally bear interest at a rate per annum equal to LIBOR plus 2.25% with a floor of 4.0%. The Union Bank Facility required the payment of an unused fee of 0.25% annually. The Union Bank Facility is collateralized by debt investments in our portfolio companies, and includes an advance rate equal to 50% of eligible loans placed in the collateral pool. The Union Bank Facility generally requires payment of interest on a monthly basis. All outstanding principal is due upon maturity. There were no outstanding borrowings under this facility at December 31, 2011. In June 2011, the maturity date under the credit facility was extended from July 31, 2011 to December 31, 2011, subject to the same terms and conditions. On November 2, 2011, we renewed and amended the Union Bank Facility. The Union Bank Facility requires the payment of a non-use fee of 0.50% annually. The other terms of the Union Bank Facility generally remain unchanged, including the stated interest rate. The Union Bank Facility will mature on November 2, 2014, revolving through the first 24 months with a term out provision for the remaining 12 months.

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

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.

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BUSINESS

We are a specialty finance company that provides debt and equity growth capital to technology-related companies at various stages of development from seed and emerging growth to expansion and established stages of development, which include select publicly listed companies and select lower middle market technology companies. We primarily finance privately-held companies backed by leading venture capital and private equity firms, and also may finance certain publicly-traded companies that lack access to public capital or are sensitive to equity ownership dilution. We source our investments through our principal office located in Silicon Valley, as well as through additional offices in Boston, MA, Boulder, CO, and McLean, VA.

Our goal is to be the leading structured debt financing provider of choice for venture capital and private equity backed technology-related companies requiring sophisticated and customized financing solutions. Our strategy is to evaluate and invest in a broad range of technology-related companies including clean technology, life science and select lower middle market technology companies and to offer a full suite of growth capital products up and down the capital structure. We invest primarily in structured debt with warrants and, to a lesser extent, in senior debt and equity investments. We use the term structured debt with warrants to refer to any debt investment, such as a senior or subordinated secured loan, that is coupled with an equity component, including warrants, options or rights to purchase common or preferred stock. Our structured debt with warrants investments will typically be secured by some or all of the assets of the portfolio company.

We also make investments in qualifying small businesses through two wholly-owned, small business investment company (SBIC) subsidiaries, Hercules Technology II, L.P. (HT II) and Hercules Technology III, L.P. (HT III). As SBICs, HT II and HT III are subject to a variety of regulations concerning, among other things, the size and nature of the companies in which they may invest and the structure of those investments. As of December 31, 2011, we held investments in HT II in 57 companies with a fair value of approximately $198.7 million. HT II s portfolio companies accounted for approximately 30.4% of our total portfolio at December 31, 2011. As of December 31, 2011, we held investments in HT III in 23 companies with a fair value of approximately $124.8 million. HT III s portfolio accounted for approximately 19.1% of our total portfolio at December 31, 2011.

HT II and HT III hold approximately $217.2 million and $167.1 million in assets, respectively, and accounted for approximately 21.7% and 16.7% of our total assets prior to consolidation at December 31, 2011.

We focus our investments in companies active in the technology industry sub-sectors characterized by products or services that require advanced technologies, including, but not limited to, computer software and hardware, networking systems, semiconductors, semiconductor capital equipment, information technology infrastructure or services, Internet consumer and business services, telecommunications, telecommunications equipment, renewable or alternative energy, media and life science. Within the life science sub-sector, we generally focus on medical devices, bio-pharmaceutical, drug discovery, drug delivery, health care services and information systems companies. Within the clean technology sub-sector, we focus on sustainable and renewable energy technologies and energy efficiency and monitoring technologies. We refer to all of these companies as technology-related companies and intend, under normal circumstances, to invest at least 80% of the value of our assets in such businesses.

Our investment objective is to maximize our portfolio total return by generating current income from our debt investments and capital appreciation from our equity-related investments. Our primary business objectives are to increase our net income, net operating income and net asset value by investing in structured debt with warrants and equity of venture capital and private equity backed technology-related companies with attractive current yields and the potential for equity appreciation and realized gains. Our structured debt investments typically include warrants or other equity interests, giving us the potential to realize equity-like returns on a portion of our investments. Our equity ownership in our portfolio companies may represent a controlling interest. In some cases, we receive the right to make additional equity investments in our portfolio companies, including

the right to convert some portion of our debt into equity, in connection with future equity financing rounds. Capital that we provide directly to venture capital and private equity backed technology-related companies is generally used for growth and general working capital purposes as well as in select cases for acquisitions or recapitalizations.

Our portfolio is comprised of, and we anticipate that our portfolio will continue to be comprised of, investments primarily in technology-related companies at various stages of their development. Consistent with regulatory requirements, we invest primarily in United States based companies and to a lesser extent in foreign companies. Our investing emphasis has been primarily on private companies following or in connection with a subsequent institutional round of equity financing, which we refer to as expansion-stage companies and private companies in later rounds of financing and certain public companies, which we refer to as established-stage companies and select lower middle market companies. We have focused our investment activities in private companies following or in connection with the first institutional round of financing, which we refer to as emerging-growth companies.

Corporate History and Offices

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

From incorporation through December 31, 2005, we were taxed as a corporation under Subchapter C of the Internal Revenue Code, or the Code. As of January 1, 2006, we have elected to be treated for federal income tax purposes as a regulated investment company, or a RIC, under Subchapter M of the Code. Pursuant to this election, we generally will not have to pay corporate-level taxes on any income that we distribute to our stockholders. However, such an election and qualification to be treated as a RIC requires that we comply with certain requirements contained in Subchapter M of the Code. For example, a RIC must meet certain requirements, including source-of income, asset diversification and income distribution requirements. The income source requirement mandates that we receive 90% or more of our income from qualified earnings, typically referred to as good income. Qualified earnings may exclude such income as management fees received in connection with our SBIC or other potential outside managed funds and certain other fees.

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, Boulder, CO and McLean, VA. We maintain a website on the Internet at www.herculestech.com. Information contained in our website is not incorporated by reference into this Registration Statement, and you should not consider that information to be part of this Registration Statement.

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

Our Market Opportunity

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

- Technology-related companies have generally been underserved by traditional lending sources;
- Unfulfilled demand exists for structured debt financing to technology-related companies as the number of lenders has declined due to the recent financial market turmoil; and
- Structured debt with warrants products are less dilutive and complement equity financing from venture capital and private equity funds.

Technology-Related Companies are Under served 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 financial sponsor-backed emerging growth or expansion stage companies effectively.

The unique cash flow characteristics of many technology-related companies 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 emerging-growth and expansion-stage companies often include a disproportionately large amount of intellectual property assets, which can be difficult to value. Finally, the speed of innovation in technology and rapid shifts in consumer demand and market share add to the difficulty in evaluating technology-related companies.

Due to the difficulties described above, we believe traditional lenders are generally refraining from entering the structured mezzanine 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. During 2011, venture capital-backed companies received, in approximately 3,209 transactions, equity financing in an aggregate amount of approximately $32.6 billion, representing a 10.1% increase from the same period of the preceding year, as reported by Dow Jones VentureSource. In addition, overall, the median round size during the three-month periods ended December 31, 2011 and 2010 was approximately $4.0 million and $4.1 million, respectively. We believe the larger number of venture-backed companies receiving financing provides us a greater opportunity to provide debt financing to these companies. Overall, seed- and first-round deals made up 45% of the deal flow in the three months ended December 31, 2011 and later-stage deals made up roughly 55% of the deal activity in the quarter.

We believe that demand for structured debt financing is currently underserved, in part because of the credit market collapse in 2008 and the resulting exit of debt capital providers to technology-related companies. The

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

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

Our Business Strategy

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

Leverage the Experience and Industry Relationships of Our Management Team and Investment Professionals. We have assembled a team of experienced investment professionals with extensive experience as venture capitalists, commercial lenders, and originators of structured debt and equity investments in technology-related companies. Our investment professionals have, on average, more than 15 years of experience as equity investors in, and/or lenders to, technology-related companies. In addition, our team members have originated structured debt, debt with warrants and equity investments in over 190 technology-related companies, representing over $2.7 billion in commitments from inception to December 31, 2011, and have developed a network of industry contacts with investors and other participants within the venture capital and private equity communities. In addition, members of our management team also have operational, research and development and finance experience with technology-related companies. We have established contacts with leading venture capital and private equity fund sponsors, public and private companies, research institutions and other industry participants, which should enable us to identify and attract well-positioned prospective portfolio companies.

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

Mitigate Risk of Principal Loss and Build a Portfolio of Equity-Related Securities. We expect that our investments have the potential to produce attractive risk-adjusted returns through current income, in the form of interest and fee income, as well as capital appreciation from equity-related securities. We believe that we can mitigate the risk of loss on our debt investments through the combination of loan principal amortization, cash interest payments, relatively short maturities, security interests in the assets of our portfolio companies, and on select investment covenants requiring prospective portfolio companies to have certain amounts of available cash at the time of our investment and the continued support from a venture capital or private equity firm at the time we make our investment.

Historically our structured debt investments to technology-related companies typically include warrants or other equity interests, giving us the potential to realize equity-like returns on a portion of our investment. In addition, in some cases, we receive the right to make additional equity investments in our portfolio companies,

including the right to convert some portion of our debt into equity, in connection with future equity financing rounds. We believe these equity interests will create the potential for meaningful long-term capital gains in connection with the future liquidity events of these technology-related companies.

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

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

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

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

Deal Sourcing Through Our Proprietary Database. We have developed a proprietary and comprehensive structured query language-based (SQL) database system to track various aspects of our investment process including sourcing, originations, transaction monitoring and post-investment performance. As of December 31, 2011, our proprietary SQL-based database system included over 26,500 technology-related companies and approximately 6,500 venture capital, private equity sponsors/investors, as well as various other industry contacts. This proprietary SQL system allows us to maintain, cultivate and grow our industry relationships while providing us with comprehensive details on companies in the technology-related industries and their financial sponsors.

Our Investments and Operations

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

We generally seek to invest in companies that have been operating for at least six to 12 months prior to the date of our investment. We anticipate that such entities may, at the time of investment, be generating revenues or

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

We expect that our investments will generally range from $1.0 million to $25.0 million. We typically structure our debt securities to provide for amortization of principal over the life of the loan, but may include an interest-only period of three to 12 months for emerging growth and expansion-stage companies and longer for established-stage companies. Our loans will be collateralized by a security interest in the borrower s assets, although we may not have the first claim on these assets and the assets may not include intellectual property. Our debt investments carry fixed or variable contractual interest rates which generally ranged from Prime to approximately 14.0% as of December 31, 2011. As of December 31, 2011, 90.7% of our loans were at floating rates or floating rates with a floor and 9.3% of the loans were at fixed rates. In addition to the cash yields received on our loans, in some instances, certain loans may also include any of the following: end of term payments, exit fees, balloon payment fees, commitment fees, success fees, payment-in-kind (PIK) provisions or prepayment fees, which we may be required to include in income prior to receipt. We also generate revenue in the form of commitment, facility fees and amendment fees.

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

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

Structured debt with warrants. We seek to invest a majority of our assets in structured debt with warrants of prospective portfolio companies. Traditional mezzanine debt is a layer of high-coupon financing between debt and equity that most commonly takes the form of subordinated debt coupled with warrants, combining the cash flow and risk characteristics of both senior debt and equity. However, our investments in structured debt with warrants may be the only debt capital on the balance sheet of our portfolio companies, and in many cases we have a first priority security interest in all of our portfolio company s assets, or in certain investments we may have a negative pledge on intellectual property. Our structured debt with warrants typically have maturities of between two and seven years, with full amortization after an interest only period for emerging-growth or expansion-stage companies and longer deferred amortization for select established-stage companies. Our structured debt with warrants generally carry a contractual interest rate between Prime and approximately 14.0% and may include an additional end-of-term payment or PIK. In most cases we collateralize our investments by obtaining security interests in our portfolio companies assets, which may include their intellectual property. In other cases we may prohibit a company from pledging or otherwise encumbering their intellectual property. We may structure our structured debt with warrants with restrictive affirmative and negative covenants, default penalties, prepayment penalties, lien protection, equity calls, change-in-control provisions or board observation rights.

Senior Debt. We seek to invest a limited portion of our assets in senior debt. Senior debt may be collateralized by accounts receivable and/or inventory financing of prospective portfolio companies.

Senior debt has a senior position with respect to a borrower s scheduled interest and principal payments and holds a first priority security interest in the assets pledged as collateral. Senior debt also may impose covenants on a borrower with regard to cash flows and changes in capital structure, among other items. We generally collateralize our investments by obtaining security interests in our portfolio companies assets, which may include their intellectual property. In other cases we may obtain a negative pledge covering a company s intellectual property. Our senior loans, in certain instances, may be tied to the financing of specific assets. In connection with a senior debt investment, we may also provide the borrower with a working capital line-of-credit that will carry an interest rate ranging from Prime or LIBOR plus a spread with a floor, generally maturing in one to three years, and will be secured by accounts receivable and/or inventory.

Equipment Loans. We intend to invest a limited portion of our assets in equipment-based loans to early-stage prospective portfolio companies. Equipment-based loans are secured by a first priority security interest in only the specific assets financed. These loans are generally for amounts up to $3.0 million but may be up to $15.0 million for certain clean technology venture investments, carry a contractual interest rate between Prime and Prime plus 9.0%, and have an average term between three and four years. Equipment loans may also include end of term payments.

Equity-Related Securities. The equity-related securities we hold consist primarily of warrants or other equity interests generally obtained in connection with our structured debt investments. In addition to the warrants received as a part of a structured debt financing, we typically receive the right to make equity investments in a portfolio company in connection with that company s next round of equity financing. We may also on certain debt investments have the right to convert a portion of the debt investment into equity. These rights will provide us with the opportunity to further enhance our returns over time through opportunistic equity investments in our portfolio companies. These equity-related investments are typically in the form of preferred or common equity and may be structured with a dividend yield, providing us with a current return, and with customary anti-dilution protection and preemptive rights. In the future, we may achieve liquidity through a merger or acquisition of a portfolio company, a public offering of a portfolio company s stock or by exercising our right, if any, to require a portfolio company to buy back the equity-related securities we hold. We may also make stand alone direct equity investments into portfolio companies in which we may not have any debt investment in the company. As of December 31, 2011, we held equity interests in 40 portfolio companies.

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

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

Investment Criteria

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

Portfolio Composition. While we generally focus our investments in venture capital and private equity-backed technology-related companies, we seek to diversify across various financial sponsors as well as across various stages of companies development and various technology industry sub-sectors and geographies. At December 31, 2011, our investments in life science, lower middle market technology, technology and clean technology companies accounted for approximately 45.32%, 30.23%, 13.96%, and 10.48% of our total investments, respectively.

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

Company Stage of Development. While we invest in companies at various stages of development, we generally require that prospective portfolio companies be beyond the seed stage of development and generally

have received or anticipate to have commitments for their first institutional round of equity financing for early stage companies. Starting in 2008, we shifted our focus to expansion and established-stage companies that have revenues or significant anticipated revenue growth. We expect a prospective portfolio company to demonstrate progress in its product development or demonstrate a path towards revenue generation or increase its revenues and operating cash flow over time. The anticipated growth rate of a prospective portfolio company is a key factor in determining the value that we ascribe