HERCULES TECHNOLOGY GROWTH CAPITAL INC
Form 497
January 19, 2012
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This prospectus supplement relates to an effective registration statement under the Securities Act of 1933, but is not complete and may be changed. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED JANUARY 19, 2012

Filed Pursuant to Rule 497
Registration Statement No. 333-171368

PROSPECTUS SUPPLEMENT

To the Prospectus dated May 23, 2011

5,000,000 Shares

Common Stock

We are offering 5,000,000 shares of our common stock. Our common stock is listed on the Nasdaq Global Select Market under the symbol HTGC. The last sale price, as reported on Nasdaq on January 18, 2012, was $10.15 per share. The net asset value per share of our common stock at September 30, 2011 (the last date prior to the date of this prospectus supplement on which we determined net asset value) was $9.61.

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, 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.

The underwriter has agreed to purchase our shares of common stock from us at a price of $ per share which will result in approximately $ million of net proceeds, after deducting estimated offering expenses, to us, or $ million assuming full exercise of the underwriter s option to purchase additional shares described below. We expect that our expenses for this offering will be approximately $300,000. The underwriter may offer our shares of common stock on the Nasdaq Global Select Market, in the over-the-counter market or through negotiated transactions at market prices or at negotiated prices. See Underwriting. The underwriter has an option to purchase up to an additional 750,000 shares of our common stock at a price of $ per share within 30 days from the date of this prospectus supplement to cover overallotments.

Please read this prospectus supplement, and the accompanying prospectus, before investing, and keep it for future reference. The prospectus supplement and the accompanying prospectus contain important information about us that a prospective investor should know before investing in our common stock. We file annual, quarterly and current reports, proxy statements and other information about us with the Securities and Exchange Commission. 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 information on our website is not incorporated by reference into this prospectus or the accompanying prospectus. The SEC also maintains a website at www.sec.gov that contains such information.

An investment in our common stock involves risks, including the risk of a total loss of investment. In addition, the companies in which we invest are subject to special risks. See Risk Factors beginning on page 16 of the accompanying prospectus and page S-11 in this prospectus supplement to read about risks that you should consider before investing in our common stock, including the risk of leverage.

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 shares of common stock will be made on or about January , 2012.

Citigroup

The date of this prospectus supplement is January , 2012.

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Prospectus Supplement

Prospectus

You should only rely on the information contained in this prospectus supplement or the accompanying prospectus. We have not, and the underwriters have not, authorized anyone to provide you with different information. This prospectus supplement may only be used where it is legal to sell these securities. The information in this prospectus supplement may only be accurate on the date of this document.

This document is in two parts. The first part is this prospectus supplement, which describes the terms of this offering of common stock and also adds to and updates information contained in the accompanying prospectus. The second part is the accompanying prospectus, which gives more information. To the extent the information contained in this prospectus supplement differs from the information contained in the accompanying prospectus the information in this prospectus supplement shall control.

Unless the context requires otherwise, in this prospectus supplement the terms we, us, and/or the Company refer to Hercules Technology Growth Capital, Inc. and its subsidiaries.

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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 common stock 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 Hercules Technology Growth Capital.

Stockholder Transaction Expenses (as a percentage of the public offering price):	
Sales load (as a percentage of offering price)(1)	%
Offering expenses	%(2)
Dividend reinvestment plan fees	%(3)
Total stockholder transaction expenses (as a percentage of the public offering price)	%
Annual Expenses (as a percentage of net assets attributable to common stock):(10)	
Operating expenses	5.7%(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	9.5%(9)

(1) The sales load (underwriting discounts and commissions) with respect to our common stock sold in this offering, which is a one time fee, is the only sales load paid in connection with this offering. For the purpose of calculating sales load, we assume the underwriter will sell to the public at a stock price of $ per share, our closing stock price on January , 2012.

(2) The percentage reflects estimated offering expenses of approximately $300,000.

(3) The expenses associated with the administration of our dividend reinvestment plan are included in Operating expenses. We pay all brokerage commissions incurred with respect to open market purchases, if any, made by the administrator under the plan. For more details about the plan, see Dividend Reinvestment Plan in the accompanying prospectus.

(4) Operating expenses represent our estimated operating expenses for the year ending December 31, 2011 including income tax expense (benefit) including excise tax, excluding interests and fees on indebtedness. This percentage for the year ended December 31, 2010 was 5.6%. See Management s Discussion and Analysis and Results of Operations, Management, and Compensation of Executive Officers and Directors in the accompanying prospectus.

(5) We do not have an investment adviser and are internally managed by our executive officers under the supervision of our Board of Directors. As a result, we do not pay investment advisory fees, but instead we pay the operating costs associated with employing investment management professionals.

(6) Interest payments on borrowed funds represents estimated 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. On November 2, 2011, we renewed and amended 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 will mature on November 2, 2014 and requires the payment of a non-use fee of 0.50% annually. See Recent Developments in Management s Discussion and Analysis of Financial Condition and Results of Operations in this prospectus supplement.

(7) Fees paid in connection with borrowed funds represents estimated 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 percentage for the year ended December 31, 2010 was approximately 0.3%.

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(8) For the quarter ended September 30, 2011 and for the year ended December 31, 2010, 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 $418.1 million.

Example

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

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

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

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PROSPECTUS SUPPLEMENT SUMMARY

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 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 September 30, 2011 our total assets were approximately $688.6 million, of which, our investments comprised $576.5 million at fair value and $587.4 million at cost. Our investments at fair value were comprised of our debt investments, warrant portfolio and equity investments valued at approximately $513.4 million, $27.3 million and $35.8 million, respectively, or 89.1%, 4.7% and 6.2% of total investments, respectively. Our September 30, 2011 total investments at value in foreign companies were approximately $14.2 million or 2.5% of total assets. During the three and nine-month periods ended September 30, 2011, we made debt commitments totaling $214.7 million and $463.1 million, respectively, and funded approximately $146.1 million and $351.3 million, respectively. During the three and nine-month periods ended September 30, 2011, we made and funded equity commitments of approximately $1.1 and $1.6 million to 2 and 3 portfolio companies, respectively. Debt commitments for the nine months ended September 30, 2011 included commitments of approximately $298.3 million to 25 new portfolio companies and $164.8 million to 14 existing portfolio companies. Since inception through September 30, 2011, we have made debt and equity commitments of approximately $2.6 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 September 30, 2011, we held investments in HT II in 84 companies with a fair value of approximately $180.8 million. HT II s portfolio companies accounted for approximately 31.4% of our total portfolio at September 30, 2011. As of September 30, 2011, we held investments in HT III in 20 companies with a fair value of approximately $92.4 million. HT III s portfolio accounted for approximately 16.0% of our total portfolio at September 30, 2011.

In aggregate, HT II and HT III held approximately $334.9 million in assets and accounted for approximately 35.5% of our total assets prior to consolidation at September 30, 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 September 30, 2011, our proprietary SQL-based database system included over 25,000 technology-related companies and approximately 6,300 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 ventures active in the technology, clean technology and life science industries and to offer a full suite of growth capital products up and down of the capital structure. We invest primarily in structured debt 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, media and life sciences. Within the life sciences sub-sector, we 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 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.

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. Since 2007, 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.

Beginning in the fall of 2008, the global economy entered a financial crisis and recession. Volatile capital and credit markets, declining business and consumer confidence and increased unemployment precipitated a continuing economic slowdown. Although there have been signs of recovery in many regions, economic weakness could continue or worsen. For example, the current U.S. debt ceiling and budget deficit concerns, together with signs of deteriorating sovereign debt conditions in Europe, have increased the possibility of credit-rating downgrades and economic slowdowns. Although U.S. lawmakers passed legislation to raise the federal debt ceiling, Standard & Poor s Ratings Services lowered its long-term sovereign credit rating on the United States from AAA to AA+ on August 5, 2011. The impact of this or any further downgrades to the U.S. government s sovereign credit rating, or its perceived creditworthiness, and the impact of the current crisis in Europe with respect to the ability of certain European Union countries to continue to service their sovereign debt obligations is inherently unpredictable and could adversely effect the U.S. and global financial markets and economic conditions. During market distruptions, we may have difficulty raising debt or equity capital especially as a result of regulatory constraints. There can be no assurance that governmental or other measures to aid economic recovery will be effective.

As of September 30, 2011, our investment professionals, including Manuel A. Henriquez, our co-founder, Chairman, President and Chief Executive Officer, are currently comprised of 29 professionals who have, on average, more than 15 years of experience in venture capital, structured finance, commercial lending or

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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, particularly due to the recent credit market dislocation and 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 nine months of 2011, venture capital-backed companies received, in approximately 2,229 transactions, equity financing in an aggregate amount of approximately $23.3 billion, representing a 29.4% 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 September 30, 2011 and 2010 was approximately $6.0 million and $5.0 million, respectively. We believe the larger number of companies provides us a greater opportunity to provide debt financing to these venture backed companies. Overall, seed- and first-round deals made up 42% of the deal flow in the three months ended September 30, 2011 and later-stage deals made up roughly 37% of the deal activity in the quarter.

We believe that demand for structured debt financing is currently under served, 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. In addition, lending requirements of traditional lenders have recently become more stringent due to the significant write-offs in the financial services sector, the re-pricing of credit risk in the broadly syndicated market and the financial turmoil affecting the banking system and financial market, which have negatively impacted the debt and equity capital market in the United States and most other markets. At the same time, the venture capital market for the technology-related companies in which we invest has continued to be active. Therefore, to the extent we have capital available, we believe this is an opportune time to be active in the structured lending market for technology-related companies.

Structured Debt with Warrants Products Complement Equity Financing From Venture Capital and Private Equity Funds. We believe that technology-related companies and their financial sponsors will continue to view structured debt securities as an attractive source of capital because it augments the capital provided by venture capital and private equity funds. We believe that our structured debt with warrants 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 emerging-growth and expansion-stage companies 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. Our team members have originated structured debt, structured debt with warrants and equity investments in over 180 technology-related companies, representing over $2.6 billion in commitments from inception through September 30, 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

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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.

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 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 complementary 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 September 30, 2011, our proprietary SQL-based database system included over 25,000 technology-related companies and over 6,300 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.

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Recent Developments

New Investments Since September 30, 2011

During the quarter ended December 31, 2011, we originated loan commitments of approximately $165.0 million to new and existing portfolio companies. In 2011, we closed total loan commitments of approximately $630.0 million, which represents a 20% increase from the year ended December 31, 2010. Since inception through December 31, 2011, we have extended debt and equity commitments to portfolio companies totaling approximately $2.7 billion to 190 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:

$500,000 commitment to AHHHA, Inc., a social ideation platform designed to leverage ideas from concept into a real-world product, service or company.

$15.0 million commitment to Blurb, Inc., a creative publishing and marketing platform.

$20.0 million commitment to Cempra Pharmaceuticals, Inc., a clinical-stage pharmaceutical company focused on developing antibacterials. On October 12, 2011, Cempra Holdings, LLC (Cempra) filed its S-1 registration statement with the Securities and Exchange Commission in anticipation of its contemplated initial public offering, or IPO. There can be no assurances that Cempra will complete its IPO in a timely manner or at all.

$20 million commitment to Concert Pharmaceuticals, Inc., a clinical stage biotechnology company focused on creating differentiated small molecule drugs.

$3.0 million commitment to Integrated Photovoltaics, Inc., a company producing solar-power solutions through silicon photovoltaic technology.

$9.2 million commitment to MedCall, LLC, a provider of on-call pharmacy services.

$10.0 million commitment to Navidea Biopharmaceuticals, Inc. (NYSE Amex: NAVB), a biomedical company focused on the development and commercialization of precision diagnostic and radiopharmaceutical agents.

$20.0 million commitment to NextWave Pharmaceuticals Incorporated, an emerging pharmaceutical company focused on the development and commercialization of products for the treatment of ADHD and related CNS disorders.

$11.0 million commitment to Scientific Conservation, Inc., a provider of a cloud-based energy management platform for building owners and operators.

$600,000 commitment to Tada Innovations, Inc., an interactive online website operated by Shopzilla.com.

$21.0 million commitment to Westwood One, Inc. (NASDAQ: WWON), a provider of network radio programming. On October 21, 2011, Westwood One announced the consummation of a merger transaction, by and among Westwood, Radio Network Holdings, LLC, and Verge Media Companies, Inc. Westwood One, Inc. was renamed Dial Global, Inc. on December 12, 2011.

In addition, we made over $35.0 million in loan commitments to existing portfolio companies.

In the fourth quarter, we entered into an agreement to acquire approximately $9.6 million through a secondary marketplace in Facebook, Inc., the social networking company, acquiring on December 13, 2011 and December 20, 2011 an aggregate of 307,500 shares at an average price of $31.08 per share. The investments are subject to certain closing conditions and a right of first refusal by Facebook, Inc. which expires thirty days after the date of investment. As a result, there is no assurance that our investment in Facebook, Inc. will close in a timely fashion or at all.

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Liquidity Events

In the fourth quarter of 2011, Covidien plc (NYSE: COV) announced its acquisition of our portfolio company, BARRX Medical, Inc. for an aggregate consideration of approximately $325.0 million, net of cash and short-term investments. The transaction closed on January 5, 2012. See our Consolidated Schedule of Investments in this prospectus supplement for more information with respect to our investment in BARRX Medical, Inc.

As of January 17th, 2012, we held warrant positions in over 104 different technology-related companies, nine of which have filed Form S-1 registration statements in anticipation of completing a potential initial public offering, or IPO. There can be no assurances that any of these companies will complete their respective IPO in a timely manner or at all. These portfolio companies include:

1. Annies, Inc.
2. BrightSource Energy, Inc.
3. Cempra Holdings, LLC
4. Enphase Energy, Inc.
5. Intelepeer, Inc.
6. Merrimack Pharmaceuticals, Inc.
7. NEXX Systems, Inc.
8. Reply!, Inc.
9. WageWorks, Inc.

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.

Debt Issuance and Borrowing

In the fourth quarter of 2011, we issued an additional $36.25 million of SBA guaranteed debentures and borrowed approximately $10.3 million principal amount under our revolving senior secured credit facility with Wells Fargo Capital Finance.

Personnel Update

On October 4, 2011, we announced that Samir Bhaumik, Senior Managing Director and Technology Group Head of the Company, resigned from all his positions with the Company and its subsidiaries. On October 13, 2011, the Board appointed Todd Jacquez-Fissori, our Cleantech Group Head, as Technology Group Head of the Company.

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FORWARD-LOOKING STATEMENTS; MARKET DATA

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, Inc., that are forward-looking statements are based on current management expectations that involve substantial risks and uncertainties which could cause actual results to differ materially from the results expressed in, or implied by, these forward-looking statements. Forward-looking statements relate to future events or our future financial performance. We generally identify forward-looking statements by terminology such as may, will, should, expects, plans, anticipates, could, intends, target, project believes, estimates, predicts, potential or continue or the negative of these terms or other similar 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 and our outlook on the economy and its effect on venture capital. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this prospectus supplement and the accompanying 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, SBIC and a RIC;

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

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 Risk Factors in both this prospectus supplement and the accompanying prospectus. You should not place undue reliance on these forward-looking statements. The forward-looking statements made in this prospectus supplement and the accompanying prospectus relate only to events as of the date on which the statements are made. The forward-looking statements contained herein are excluded from the safe harbor protection provided by Section 27A of the Securities Act of 1933.

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 common stock could be materially adversely affected.

SUPPLEMENTARY RISK FACTORS

Investing in our common stock involves a high degree of risk. In addition to the other information contained in this prospectus supplement and the accompanying prospectus, you should carefully consider the following supplementary risk factors together with the risk factors beginning on page 16 of the accompanying prospectus before making an investment in our common stock. The risks set out below and in the accompanying prospectus are not the only risks we face. Additional risks and uncertainties not presently known to us might also impair our operations and performance. If any of the events described herein or in the accompanying prospectus occur, our business, financial condition and results of operations could be materially and adversely affected. In such case, our net asset value and the trading price of our common stock could decline, and you may lose all or part of your investment.

We have identified a material weakness in our internal control over financial reporting, and our business and stock price may be adversely affected if we have not adequately addressed the weakness.

As a result of our evaluation of our internal control over financial reporting for the year ended December 31, 2010, management identified a material weakness related to our valuation process specifically involving debt investments. We have corrected the valuation process to refine our application of ASC 820 and believe that our audited consolidated financial statements for the year ended December 31, 2010 reflect the fair value of our debt investments in accordance with ASC 820 using the new valuation procedure. During the year ended December 31, 2010, we recognized additional unrealized depreciation of $803,000, which is not material to the 2010 consolidated financial statements. Management has evaluated the remedial action, assessed the operating effectiveness of the remediated controls and concluded that it has remediated the material weakness described above.

In connection with the preparation of our Consolidated Financial Statements for the three-month period ended March 31, 2011, we identified a material weakness in our internal control over financial reporting related to 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. Our consolidated financial statements for the quarter ended March 31, 2011 reflect the fair value of our investments and we continue to take remediation steps to enhance the internal control procedures in order to effectively remediate the deficiencies in our internal control processes related to such errors.

If we cannot produce reliable financial reports, investors could lose confidence in our reported financial information, the market price of our stock and the Convertible Senior Notes could decline significantly, we may

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be unable to obtain additional financing to operate and expand our business, and our business and financial condition could be harmed. See Management s Discussion and Analysis of Financial Condition and Results of Operations Disclosure Controls and Procedures in this prospectus supplement and Management s Discussion and Analysis of Financial Condition and Results of Operations Controls and Procedures in the accompanying prospectus.

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

On August 25, 2008, we, through a special purpose wholly-owned subsidiary, entered into a two-year revolving senior secured credit facility with an optional one-year extension with initial commitments of $50.0 million at closing with Wells Fargo Capital Finance (the Wells Facility). The Wells Facility has the capacity to increase to $300.0 million if additional lenders are added to the lending syndicate. As of September 30, 2011, we had zero outstanding borrowings under the Wells Facility.

On June 20, 2011, we renewed the Wells Facility. The revolving credit facility will expire on June 20, 2014. The new 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. There can be no assurances that additional lenders will join the new credit facility. This new arrangement replaced the previous $300.0 million Wells Facility, under which Wells Fargo Capital Finance had committed $50.0 million in capital. Under the new three-year senior secured facility, Wells Fargo Capital Finance has a commitment of $75.0 million. 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%. The Wells Facility requires the payment of a monthly non-use fee and 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. All outstanding principal is due upon maturity.

On February 10, 2010, we entered a $20.0 million one-year revolving senior secured credit facility with Union Bank (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%, an advance rate of 50% against eligible loans, and secured by loans in the borrowing base. The Union Bank Facility required 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. In February 2011, the maturity date of the facility was extended from May 1, 2011 to July 31, 2011. Union Bank Facility provides for customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, bankruptcy events and change of control. We were in compliance with all covenants at September 30, 2011.

On June 7, 2011, we entered into an amendment to the Union Bank Facility which extended the borrowing termination date to September 30, 2011. The amendment to the Union Bank Facility also amends the maturity date of Union Bank s $20.0 million commitment to mean the earliest of: (a) December 31, 2011; (b) the date on which Union Bank s obligation to make loans is terminated and the obligations are declared to be due and payable or the commitment is terminated; or (c) the date of prepayment in full by the Company. There was no outstanding debt under the Union Bank Facility at September 30, 2011.

On November 2, 2011, we renewed and amended 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 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. 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 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.

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 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 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.

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.

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 September 30, 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 $63.75 million was outstanding as of September 30, 2011.

As of September 30, 2011, there was $188.75 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.

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Our investments in the life science industry are subject to extensive government regulation 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 clean technology industry are subject to many risks, including volatility, intense competition, shortened product life cycles and periodic downturns.

Our investments in clean technology companies are subject to substantial operational risks, such as failed drilling or well development, unscheduled outages, underestimated cost projections, unanticipated operation and maintenance expenses, failure to obtain the necessary permits to operate and failure of third-party contractors (*e.g.*, energy producers and shippers) to perform their contractual obligations. 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 wind, solar and other renewable energies may be dependent upon adequate wind, sunlight, or biogas production, which can vary from period to period, resulting in volatility in production levels and profitability. In addition, clean technology companies 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 clean technology and renewable energy is also influenced by the available supply and prices for other energy products, such as coal, oil and natural gases. A change in prices in these energy products could reduce demand for alternative energy. There is 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 our business, financial condition and results of operations.

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

Our total investment in companies may be significant individually or in the aggregate. As a result, if a significant investment in one or more companies fails to perform as expected, our financial results could be more negatively affected and the magnitude of the loss could be more significant than if we had made smaller investments in more companies. The following table shows the fair value of the totals of investments held in portfolio companies at September 30, 2011 that represent greater than 5% of net assets:

	September 30, 2011	
(in thousands)	**Fair Value**	**Percentage of Net Assets**
Aveo Pharmaceuticals, Inc.	$ 29,887	7.1%
Women s Marketing, Inc.	$ 29,405	7.0%
Tectura Corporation	$ 26,574	6.3%
Pacira Pharmaceuticals, Inc	$ 26,264	6.2%
Anthera Pharmaceuticals, Inc	$ 25,705	6.1%
Brightsource Energy, Inc	$ 25,261	6.0%
Revance Therapeutics, Inc	$ 21,814	5.2%

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.

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 privately held biopharmaceutical company developing products that will change the way that drugs are delivered by carrying active levels of drug across the skin to deliver at specific and targeted depths.

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.

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.

Beginning in the fall of 2008, the global economy entered a financial crisis and recession. Volatile capital and credit markets, declining business and consumer confidence and increased unemployment precipitated a continuing economic slowdown. Although there have been signs of recovery in many regions, economic weakness could continue or worsen. For example, the current U.S. debt ceiling and budget deficit concerns, together with signs of deteriorating sovereign debt conditions in Europe, have increased the possibility of credit-rating downgrades and economic slowdowns. Although U.S. lawmakers passed legislation to raise the federal debt ceiling, Standard & Poor s Ratings Services lowered its long-term sovereign credit rating on the United States from AAA to AA+ on August 5, 2011. The impact of this or any further downgrades to the U.S. government s sovereign credit rating, or its perceived creditworthiness, and the impact of the current crisis in Europe with respect to the ability of certain European Union countries to continue to service their sovereign debt obligations is inherently unpredictable and could adversely effect the U.S. and global financial markets and economic conditions. There can be no assurance that governmental or other measures to aid economic recovery will be effective. Continued adverse economic conditions could have a material adverse effect on our business, financial condition and results of operations.

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USE OF PROCEEDS

Our net proceeds from the sale of the 5,000,000 shares of common stock we are offering will be approximately $ million, and approximately $ million if the underwriter s overallotment option is exercised in full, after deducting the underwriting discounts and commissions and estimated offering expenses payable by us. We may change the size of this offering based on demand and market conditions.

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

We anticipate that substantially all of the net proceeds from this offering 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.

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CAPITALIZATION

The following table sets forth (i) our actual capitalization as of September 30, 2011, and (ii) our capitalization as adjusted to reflect the effects of the sale of 5,000,000 shares of our common stock in this offering at a price of $ per share (assuming no exercise of the underwriters overallotment option) and after deducting the underwriting discounts and commissions and estimated offering expenses payable by us. You should read this table together with Use of Proceeds and our statement of assets and liabilities included elsewhere in this prospectus supplement.

(in thousands)	**As of September 30, 2011** Actual	As Adjusted for This Offering(1)
Cash and cash equivalents	$ 96,309	$
Total assets	$ 688,637	$
Long-term SBA debentures outstanding[(2)]	188,750	
Convertible Senior Notes[(3)]	70,082	
Common stock, par value	$ 43	$
Capital in excess of par value	486,557	
Distributable earnings	(64,550)	
Total stockholders equity	422,050	
Total capitalization[(4)]	$ 680,882	$

(1) Does not include the underwriters overallotment option.

(2) As of December 31, 2011, we had $225.0 million of SBA debentures outstanding after issuing an additional $36.25 million of SBA debentures in the fourth quarter of 2011.

(3) Represents the aggregate principal amount outstanding of the convertible senior notes issued on April 11, 2011, less the unaccreted discount initially recorded upon issuance of the Convertible Senior Notes. The total unaccreted discount for the Convertible Senior Notes was $4,918 at September 30, 2011.

(4) As of September 30, 2011, we had $75.0 million available to borrow under the Wells Facility and $20.0 million available to borrow under the Union Bank Facility. As of December 31, 2011, there was approximately $10.3 million principal amount borrowed under the Wells Facility, which is not reflected in the above table. On November 2, 2011, we renewed and amended the Union Bank Facility. The Union Bank Facility will mature on November 2, 2014. 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. See Management s Discussion and Analysis of Financial Condition and Results of Operations Subsequent Events in this prospectus supplement for more information.

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

Overview

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, Massachusetts, Boulder, Colorado, and McLean, Virginia.

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 sciences 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 $576.5 million at September 30, 2011 as compared to $472.0 million at December 31, 2010.

Debt commitments for the nine-month period ended September 30, 2011 included commitments of approximately $298.3 million to twenty-five new portfolio companies and $164.8 million to fourteen existing companies. During the three and nine month periods ended September 30, 2011 we made debt commitments to new and existing portfolio companies, including restructured loans, totaling $214.7 million and $463.1 million and funded approximately $147.2 million and $356.4 million, respectively, of debt and equity investments. During the three and nine-month periods ended September 30, 2011 we made and funded equity commitments of $1.1 million to two existing companies and $1.6 million to three existing companies.

At September 30, 2011, we had unfunded contractual commitments of approximately $148.2 million to twenty-six portfolio companies. 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 $136.0 million of non-binding term sheets outstanding to nine new and existing companies at September 30, 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 September 30, 2011 was approximately $513.4 million, compared to a fair value of approximately $352.0 million at September 30, 2010. The fair value of the equity portfolio at September 30, 2011 and 2010 was approximately $35.8 million and $39.4 million, respectively. The fair value of our warrant portfolio at September 30, 2011 and 2010 was approximately $27.3 million and $19.0 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 nine-month period ended September 30, 2011, we received normal principal amortization repayments of approximately $51.0 million, and early repayments and working line of credit pay-downs of approximately $172.2 million. During the nine-month period ended September 30, 2011, we restructured the debt for three portfolio companies for approximately $8.1 million, $4.7 million and $3.3 million, converted $3.5 million of debt to equity, and received approximately $23.8 million in early repayments associated with the sale of Infologix, Inc.

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Total portfolio investment activity as of September 30, 2011 (unaudited) and for the year ended December 31, 2010 is as follows:

(in millions)	September 30, 2011	December 31, 2010
Beginning Portfolio	$ 472.0	$ 374.7
Purchase of debt investments	332.3	320.4
Equity Investments	6.3	2.3
Sale of Investments	(17.5)	(34.2)
Principal payments received on investments	(54.4)	(81.6)
Early pay-offs and recoveries	(168.8)	(114.5)
Accretion of loan discounts and paid-in-kind principal	9.2	3.3
Net change in unrealized depreciation in investments	(2.6)	1.6
Restructure fundings	16.1	78.4
Restructure payoffs	(16.1)	(78.4)
Ending Portfolio	$ 576.5	$ 472.0

The following table shows the fair value of our portfolio of investments by asset class:

	September 30, 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	$ 414,723	71.9%	$ 357,963	75.8%
Senior secured debt	125,962	21.9%	59,251	12.6%
Preferred stock	28,928	5.0%	26,813	5.7%
Subordinated Debt		0.0%	8,094	1.7%
Common Stock	6,864	1.2%	19,911	4.2%
	$ 576,477	100.0%	$ 472,032	100.0%

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

	September 30, 2011		December 31, 2010	
(in thousands)	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
United States	$ 562,296	97.5%	$ 438,585	92.9%
Canada	808	0.1%	20,876	4.4%
England	9,082	1.6%	10,653	2.3%
Ireland	3,893	0.7%		0.0%
Israel	398	0.1%	1,918	0.4%
	$ 576,477	100.0%	$ 472,032	100.0%

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, medical 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.

As of September 30, 2011, over 99.2% of our debt investments were in a senior secured position, and more than 91.1% of the debt investment portfolio was priced at floating interest rates or floating interest rates with a Prime or LIBOR based interest rate floor. 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

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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 September 30, 2011, we held warrants in 104 portfolio companies, with a fair value of approximately $27.3 million. These warrant holdings would require us to invest approximately $70.7 million to exercise such warrants. 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. The value of our senior secured debt (without warrants) at September 30, 2011 was approximately $126.0 million compared to approximately $59.3 million at December 31, 2010. The increase was primarily attributable to two new investments in lower middle market technology companies in the nine month period ended September 30, 2011, which typically do not have equity enhancement features.

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

The following table summarizes our realized and unrealized gain and loss and changes in our unrealized appreciation and depreciation on control and affiliate investments for the three and nine months ended September 30, 2011 and September 30, 2010:

(in thousands)		Three months ended September 30, 2011				Nine months ended September 30, 2011			
Portfolio Company	**Type**	**Fair Value at September 30, 2011**	**Investment Income**	**Unrealized (Depreciation)/Appreciation**	**Realized Gain/(Loss)**	**Investment Income**	**Unrealized (Depreciation)/Appreciation**	**Reversal of Unrealized (Depreciation)/Appreciation**	**Realized Gain/(Loss)**
MaxVision Holding, LLC.	Control	$ 2,983	$ 10	$ 14	$	$ 861	$ (3,546)		$
E-Band Communiations, Corp.	Non-Controlled Affiliate		5	(53)		9	(3,425)		
Total		$ 2,983	$ 15	$ (39)	$	$ 870	$ (6,971)	$	$

(in thousands)		Three months ended September 30, 2010				Nine months ended September 30, 2010			
Portfolio Company	**Type**	**Fair Value at September 30, 2011**	**Investment Income**	**Unrealized (Depreciation)/Appreciation**	**Realized Gain/(Loss)**	**Investment Income**	**Unrealized (Depreciation)/Appreciation**	**Reversal of Unrealized (Depreciation)/Appreciation**	**Realized Gain/(Loss)**
InfoLogix, Inc.	Control	$ 33,935	$ 796	$ (4,266)	$	$ 2,488	$ (1,419)	$ 128	$ 2,500
E-Band Communiations, Corp.	Non-Controlled Affiliate	2,846		(371)			572		
Total		$ 36,781	$ 796	$ (4,637)	$	$ 2,488	$ (847)	$ 128	$ 2,500

The Company s 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.

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The following table shows the fair value of our portfolio by industry sector at September 30, 2011 and December 31, 2010:

	September 30, 2011		December 31, 2010	
(in thousands)	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
Drug Discovery	$ 81,264	14.1%	$ 52,777	11.2%
Drug Delivery	66,734	11.6%	35,250	7.5%
Internet Consumer & Business Services	65,975	11.4%	7,255	1.5%
Specialty Phamaceuticals	61,603	10.7%	63,607	13.5%
Clean Tech	59,793	10.4%	25,722	5.4%
Communications & Networking	56,119	9.7%	65,098	13.8%
Information Services	38,812	6.7%	10,857	2.3%
Therapeutic	32,562	5.7%	25,300	5.4%
Media/Content/Info	30,852	5.4%	2,223	0.5%
Biotechnology Tools	23,796	4.1%	5,987	1.3%
Software	22,094	3.8%	96,508	20.4%
Diagnostic	14,889	2.6%	14,911	3.2%
Surgical Devices	7,683	1.3%	10,172	2.1%
Semiconductors	6,916	1.2%	3,227	0.7%
Consumer & Business Products	4,345	0.8%	45,316	9.6%
Electronics & Computer Hardware	3,040	0.5%	7,819	1.6%
Energy		0.0%	3	0.0%
	$ 576,477	100.0%	$ 472,032	100.0%

We use an investment grading system, which grades each debt investment on a scale of 1 to 5, to characterize and monitor our expected level of risk on the debt investments in our portfolio with 1 being the highest quality. The following table shows the distribution of our outstanding debt investments on the 1 to 5 investment grading scale at fair value as of September 30, 2011 and December 31, 2010.

	September 30, 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	$ 108,038	21.0%	$ 65,345	16.3%
2	368,878	71.9%	232,713	57.9%
3	24,866	4.8%	90,739	22.6%
4	8,602	1.7%	8,777	2.2%
5	2,983	0.6%	4,045	1.0%
	$ 513,367	100.0%	$ 401,619	100.0%

As of September 30, 2011, our investments had a weighted average investment grading of 1.96 as compared to 2.21 at December 31, 2010. The improvement in investment grading is primarily attributable to one new investment rated 1 and the improvements from rated 2 to rated 1 of two investments, approximately 27 new investments to the portfolio rated 2, and the improvement from level 3 to level 2 of four investments. 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 September 30, 2011, four portfolio companies were graded 3, three portfolio companies were graded 4, and two portfolio companies were graded 5 as compared to eight portfolio companies that were graded 3, two portfolio companies that were graded 4 and two portfolio companies that were graded 5 at December 31, 2010.

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At September 30, 2011, there was one portfolio company on non-accrual status with a fair value of zero. There were two loans on non-accrual status as of December 31, 2010 with a fair value of approximately $4.0 million. During the three months ended March 31, 2011 we wrote off our warrant, equity and debt investments in one of these portfolio companies for a realized loss of approximately $5.2 million.

The effective yield on our debt investments for the nine month periods ended September 30, 2011 and 2010 was 17.8% and 16.2%, respectively. This yield was higher period over period due to unearned income accelerations attributed to early payoffs. The effective yield on our debt investments for the nine month periods ended September 30, 2011 and 2010 excluding payoffs was 11.5% and 11.3%, respectively.

The overall weighted average yield to maturity of our loan obligations was approximately 13.0% and 13.9% at September 30, 2011 and December 31, 2010. 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 14% as of September 30, 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, PIK provisions, prepayment fees, and diligence 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 $9.8 million and $6.6 million of unamortized fees at September 30, 2011 and December 31, 2010, respectively, and approximately $7.2 million and $5.1 million in exit fees receivable at September 30, 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 $1.4 million and $1.7 million in PIK income in the nine month periods ended September 30, 2011 and 2010.

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 September 30, 2011, approximately 60.9% of our portfolio company loans were secured by a first priority security in all of the assets of the portfolio company, 38.3% of the loans were to portfolio companies that were prohibited from pledging or encumbering 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,

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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 the three and nine-month periods ended September 30, 2011 and 2010

Investment Income

Interest income totaled approximately $16.4 and $50.9 million for the three and nine-month periods ended September 30, 2011, compared to $14.1 and $38.1 million for the three and nine-month periods ended September 30, 2010. Income from commitment, facility and loan related fees totaled approximately $2.3 and $7.7 million for the three and nine-month period ended September 30, 2011, compared with $1.5 and $4.5 million for the same periods ended September 30, 2010, respectively. The increase in interest income is attributable to a higher average interest earning investment portfolio and income from early repayments. Income from commitment, facility and loan related fees are primarily the result of an increase in facilities fees of approximately $1.4 million during the period ended September 30, 2011 compared to the same period ended September 30, 2010.

PIK Income

The following table shows the PIK-related activity for the nine months ended September 30, 2011 and 2010, *at cost*:

	Nine months ended September 30,	
(in thousands)	**2011**	**2010**
Beginning PIK loan balance	$ 3,955	$ 2,315
PIK interest capitalized during the period	1,801	2,366
Payments received from PIK loans	(3,567)	(1,087)
PIK converted to other securities	(440)	
Realized Loss		(327)
Ending PIK loan balance	$ 1,749	$ 3,267

The increase in payments received from PIK loans during the nine months September 30, 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 $10.1 million and $7.5 million during the three month periods ended September 30, 2011 and 2010, respectively. Operating expenses totaled approximately $29.9 million and $22.0 million during the nine month periods ended September 30, 2011 and 2010, respectively.

Interest and fees totaled approximately $4.3 million and approximately $11.3 million during the three and nine month periods ended September 30, 2011, respectively, and approximately $2.5 million and $7.2 million during the three and nine month periods ended September 30, 2010. The increase is primarily attributed to $1.3 million and $2.3 million of interest and fee expenses during the three and nine month periods ended September 30, 2011, respectively, related to the $75.0 million of Convertible Senior Notes issued on April 15, 2011. Additionally, the Company incurred approximately $271,000 and $496,000 of non cash interest expense during the three and nine month periods ended September 30, 2011, respectively, attributed to the accretion of the fair value of the conversion feature on the Convertible Senior Notes. The Company had a weighted average cost of debt comprised of interest and fees of approximately 6.5% at September 30, 2011, as compared to 6.2% during the third quarter of 2010. The increase was primarily attributed to the weighted average cost of debt on the senior convertible notes of 8.2% offset by a lower weighted average cost of debt on outstanding SBA debentures at 5.2% in the third quarter of 2011 versus 6.1% in the third quarter of 2010.

General and administrative expenses include legal, consulting and accounting fees, insurance premiums, rent, workout and various other expenses. Expenses remained relatively flat at approximately $1.7 million for the three month periods ended September 30, 2011 and 2010 and increased to $6.2 million from $5.2 million for the nine month periods ended September 30, 2011 and 2010, respectively, primarily due to increased recruiting, accounting and legal expenses.

Employee compensation and benefits totaled approximately $3.3 million and approximately $9.9 million during the three and nine-month periods ended September 30, 2011, respectively. Employee compensation and benefits totaled approximately $2.6 million and approximately $7.7 million during the three and nine-month periods ended September 30, 2010, respectively. This increase is primarily due to an increase in employee headcount and increased salary and executive severance costs as compared to the same period of 2010. We expect to continue to hire to meet our portfolio growth. Stock-based compensation totaled approximately $870,000 and approximately $2.5 million during the three and nine month periods ended September 30, 2011 respectively and approximately $752,000 and approximately $2.0 million during the three and nine month periods ended September 30, 2010. These increases were due primarily to the expense on restricted stock grants issued in the first quarter of 2011. 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 $0.20 for the quarter ended September 30, 2011 compared to $0.23 per share in the quarter ended September 30, 2010. Net investment income before investment gains and losses for the three and nine month periods ended September 30, 2011 totaled $8.6 million and $28.8 million, respectively as compared to $8.1 million and $20.6 million in the three and nine month periods ended September 30, 2010, 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.

During the three and nine-months ended September 30, 2011 the Company recognized total net realized gains of approximately $10.1 million from the sale of common stock in its public portfolio companies and realized losses of approximately $1.6 million and approximately $6.7 million from equity, loan, and warrant investments in portfolio companies that have been liquidated. The loss is primarily attributed to the termination of warrants in LaboPharm, Inc. of $0.6 million and the write-off of equity in Solarflare, Inc. of $0.6 million. During the three and nine-month period ended September 30, 2010 the Company recognized net realized losses of approximately $18.9 million and approximately $19.2 million from equity, loan and warrant investments in portfolio companies that have been liquidated and realized gains of approximately $3.6 million from the sale of common stock in public companies and approximately $465,000 from the mergers of private portfolio companies.

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A summary of realized gains and losses for the three and nine month periods ended September 30, 2011 and 2010 is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
(in millions)				
Realized gains	$ 0.3	$	$ 10.6	$ 4.4
Realized losses	(1.9)	(18.9)	(7.2)	(19.5)
Net realized gains (losses)	$ (1.6)	$ (18.9)	$ 3.4	$ (15.1)

During the three month period ended September 30, 2011 net change in unrealized depreciation totaled approximately $769,000 from loan, warrant and equity investments. Approximately $5.9 million was due to net unrealized appreciation on equity and loans, primarily attributed to the exercise of our warrants in Aveo Pharmaceuticals, Inc. to common shares. Approximately $6.6 million was due to unrealized depreciation on warrant investments, primarily attributable to the exercise of our warrants and the decrease in fair market value for public company holdings.

During the nine month period ended September 30, 2011 net change in unrealized depreciation totaled approximately $2.8 million from loan, warrant and equity investments. Approximately $4.0 million was due to net unrealized appreciation on debt and warrants, primarily attributable to the increase in fair market value for public company holdings. Approximately $6.8 million was due to unrealized depreciation on equity investments, primarily attributable to the sale of InfoLogix, Inc. in the first quarter of 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.

During the same periods ending September 30, 2010 net unrealized appreciation totaled approximately $2.9 million and net unrealized depreciation totaled approximately $12.2 million, respectively.

For the three month period ended September 30, 2011 approximately $2.2 million and $3.7 million of the net unrealized appreciation recognized was attributable to debt and equity investments, respectively, and approximately $6.6 million of net unrealized depreciation on our warrant investments. Included in this amount is unrealized appreciation of approximately $1.5 million attributable to the reversal of prior period net unrealized depreciation upon being realized as a loss and approximately $2.9 million in unrealized depreciation attributable to the exercise of warrants to equity. For the nine month period ended September 30, 2011 approximately $3.4 million and $616,000 of the net unrealized appreciation was attributable to debt and warrant investments, respectively, and approximately $6.8 million of depreciation was attributable to equity investments. As of September 30, 2011, the net unrealized depreciation recognized by the Company was increased by approximately $229,000 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 in this prospectus supplement.

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. This net unrealized appreciation was primarily comprised of increases in the fair value of our portfolio companies due to positive company performance and market conditions.

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The following table itemizes the change in net unrealized appreciation/depreciation of investments for the three and nine-month periods ended September 30, 2011 and 2010:

(in thousands)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010
Gross unrealized appreciation on portfolio investments	$ 11,928	$ 4,565
Gross unrealized depreciation on portfolio investments	(11,423)	(15,824)
Reversal of prior period net unrealized appreciation upon realization	(3,323)	(3,912)
Reversal of prior period net unrealized depreciation upon realization	1,913	17,888
Citigroup Warrant Participation	136	177
Net unrealized appreciation (depreciation) on portfolio investments	$ (769)	$ 2,894

(in thousands)	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Gross unrealized appreciation on portfolio investments	$ 41,945	$ 26,369
Gross unrealized depreciation on portfolio investments	(38,833)	(52,867)
Reversal of prior period net unrealized appreciation upon realization	(13,225)	(3,902)
Reversal of prior period net unrealized depreciation upon realization	7,519	18,048
Citigroup Warrant Participation	(229)	134
Net unrealized appreciation (depreciation) on portfolio investments	$ (2,823)	$ (12,218)

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 nine months ended September 30, 2011, the net increase in net assets resulting from operations totaled approximately $6.2 million and $29.4 million, respectively. For the three and nine months ended September 30, 2010, the net decrease in net assets resulting from operations totaled approximately $7.8 million and $6.7 million. These changes are made up of the items previously described.

Basic and fully diluted net change in net assets per common share for the three and nine-month periods ended September 30, 2011 was $0.14 and $0.67, respectively, as compared to basic and fully diluted change in net assets per common share of $(0.23) and $(0.20) for the three and nine-month periods ended September 30, 2010, respectively.

Financial Condition, Liquidity, and Capital Resources

At September 30, 2011, we had approximately $96.3 million in cash and cash equivalents and available borrowing capacity of approximately $75.0 million under the Wells Facility, $20.0 million under the Union Bank Facility and $36.25 million under the SBA program, subject to existing terms and advance rates and regulatory requirements. We primarily invest cash on hand in interest bearing deposit accounts.

As of September 30, 2011, net assets totaled $422.1 million, with a net asset value per share of $9.61. 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. Additionally, 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 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. 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 September 30, 2011 our asset coverage ratio under our regulatory requirements as a business development company was 971.5%, 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 263.1% at September 30, 2011.

During the nine months ended September 30, 2011, our operating activities used $72.5 million of cash and cash equivalents, compared to $45.6 million used during the nine months ended September 30, 2010. The $26.9 million increase in cash used in operating activities resulted primarily from increased investing activity. During the nine months ended September 30, 2011, our financing activities provided $62.0 million of cash, compared to $4.2 million during the nine months ended September 30, 2010. This $57.9 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.

At September 30, 2011 and December 31, 2010, we had the following borrowing capacity and outstanding amounts:

	September 30, 2011		December 31, 2010	
	Total Available	Carrying Value(1)	Total Available	Carrying Value(1)
Union Bank Facility	$ 20,000	$	$ 20,000	$
Wells Facility	75,000		50,000	
Convertible Senior Notes(2)	75,000	70,082		
SBA Debenture(3)	225,000	188,750	225,000	170,000
Total	$ 395,000	$ 258,832	$ 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 Notes. The total unaccreted discount for the Convertible Senior Notes was $4,918 at September 30, 2011.

(3) The Company has the ability to borrow an additional $36.3 million subject to SBA approval and compliance with SBIC regulations.

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 September 30, 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 September 30, 2011 as a result of having sufficient capital as defined under the SBA regulations.

In aggregate, HT II and HT III hold approximately $334.9 million in assets, and accounted for approximately 35.5% of our total assets prior to consolidation at September 30, 2011.

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, of which $125.0 million was outstanding at September 30, 2011. As of September 30, 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 September 30, 2011, we held investments in HT II in 84 companies with a fair value of approximately $180.8 million, accounting for approximately 31.4% of our total portfolio at September 30, 2011.

As of September 30, 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 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 $63.75 million was outstanding at September 30, 2011. As of September 30, 2011, HT III has paid the SBA commitment fees of approximately $750,000. As of September 30, 2011, we held investments in HT III in 20 companies with a fair value of approximately $92.4 million accounting for approximately 16.0% of our total portfolio at September 30, 2011.

(in thousands)

Issuance/Pooling Date	**Maturity Date**	**Interest Rate[1]**	**September 30, 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	$
Total SBA Debentures			**$ 188,750**	**$ 170,000**

(1) Interest rate includes annual charge

Current Market Conditions

Beginning in the fall of 2008, the global economy entered a financial crisis and recession. Volatile capital and credit markets, declining business and consumer confidence and increased unemployment precipitated a continuing economic slowdown. Although there have been signs of recovery in many regions, economic weakness could continue or worsen. For example, the current U.S. debt ceiling and budget deficit concerns, together with signs of deteriorating sovereign debt conditions in Europe, have increased the possibility of credit-rating downgrades and economic slowdowns. Although U.S. lawmakers passed legislation to raise the federal debt ceiling, Standard & Poor s Ratings Services lowered its long-term sovereign credit rating on the United States from AAA to AA+ on August 5, 2011. The impact of this or any further downgrades to the U.S. government s sovereign credit rating, or its perceived creditworthiness, and the impact of the current crisis in

Europe with respect to the ability of certain European Union countries to continue to service their sovereign debt obligations is inherently unpredictable and could adversely effect the U.S. and global financial markets and economic conditions. There can be no assurance that governmental or other measures to aid economic recovery will be effective. We anticipate that there may be yield compression as 2011 comes to an end, however, given our level of liquidity and pipeline, we believe that we are well positioned despite the uncertainty in the market. Continued adverse economic conditions could have a material adverse effect on our business, financial condition and results of operations.

We may acquire a portfolio of investments or sell a portion of our portfolio on an opportunistic basis. We, from time to time, engage in discussions with counterparties in respect of various potential transactions. 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 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.

We periodically review and assess investment portfolio acquisition opportunities of target companies that would be accretive to us. In the future, we may determine to acquire such portfolios which could affect our liquidity position and necessitate our need to raise additional capital to fund our growth.

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 origination activity unfunded commitments may be significant from time to time. As of September 30, 2011, we had unfunded commitments of approximately $148.2 million. 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 Senior Secured 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 $136.0 million of non-binding term sheets outstanding with nine companies, which generally convert to contractual commitments within approximately 45 to 60 days of signing. Non-binding outstanding term from prior release 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 September 30, 2011:

		Payments due by period (in thousands)			
Contractual Obligations(1)(2)	**Total**	**Less than 1 year**	**1 - 3 years**	**3 - 5 years(3)**	**After 5 years(4)**
Borrowings	$ 258,832	$	$	$ 70,082	$ 188,750
Operating Lease Obligations(5)	2,488	1,242	1,245		
Total	$ 261,320	$ 1,242	$ 1,245	$ 70,082	$ 188,750

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(1) Excludes commitments to extend credit to our portfolio companies.
(2) We also have warrant participation obligation with Citigroup. See Borrowings.
(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 Notes. The total unaccreted discount for the Convertible Senior Notes was $4,918 at September 30, 2011.
(4) Borrowings under the SBA debentures
(5) Long-term facility leases

Hercules and its executives and directors are covered by Directors and Officers Insurance, with the directors and officers being indemnified by Hercules 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 September 30, 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 September 30, 2011 and has paid the SBA commitment fees of approximately $1.5 million. As of September 30, 2011, the Company held investments in HT II in 84 companies with a fair value of approximately $180.8 million, accounting for approximately 31.4% of our total portfolio at September 30, 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 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 $63.75 million was outstanding as of September 30, 2011. As of September 30, 2011, HT III has paid commitment fees of approximately $750,000. As of September 30, 2011, the Company held investments in HT III in 20 companies with a fair value of approximately $92.4 million accounting for approximately 16.0% of our total portfolio at September 30, 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 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 September 30, 2011 as a result of having sufficient capital as defined under the SBA regulations. As of September 30, 2011, HT III could draw up to $36.25 million, respectively, of additional leverage from SBA.

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 quarter ended September 30, 2011 for HT II was approximately $125.0 million with an average interest rate of approximately 5.0%. The average amount of debentures outstanding for the quarter ended September 30, 2011 for HT III was approximately $63.75 million with an average interest rate of approximately 3.5%.

Wells Facility

On August 25, 2008, Hercules, through a special purpose wholly-owned subsidiary, Hercules Funding II, LLC, entered into a two-year revolving senior secured credit facility with an optional one-year extension with total commitments of $50.0 million, with Wells Fargo Capital Finance as a lender and as an arranger and administrative agent (the Wells Facility). The Wells Facility has the capacity to increase to $300.0 million if additional lenders are added to the syndicate. The Wells Facility expired in August 2011.

Borrowings under the Wells Facility will generally bear interest at a rate per annum equal to LIBOR plus 3.25% or PRIME plus 2.0%, but not less than 5.0%. The Wells 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 Wells Facility generally requires payment of interest on a monthly basis. All outstanding principal is due upon maturity. We have paid a total of $1.1 million in structuring fees in connection with the Wells Facility which has been amortized through August 2011.

The Wells Facility includes various financial and operating covenants applicable to the Company and its 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 September 30, 2011.

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. Borrowings under the 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 facility will be 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%. 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 new credit facility. This new arrangement replaced the previous $300.0 million Wells Facility under which Wells Fargo Capital Finance had committed $50.0 million in capital. 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 no outstanding debt under the Wells Facility at September 30, 2011.

We anticipate incurring a non-use fee expense of approximately $200,000 or $0.005 per share per quarter until we borrow under the Wells Facility. In total, we expect the expense from the Convertible Senior Notes and facility fees to negatively impact earnings in the near term by approximately $1.5 million or $0.04 per quarter until any of the capital is deployed.

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). 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%, an advance rate of 50% against eligible loans, and secured by loans in the borrowing base. The Union Bank Facility required 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. In February 2011, the maturity date of the facility was extended from May 1, 2011 to July 31, 2011. Union Bank Facility provides for customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, bankruptcy events and change of control. We were in compliance with all covenants at September 30, 2011.

On June 7, 2011, we entered into an amendment to the Union Bank Facility which extended the borrowing termination date to September 30, 2011. The amendment to the Union Bank Facility also amends the maturity date of Union Bank s $20.0 million commitment to mean the earliest of: (a) December 31, 2011; (b) the date on which Union Bank s obligation to make loans is terminated and the obligations are declared to be due and payable or the commitment is terminated; or (c) the date of prepayment in full by the Company. There was no outstanding debt under the Union Bank Facility at September 30, 2011.

On November 2, 2011, we renewed and amended 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 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. The other terms of the Union Bank Facility generally remain unchanged, including the stated interest rate. 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.

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Convertible Senior Notes

In April 2011, we issued $75.0 million in aggregate principle amount of 6.00% convertible senior notes (the Convertible Senior Notes) due 2016. As of September 30, 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 $70.1 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 7.9%.

As of September 30, 2011, the components of the carrying value of the Convertible Senior Notes were as follows:

(in thousands)	**As of September 30, 2011**
Principal amount of debt	$ 75,000
Original issue discount, net of accretion	(4,918)
Carrying value of debt	$ 70,082

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For the three and nine months ended September 30, 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 September 30, 2011	Nine Months Ended September 30, 2011
Stated interest expense	$ 1,125	$ 2,062
Accretion of original issue discount	270	496
Amortization of debt issuance cost	144	264
Total interest expense	$ 1,539	$ 2,822
Cash paid for interest expense	$	$

As of September 30, 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 the three and nine months ended September 30, 2011 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. During the first quarter of 2009, we paid off all remaining 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 $727,000 as of September 30, 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.

Outstanding Borrowings

At September 30, 2011 and December 31, 2010, we had the following borrowing capacity and outstanding borrowings:

	September 30, 2011		December 31, 2010	
	Total Available	Carrying Value(1)	Total Available	Carrying Value(1)
Union Bank Facility	$ 20,000	$	$ 20,000	$
Wells Facility	75,000		50,000	
Convertible Senior Notes(2)	75,000	70,082		
SBA Debenture(3)	225,000	188,750	225,000	170,000
Total	$ 395,000	$ 258,832	$ 295,000	$ 170,000

(1) Except for the Convertible Senior Notes (as defined above), 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 above) less the unaccreted discount initially recorded upon issuance of the Convertible Notes. The total unaccreted discount for the Convertible Senior Notes was $4,918 at September 30, 2011.

(3) The Company has the ability to borrow an additional $36.3 million subject to SBA approval and compliance with SBIC regulations for which they have received a commitment.

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	$ 0.025
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 19, 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
			$ 6.685

* Dividend paid in cash and stock.

On November 3, 2011, the Board of Directors announced a cash dividend of $0.22 per share to be paid on November 29, 2011 to shareholders of record as of November 14, 2011. This dividend is the Company s twenty-fifth consecutive quarterly dividend declaration since its initial public offering, and will bring the total cumulative dividend declared to date to $6.69 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.

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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 2011 distributions to stockholders. If we had determined the tax attributes of our distributions year-to-date as of September 30, 2011, approximately 97% would be from ordinary income and spillover earnings from 2010, and 3% would be a return of capital.

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 in the accompanying prospectus.

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 September 30, 2011, approximately 83.7% 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

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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 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 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

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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 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 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 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 equity related. 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 September 30, 2011, we had one portfolio company on non-accrual status with a fair value of zero. There were two loans on non-accrual status with a fair value of approximately $4.0 million as of December 31, 2010. During the three months ended March 31, 2011 we wrote off our warrant, equity and debt investments in one of these portfolio companies for a realized loss of approximately $5.2 million.

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. The Company recorded approximately $285,000 and $1.4 million in PIK income in the three and nine-month periods ended September 30, 2011, respectively. The Company recorded approximately $552,000 and $1.7 million in the same periods ended September 30, 2010, 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.

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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 underwriter s 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, 2010 and 2009, no excise tax was recorded. At December 31, 2008, we recorded a liability for excise tax of approximately $203,000 on income and capital gains of approximately $5.0 million which was distributed in 2009. 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 January 2010, the FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures* (ASU 2010-06), which amends ASC 820 and requires additional disclosure related to recurring and nonrecurring fair value measurements with respect to transfers in and out of Levels 1 and 2 and activity in Level 3 fair value measurements. The update also clarifies existing disclosure requirements related to the level of disaggregation and disclosure about inputs and valuation techniques. ASU 2010-06 is effective for interim and annual periods beginning after December 15, 2009 except for disclosures related to activity in Level 3 fair value measurements which are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. The Company adopted the requirements of ASU-2010-06 in the fourth quarter of 2009 and its adoption did not have a material effect on our consolidated financial statements.

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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 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. We are evaluating the impact that our adoption of this update may have on our financial position or results of operations.

Subsequent Events

Closed and Pending Commitments

As of November 3, 2011, we have closed commitments of approximately $45.0 million to new and existing portfolio companies, and funded approximately $30.0 million since the close of the third quarter. In addition, we have pending commitments (signed term sheets) of approximately $129.0 million.

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

2011 Closed Commitments and Pending Commitments (in millions)	
January 1 September 30 Closed Commitments	$ 465.0
Q4-11 Closed Commitments (as of November 3, 2011)	$ 45.0
Total year to date 2011 Closed Commitments[(a)]	**$ 510.0**
Pending Commitments (as November 3, 2011)[(b)]	$ 129.0
Total year to date	**$ 639.0**

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.

Portfolio Company Developments

In October 2011, Hercules portfolio company LaboPharm, Inc. was acquired by Paladin Labs resulting in the full repayment of Hercules debt of approximately $12.0 million and the cancellation of the remaining warrants.

Company Developments

In October 2011, Hercules announced the opening of its new office in McLean, Virginia, thereby expanding to the Mid-Atlantic and South-Atlantic regions where the Company was previously under represented.

On November 2, 2011, the Company renewed and amended the Union Bank Facility. 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. 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.

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Disclosure Controls and Procedures

As of the end of the quarter ended September 30, 2011, the Company carried out an evaluation, under the supervision and with the participation of its management, including its Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer), of the effectiveness of the design and operation of these disclosure controls and procedures, as such term is defined in Exchange Act Rules 13a-15(e) and 15d-15(e). Based on this evaluation, the Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer) have concluded our current disclosure controls and procedures were not effective in timely alerting them of material information relating to the Company that is required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934 as of September 30, 2011 because of the continuing remediation efforts discussed below.

Changes in Internal Control Over Financial Reporting

As described in the accompanying prospectus, management identified remedial steps that were implemented with respect to disclosed material weaknesses. In light of these material weaknesses, the Company refined its procedures to ensure its financial statements were prepared in accordance with generally accepted accounting principles. The status of the remediation efforts, as discussed below, was regularly reviewed with management and the Company s Audit Committee of the Board of Directors. The Audit Committee was advised of issues encountered and key decisions reached by management relating to the remediation efforts. Accordingly, management believes that the financial statements included in this prospectus present fairly in all material respects the Company s financial condition, results of operations and cash flows for the periods presented.

During the three month period ended December 31, 2010, and in connection with the year-end audit process, the Company corrected the valuation process to refine its application of ASC 820. The Company applied a new procedure that assumes a sale of an 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 the new process, the Company has continued to evaluate the collateral for recoverability of the debt investments as well as apply 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. 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 has completed its evaluation and testing of these additional processes. During the three months ended March 31, 2011, management evaluated the remedial action, assessed the operating effectiveness of the remediated controls and concluded that it has remediated the material weakness described above.

In connection with the preparation of the Company s Consolidated Financial Statements for the three-month period ended March 31, 2011, the Company identified a material weakness in its internal control over financial reporting. A material weakness is a deficiency, or combination of control deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the registrant s annual or interim financial statements will not be prevented or detected on a timely basis. 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. This control deficiency could result in misstatements of the aforementioned accounts and disclosures that would result in a material misstatement of the consolidated financial statements that would not be prevented or detected. Because of this material weakness, management concluded that the Company did not maintain effective control over financial reporting as of March 31, 2011. The Company designed and implemented its remediation efforts, as outlined below, to address the material weakness identified

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as of March 31, 2011 and to strengthen its internal control over financial reporting. Beginning in the second quarter of 2011, the Company has implemented the following remediation steps to address the material weakness as it relates to manual input errors in calculations used and to improve its internal control over financial reporting:

- adding additional layers of review to ensure accuracy, existence and completeness of the number of equity security holdings as of the measurement date;

- adding additional review steps, particularly surrounding any manually input data, in the calculations used to support the fair value of investments as of the measurement date; and

- seeking to recruit additional experienced professionals to augment and upgrade its financial staff to address issues of timeliness and completeness in financial reporting.

As of September 30, 2011, management believes it has placed in operation controls to address the material weakness, however given the timing of certain remediation activities there was not sufficient evidence to conclude upon their sustained effectiveness. As a result, during 2011, management continued to monitor and test the controls that have been implemented to ensure sustained effectiveness and will further remediate should any evidence of ineffectiveness be found.

The Audit Committee has directed management to monitor and test the controls implemented and develop additional controls should any of these new controls require further enhancement. In addition, under the direction of the Audit Committee, management will continue to review and make necessary changes to the overall design of the Company s internal control environment, as well as policies and procedures to improve the overall effectiveness of internal control over financial reporting.

Management believes the measures described above and others that will be implemented as necessary will remediate the control deficiencies the Company has identified and strengthen its internal control over financial reporting. Management is committed to continuous improvement of the Company s internal control processes and will continue to diligently review the Company s financial reporting controls and procedures. As management continues to evaluate and work to improve internal control over financial reporting, the Company may determine to take additional measures to address control deficiencies or to determine to modify, or in appropriate circumstances not to complete, certain of the remediation measures described above.

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 September 30, 2011, approximately 91.1% of our portfolio loans were at variable rates or variable rates with a floor and 8.9% 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 quarter ended September 30, 2011 for HT II was approximately $125.0 million with an average interest rate of approximately 5.0%, and for HT III was approximately $63.75 million with an average interest rate of approximately 3.5%. 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 no borrowings outstanding under this facility at September 30, 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 September 30, 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.

UNDERWRITING

Under the terms and subject to the conditions contained in an underwriting agreement dated January 12, 2012, we have agreed to sell to Citigroup Global Markets Inc., the sole underwriter, and Citigroup Global Markets Inc. has agreed to purchase 5,000,000 shares of common stock at a price of $ per share.

The underwriting agreement provides that the underwriter is obligated to purchase all of the shares of common stock in the offering if any are purchased, other than those shares covered by the over-allotment option described below subject to certain conditions precedent.

The underwriter proposes to offer the shares of common stock offered hereby from time to time for sale in one or more transactions on the Nasdaq Global Select Market, in the over-the-counter-market, through negotiated transactions or otherwise at market prices prevailing at the time of sale, at prices related to prevailing market prices or at negotiated prices, subject to receipt and acceptance by the underwriter and subject to the underwriter s right to reject any order in whole or in part. The underwriter may effect such transactions by selling the shares of common stock to or through dealers and such dealers may receive compensation in the form of discounts, concessions or commissions from the underwriter and/or purchasers of shares of common stock for whom they may act as agents or to whom they may sell as principal. The difference between the price at which the underwriter purchases shares and the price at which the underwriter resells such shares, which may include a commission equivalent of up to $0.05 per share, may be deemed underwriting compensation.

We have granted to the underwriter a 30-day option to purchase on a pro rata basis up to 750,000 additional shares at a price of $ per share. The option may be exercised only to cover any over allotments of common stock.

We expect that our expenses for this offering will be approximately $300,000.

We have agreed to indemnify the underwriter against certain liabilities, including liabilities under the Securities Act of 1933, or contribute to payments that the underwriter may be required to make in that respect.

We have agreed that we will not directly or indirectly sell, offer to sell, enter into any agreement to sell, or otherwise dispose of, any equity or equity related securities of the Company or securities convertible into such securities, without the prior written consent of Citigroup Global Markets Inc. for a period of 45 days after the date of this prospectus, except issuances of common stock pursuant to any employee or director compensation, dividend reinvestment, savings, or benefit plan, or distributions to the Company s directors upon that individual s election to receive shares of the company s common stock in lieu of a cash retainer. However, in the event that either (1) during the last 17 days of the lock-up period, we release earnings results or material news or a material event relating to us occurs or (2) prior to the expiration of the lock-up period, we announce that we will release earnings results during the 16-day period beginning on the last day of the lock-up period, then in either case the expiration of the lock-up will be extended until the expiration of the 18-day period beginning on the date of the release of the earnings results or the occurrence of the material news or event, as applicable.

Our directors and senior executive officers have agreed that during the 45 days after the date of this prospectus supplement, subject to certain exceptions, they will not, without the prior written consent of Citigroup Global Markets Inc., offer to sell, contract to sell, or otherwise sell, dispose of, loan, pledge or grant any rights with respect to (collectively, a Disposition), any shares of our common stock, any options or warrants to purchase any shares of our common stock or any securities convertible into or redeemable or exchangeable for shares of our common stock now owned or hereafter acquired directly by such person or with respect to which such person has or hereafter acquires the power of disposition. The foregoing restriction has been expressly agreed to preclude the holder of such securities from engaging in any hedging or other transaction which is designed to or reasonably expected to lead to or result in a Disposition of securities during the lock-up period, even if such securities would be disposed of by someone other than the holder. Such prohibited hedging or other transactions would include, without limitation, any short sale (whether or not against the box) or any purchase, sale or grant of any right (including, without limitation, any put or call option) with respect to any securities. Notwithstanding the foregoing, if (i) during the last 17 days of the lock-up period, the Company issues an earnings release or material news or a material event relating to the Company occurs or (ii) prior to the expiration of the lock-up period, the Company announces that it will release earnings results during the 16-day period beginning on the last day of the lock-up period, the foregoing restrictions shall 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. These lock-up agreements will cover approximately 4,395,963 shares of our outstanding common stock and shares underlying warrants in the aggregate. These agreements will not cover shares acquired in connection with the participation in the Company s dividend reinvestment plan, shares acquired upon the exercise of stock options pursuant to the Company s stock option plan, pledges of securities in connection with their purchase upon the exercise of employee stock options following termination of employment with the Company, the sale of shares in connection with net issuances of shares to satisfy tax withholding obligations related to the vesting of shares of restricted stock or the exercise of stock options to purchase shares of the Company s common stock that were granted pursuant to the Company s equity compensation plans, or the exercise or conversion of any security into shares of our common stock so long as the shares received remain subject to the lock-up. The agreements also exclude dispositions (i) as a bona fide gift or gifts, (ii) as a distribution to partners or shareholders of such person (or in the case of a trust, to the beneficiaries thereof), (iii) to any corporation controlled by the transferor, (iv) to any trust for the direct or indirect benefit of the transferor or their immediate family, provided that such transfer does not involve a disposition for value other than for the benefit of the transferor s immediate family, and (v) charitable dispositions of securities that do not involve a disposition for value, provided that in each case (i)-(v) the recipient agrees in writing to be bound by the restrictions of the lock-up. Citigroup Global Markets Inc. may, in its sole discretion, allow any of these parties to dispose of common stock or other securities prior to the expiration of the 45 day period. There are, however, no agreements between Citigroup Global Markets Inc. and the parties that would allow them to do so as of the date of this prospectus supplement.

The underwriter does not intend to confirm sales to any account over which it exercises discretionary authority.

Until the distribution of the common stock is completed, rules of the Securities and Exchange Commission may limit the ability of the underwriter and certain selling group members to bid for and purchase the common stock. As an exception to these rules, the underwriter is permitted to engage in certain transactions that stabilize, maintain or otherwise affect the price of the common stock.

In connection with this offering, the underwriter may engage in stabilizing transactions, over-allotment transactions, syndicate covering transactions, penalty and market making bids in accordance with Regulation M under the Securities Act of 1934.

Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.

Over-allotment transactions involve sales by the underwriter of the shares of common stock in excess of the number of shares the underwriter is obligated to purchase, which creates a syndicate short position. The short position may be either a covered short position or a naked short position. In a covered short position, the number of shares over-allotted by the underwriters is not greater than the number of shares that they may purchase in the over allotment option. In a naked short position, the number of shares involved is greater than the number of shares in the over allotment option. The underwriters may close out any covered short position by either exercising its over allotment option and/or purchasing shares in the open market.

Syndicate covering transactions involve purchases of the shares of common stock in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of shares to close out the short position, the underwriter will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which it may purchase shares through the over allotment option. If the underwriter sells more shares than could be covered by the over allotment option, a naked short position, the position can only be closed out by buying shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering.

Penalty bids permit representatives to reclaim a selling concession from a syndicate member when the shares of common stock originally sold by the syndicate member are purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions.

In passive market making, market makers in the common stock who are underwriters or prospective underwriters may, subject to limitations, make bids for or purchases of our common stock until the time, if any, at which a stabilizing bid is made.

These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of the common stock. As a result the price of our common stock may be higher than the price that might otherwise exist in the open market. These transactions may be effected on the NASDAQ Global Select Market or otherwise and, if commenced may be discontinued at any time.

The underwriter will deliver an accompanying prospectus and prospectus supplement to all purchasers of shares of common stock in the short sales. The purchases of shares of common stock in short sales are entitled to the same remedies under the federal securities laws as any other purchaser of shares of common stock covered by this prospectus supplement.

The underwriter is not obligated to engage in any of the transactions described above. If it does engage in any of these transactions, it may discontinue them at any time.

Notice to Prospective Investors in the European Economic Area

In relation to each member state of the European Economic Area that has implemented the Prospectus Directive (each, a relevant member state), with effect from and including the date on which the Prospectus Directive is implemented in that relevant member state (the relevant implementation date), an offer of shares described in this prospectus supplement may not be made to the public in that relevant member state other than:

to any legal entity which is a qualified investor as defined in the Prospectus Directive;

to fewer than 100 or, if the relevant member state has implemented the relevant provision of the 2010 PD Amending Directive, 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by us for any such offer; or

in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of shares shall require us or any underwriter to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For purposes of this provision, the expression an offer of securities to the public in any relevant member state means the communication in any form and by any means of sufficient information on the terms of the offer and the shares to be offered so as to enable an investor to decide to purchase or subscribe for the shares, as the expression may be varied in that member state by any measure implementing the Prospectus Directive in that member state, and the expression Prospectus Directive means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the relevant member state) and includes any relevant implementing measure in the relevant member state. The expression 2010 PD Amending Directive means Directive 2010/73/EU.

The sellers of the shares have not authorized and do not authorize the making of any offer of shares through any financial intermediary on their behalf, other than offers made by the underwriter with a view to the final

placement of the shares as contemplated in this prospectus supplement. Accordingly, no purchaser of the shares, other than the underwriter, is authorized to make any further offer of the shares on behalf of the sellers or the underwriter.

This prospectus supplement and the accompanying prospectus are only being distributed to, and is only directed at, persons in the United Kingdom that are qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive that are also (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the Order) or (ii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (each such person being referred to as a relevant person). This prospectus supplement and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other persons in the United Kingdom. Any person in the United Kingdom that is not a relevant person should not act or rely on this document or any of its contents.

Notice to Prospective Investors in the United Kingdom

This prospectus supplement and the accompanying prospectus are only being distributed to, and is only directed at, persons in the United Kingdom that are qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive that are also (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the Order) or (ii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (each such person being referred to as a relevant person). This prospectus supplement and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other persons in the United Kingdom. Any person in the United Kingdom that is not a relevant person should not act or rely on this document or any of its contents.

Notice to Prospective Investors in France

Neither this prospectus supplement nor any other offering material relating to the shares described in this prospectus supplement has been submitted to the clearance procedures of the *Autorité des Marchés Financiers* or of the competent authority of another member state of the European Economic Area and notified to the *Autorité des Marchés Financiers*. The shares have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in France. Neither this prospectus supplement nor any other offering material relating to the shares has been or will be:

- released, issued, distributed or caused to be released, issued or distributed to the public in France; or
- used in connection with any offer for subscription or sale of the shares to the public in France.

Such offers, sales and distributions will be made in France only:

- to qualified investors (*investisseurs qualifiés*) and/or to a restricted circle of investors (*cercle restreint d investisseurs*), in each case investing for their own account, all as defined in, and in accordance with articles L.411-2, D.411-1, D.411-2, D.734-1, D.744-1, D.754-1 and D.764-1 of the French *Code monétaire et financier*;
- to investment services providers authorized to engage in portfolio management on behalf of third parties; or
- in a transaction that, in accordance with article L.411-2-II-1°-or-2°-or 3° of the French *Code monétaire et financier* and article 211-2 of the General Regulations (*Règlement Général*) of the *Autorité des Marchés Financiers*, does not constitute a public offer (*appel public à l épargne*).

The shares may be resold directly or indirectly, only in compliance with articles L.411-1, L.411-2, L.412-1 and L.621-8 through L.621-8-3 of the French *Code monétaire et financier*.

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Notice to Prospective Investors in Hong Kong

The shares may not be offered or sold in Hong Kong by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong), or (ii) to professional investors within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a prospectus within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong) and no advertisement, invitation or document relating to the shares may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to shares which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

Notice to Prospective Investors in Singapore

This prospectus supplement has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus supplement and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the shares may not be circulated or distributed, nor may the shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the SFA), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA, in each case subject to compliance with conditions set forth in the SFA.

Where the shares are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

shares, debentures and units of shares and debentures of that corporation or the beneficiaries rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the shares pursuant to an offer made under Section 275 of the SFA except:

to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions specified in Section 275 of the SFA;

where no consideration is or will be given for the transfer; or

where the transfer is by operation of law.

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Notice to Prospective Investors in Australia

No prospectus or other disclosure document (as defined in the Corporations Act 2001 (Cth) of Australia (Corporations Act)) in relation to the common stock has been or will be lodged with the Australian Securities & Investments Commission (ASIC). This document has not been lodged with ASIC and is only directed to certain categories of exempt persons. Accordingly, if you receive this document in Australia:

(a) you confirm and warrant that you are either:

(i) a sophisticated investor under section 708(8)(a) or (b) of the Corporations Act;

(ii) a sophisticated investor under section 708(8)(c) or (d) of the Corporations Act and that you have provided an accountant s certificate to us which complies with the requirements of section 708(8)(c)(i) or (ii) of the Corporations Act and related regulations before the offer has been made;

(iii) a person associated with the company under section 708(12) of the Corporations Act; or

(iv) a professional investor within the meaning of section 708(11)(a) or (b) of the Corporations Act, and to the extent that you are unable to confirm or warrant that you are an exempt sophisticated investor, associated person or professional investor under the Corporations Act any offer made to you under this document is void and incapable of acceptance; and

(b) you warrant and agree that you will not offer any of the common stock for resale in Australia within 12 months of that common stock being issued unless any such resale offer is exempt from the requirement to issue a disclosure document under section 708 of the Corporations Act.

Our common stock is quoted on the Nasdaq Global Select Market under the trading symbol HTGC.

In the ordinary course of its businesses, the underwriter and/or its affiliates have in the past performed, and many continue to perform, investment banking, broker dealer, lending, financial advisory or other services for us for which they have received, or may receive, customary compensation. We had a securitized credit facility (the Citibank Credit Facility) with Citigroup Global Markets Realty Corp., an affiliate of the underwriter, which expired under the normal terms and was paid off during the first quarter of 2009. Citigroup Global Markets Realty Corp. has an equity participation right on the warrants that collateralized the Citibank Credit Facility. For a more detailed discussion of the warrant participation agreement, see Management s Discussion and Analysis of Financial Condition and Results of Operations Citibank Credit Facility and the discussion set forth under Note 4 to the Consolidated Financial Statements in this prospectus supplement.

The principal address of Citigroup Global Markets Inc. is Brooklyn Army Terminal, 140 58th Street, Brooklyn, NY 11220.

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LEGAL MATTERS

Certain legal matters with respect to the validity of the shares of common stock we are offering will be passed upon for us by Sutherland Asbill & Brennan LLP, Washington, D.C. Certain legal matters related to the offering will be passed upon for the underwriter by Fried, Frank, Harris, Shriver & Jacobson LLP, New York, NY.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The financial statements as of December 31, 2010 and for the year ended December 31, 2010, included in this prospectus, and the effectiveness of internal control over financial reporting as of December 31, 2010 have been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report (which contains an adverse opinion on the effectiveness of internal control over financial reporting) appearing herein.

Certain of our audited consolidated financial statements included in this prospectus have been so included in reliance upon the report of Ernst & Young LLP, our former independent registered public accountants. Ernst & Young LLP s principal business address is 560 Mission Street, San Francisco, CA 94105.

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. During the two most recent fiscal years and through September 9, 2010, the date of the engagement of PricewaterhouseCoopers, neither the Company nor any person on its behalf has consulted with PricewaterhouseCoopers 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 shares of common stock offered by this prospectus supplement. The registration statement contains additional information about us and our shares of common stock being offered by this prospectus supplement.

We file with or submit to the SEC annual, quarterly and current reports, proxy statements and other information meeting the informational requirements of the Securities Exchange Act of 1934. You may inspect and copy these reports, proxy statements and other information, as well as the registration statement and related exhibits and schedules, at the Public Reference Room of the SEC at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information filed electronically by us with the SEC, which are available on the SEC s website at *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, 100 F Street, N.E., Washington, D.C. 20549.

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CONSOLIDATED FINANCIAL STATEMENTS

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES

(unaudited)

(dollars in thousands, except per share data)

	September 30, 2011 (unaudited)	December 31, 2010
Assets		
Investments:		
Non-Control/Non-Affiliate investments (cost of $572,558 and $445,782, respectively)	$ 573,494	$ 428,782
Affiliate investments (cost of $3,236 and $2,880, respectively)		3,069
Control investments (cost of $11,611 and $31,743, respectively)	2,983	40,181
Total investments, at value (cost of $587,405 and $480,405, respectively)	576,477	472,032
Cash and cash equivalents	96,309	107,014
Interest receivable	4,667	4,520
Other assets	11,184	7,681
Total assets	$ 688,637	$ 591,247
Liabilities		
Accounts payable and accrued liabilities	$ 7,755	$ 8,716
Long-term SBA Debentures	188,750	170,000
Long-term Liabilities (Convertible Debt)	70,082	
Total liabilities	266,587	178,716
Net assets consist of:		
Common stock, par value	43	43
Capital in excess of par value	486,557	477,549
Unrealized depreciation on investments	(10,861)	(8,038)
Accumulated realized losses on investments	(47,604)	(51,033)
Distributions in excess of investment income	(6,085)	(5,990)
Total net assets	$ 422,050	$ 412,531
Total liabilities and net assets	$ 688,637	$ 591,247
Shares of common stock outstanding ($0.001 par value, 100,000,000 authorized)	43,908	43,444
Net asset value per share	$ 9.61	$ 9.50

See notes to Consolidated Financial Statements (unaudited)

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 2011

(unaudited)

(dollars in thousands)

Portfolio Company	Industry	Type of Investment[1]	Principal Amount	Cost[2]	Value[3]
Acceleron Pharmaceuticals, Inc.	Drug Discovery	Preferred Stock Warrants		$ 69	$ 878
		Preferred Stock Warrants		35	186
		Preferred Stock Warrants		39	85
		Preferred Stock		1,341	2,473
Total Acceleron Pharmaceuticals, Inc.				1,484	3,622
Anthera Pharmaceuticals Inc.	Drug Discovery	Senior Debt Matures September 2014 Interest rate Prime + 7.3% or Floor rate of 10.55%	$ 25,000	24,269	25,019
		Common Stock Warrants		541	378
Total Anthera Pharmaceuticals Inc.		Common Stock Warrants		443	308
				25,253	25,705
Aveo Pharmaceuticals, Inc.	Drug Discovery	Senior Debt Matures June 2014 Interest rate Prime + 7.15% or Floor rate of 11.9%	$ 25,000	26,554	27,304
		Common Stock		842	2,583
Total Aveo Pharmaceuticals, Inc.				27,396	29,887
Dicerna Pharmaceuticals, Inc.	Drug Discovery	Senior Debt Matures January 2015 Interest rate Prime + 5.75% or Floor rate of 10.15%	$ 7,000	6,986	6,986
		Preferred Stock Warrants		206	90
		Preferred Stock Warrants		31	26
		Preferred Stock Warrants		28	15
		Preferred Stock Warrants		187	143
		Preferred Stock		502	439
Total Dicerna Pharmaceuticals, Inc.				7,940	7,699

EpiCept Corporation[(5)]	Drug Discovery	Common Stock Warrants	4	13
Total EpiCept Corporation			4	13
Horizon Therapeutics, Inc.	Drug Discovery	Common Stock Warrants	231	1
Total Horizon Therapeutics, Inc.			231	1
Inotek Pharmaceuticals Corp.	Drug Discovery	Preferred Stock	1,500	
Total Inotek Pharmaceuticals Corp.			1,500	
Merrimack Pharmaceuticals, Inc.	Drug Discovery	Preferred Stock Warrants	155	1,115
		Preferred Stock	2,000	3,825
Total Merrimack Pharmaceuticals, Inc.			2,155	4,940
Paratek Pharmaceuticals, Inc.	Drug Discovery	Preferred Stock Warrants	137	140
		Preferred Stock	1,000	1,348
Total Paratek Pharmaceuticals, Inc.			1,137	1,488

See notes to Consolidated Financial Statements (unaudited)

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

September 30, 2011

(unaudited)

(dollars in thousands)

Portfolio Company	Industry	Type of Investment(1)	Principal Amount	Cost(2)	Value(3)
PolyMedix, Inc.	Drug Discovery	Senior Debt Matures September 2013 Interest rate Prime + 7.1% or Floor rate of 12.35%	$ 7,611	$ 7,394	$ 7,546
		Common Stock Warrants		480	78
Total PolyMedix, Inc.				7,874	7,624
Portola Pharmaceuticals, Inc.	Drug Discovery	Preferred Stock Warrants		152	285
Total Portola Pharmaceuticals, Inc.				152	285
Total Drug Discovery (19.25%)*				75,126	81,264
Affinity Videonet, Inc.	Communications & Networking	Preferred Stock Warrants		102	149
Total Affinity Videonet, Inc.				102	149
E-band Communications, Corp.(6)	Communications & Networking	Convertible Senior Debt Matures May 2013 Interest rate Fixed 6.00%	$ 356	356	
		Preferred Stock		2,880	
Total E-Band Communications, Corp.				3,236	
IKANO Communications, Inc.	Communications & Networking	Preferred Stock Warrants		45	
		Preferred Stock Warrants		72	
Total IKANO Communications, Inc.				117	
Intelepeer, Inc.	Communications & Networking	Senior Debt Matures May 2013 Interest rate Prime + 8.12% or Floor rate of 11.37%	$ 6,524	6,509	6,640
		Senior Debt	$ 1,100	998	998

		Matures May 2012			
		Interest rate Prime + 4.25%			
		Preferred Stock Warrants		102	123
Total Intelepeer, Inc.				7,609	7,761
Neonova Holding Company	Communications & Networking	Preferred Stock Warrants		94	21
		Preferred Stock		250	197
Total Neonova Holding Company				344	218
Pac-West Telecomm, Inc.	Communications & Networking	Senior Debt			
		Matures October 2014			
		Interest rate Prime + 7.50% or			
		Floor rate of 12.00%	$ 4,369	4,164	4,164
		Preferred Stock Warrants		121	
Total Pac-West Telecomm, Inc.				4,285	4,164
PeerApp, Inc.	Communications & Networking	Senior Debt			
		Matures April 2013			
		Interest rate Prime + 7.5% or			
		Floor rate of 11.50%	$ 2,072	2,091	2,112
		Preferred Stock Warrants		61	91
Total PeerApp, Inc.(5)				2,152	2,203

See Notes to Consolidated Financial Statements (unaudited)

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

September 30, 2011

(unaudited)

(dollars in thousands)

Portfolio Company	Industry	Type of Investment[1]	Principal Amount	Cost[2]	Value[3]
Peerless Network, Inc.	Communications & Networking	Preferred Stock Warrants		$ 95	$ 187
		Preferred Stock		1,000	2,370
Total Peerless Network, Inc.				1,095	2,557
Ping Identity Corporation	Communications & Networking	Preferred Stock Warrants		52	410
Total Ping Identity Corporation				52	410
PointOne, Inc.	Communications & Networking	Senior Debt Matures April 2013 Interest rate Libor + 9.0% or Floor rate of 11.50%	$ 8,375	8,153	8,153
	Communications & Networking	Common Stock Warrants		131	194
Total PointOne, Inc.				8,284	8,347
Purcell Systems, Inc.	Communications & Networking	Preferred Stock Warrants		123	89
Total Purcell Systems, Inc.				123	89
Seven Networks, Inc.	Communications & Networking	Preferred Stock Warrants		174	
Total Seven Networks, Inc.				174	
Stoke, Inc[4]	Communications & Networking	Senior Debt Matures May 2013 Interest rate Prime + 7.0% or Floor rate of 10.25%	$ 3,051	2,995	3,025
		Preferred Stock Warrants		53	68
		Preferred Stock Warrants		65	54
		Preferred Stock		500	500
Total Stoke, Inc.				3,613	3,647

Tectura Corporation	Communications & Networking	Senior Debt			
		Matures December 2012			
		Interest rate 11%	$ 8,125	9,324	9,209
		Revolving Line of Credit			
		Matures July 2012			
		Interest rate 11%,			
		PIK interest 1.00%	$ 17,207	17,332	17,332
		Preferred Stock Warrants		51	33
Total Tectura Corporation				26,707	26,574
Total Communications & Networking (13.30%)*				57,893	56,119
Atrenta, Inc.	Software	Preferred Stock Warrants		102	368
		Preferred Stock Warrants		34	121
		Preferred Stock Warrants		95	174
		Preferred Stock		250	375
Total Atrenta, Inc.				481	1,038
Blurb, Inc.	Software	Preferred Stock Warrants		25	403
		Preferred Stock Warrants		298	400
Total Blurb, Inc.				323	803

See Notes to Consolidated Financial Statements (unaudited)

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

September 30, 2011

(unaudited)

(dollars in thousands)

Portfolio Company	Industry	Type of Investment[1]	Principal Amount	Cost[2]	Value[3]
Braxton Technologies, LLC.	Software	Preferred Stock Warrants		$ 188	$
Total Braxton Technologies, LLC.				188	
Bullhorn, Inc.	Software	Preferred Stock Warrants		43	188
Total Bullhorn, Inc.				43	188
Central Desktop, Inc.	Software	Senior Debt Matures April 2014 Interest rate Prime + 6.75% or Floor rate of 10.50%	$ 3,000	2,872	2,872
		Preferred Stock Warrants		108	299
Total Central Desktop, Inc.				2,980	3,171
Clickfox, Inc.	Software	Senior Debt Matures July 2013 Interest rate Prime + 6.00% or Floor rate of 11.25%	$ 4,565	4,462	4,553
		Preferred Stock Warrants		177	327
		Preferred Stock Warrants		152	296
Total Clickfox, Inc.				4,791	5,176
Forescout Technologies, Inc.	Software	Preferred Stock Warrants		99	47
Total Forescout Technologies, Inc.				99	47
GameLogic, Inc.	Software	Preferred Stock Warrants		92	
Total GameLogic, Inc.				92	
HighRoads, Inc.	Software	Preferred Stock Warrants		44	7
Total HighRoads, Inc.				44	7
Kxen, Inc.	Software	Senior Debt Matures January 2015	$ 3,000	2,938	2,938

		Interest rate Prime + 5.08% or Floor rate of 8.33%			
		Preferred Stock Warrants		47	29
Total Kxen, Inc.				2,985	2,967
RichRelevance, Inc.	Software	Senior Debt Matures January 2015 Interest rate Prime + 3.25% or Floor rate of 7.50%	$ 5,000	4,857	4,857
		Preferred Stock Warrants		98	23
Total RichRelevance, Inc.				4,955	4,880
Rockyou, Inc.	Software	Preferred Stock Warrants		117	7
Total Rockyou, Inc.				117	7
Sportvision, Inc.	Software	Preferred Stock Warrants		39	
Total Sportvision, Inc.				39	
SugarSync Inc.	Software	Senior Debt Matures April 2015 Interest rate Prime + 4.50% or Floor rate of 8.25%	$ 2,000	1,946	1,946
		Preferred Stock Warrants		78	77
Total SugarSync Inc.				2,024	2,023

See Notes to Consolidated Financial Statements (unaudited)

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

September 30, 2011

(unaudited)

(dollars in thousands)

Portfolio Company	Industry	Type of Investment(1)	Principal Amount	Cost(2)	Value(3)
Unify Corporation	Software	Common Stock Warrants		$ 1,434	$ 332
Total Unify Corporation				1,434	332
White Sky, Inc.	Software	Senior Debt Matures June 2014 Interest rate Prime + 7.00% or Floor rate of 10.25%	$ 1,500	1,443	1,443
	Software	Preferred Stock Warrants		54	1
Total White Sky, Inc.				1,497	1,444
WildTangent, Inc.	Software	Preferred Stock Warrants		238	11
Total WildTangent, Inc.				238	11
Total Software (5.23%)*				22,330	22,094
Luminus Devices, Inc.	Electronics & Computer Hardware	Preferred Stock Warrants		183	
		Preferred Stock Warrants		84	
		Preferred Stock Warrants		334	
Total Luminus Devices, Inc.				601	
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%	$ 4,366	4,462	2,069
		Senior Debt Matures December 2013 Interest rate Prime + 6.25% or Floor rate of 10.00%, PIK interest 2.00%	$ 2,681	2,653	

		Revolving Line of Credit Matures December 2013 Interest rate Prime + 6.25% or Floor rate of 10.00%	$ 923	914	914
		Common Stock		3,581	
Total Maxvision Holding, LLC				11,610	2,983
Shocking Technologies, Inc.	Electronics & Computer Hardware	Preferred Stock Warrants		63	57
Total Shocking Technologies, Inc.				63	57
Spatial Photonics, Inc.(8)	Electronics & Computer Hardware	Preferred Stock Warrants		130	
		Preferred Stock		768	
Total Spatial Photonics Inc.				898	
Total Electronics & Computer Hardware (.72%)*				13,172	3,040

See Notes to Consolidated Financial Statements (unaudited)

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

September 30, 2011

(unaudited)

(dollars in thousands)

Portfolio Company	Industry	Type of Investment[1]	Principal Amount	Cost[2]	Value[3]
Aegerion Pharmaceuticals, Inc.	Specialty Pharmaceuticals	Senior Debt Matures September 2014 Interest rate Prime + 5.65% or Floor rate of 10.40%	$ 10,000	$ 10,138	$ 10,325
		Common Stock Warrants		69	722
		Common Stock		1,093	1,825
Total Aegerion Pharmaceuticals, Inc.				11,300	12,872
Althea Technologies, Inc.	Specialty Pharmaceuticals	Senior Debt Matures October 2013 Interest rate Prime + 7.70% or Floor rate of 10.95%	$ 10,990	10,844	11,135
		Preferred Stock Warrants		309	362
Total Althea Technologies, Inc.				11,153	11,497
Chroma Therapeutics, Ltd.[5]	Specialty Pharmaceuticals	Senior Debt Matures September 2013 Interest rate Prime + 7.75% or Floor rate of 12.00%	$ 8,540	8,738	8,738
		Preferred Stock Warrants		490	344
Total Chroma Therapeutics, Ltd.				9,228	9,082
Pacira Pharmaceuticals, Inc.	Specialty Pharmaceuticals	Senior Debt Matures August 2014 Interest rate Prime + 6.25% or Floor rate of 10.25%	$ 11,250	11,237	11,237
		Senior Debt Matures August 2014	$ 15,000	14,255	14,443

		Interest rate Prime + 8.65% or Floor rate of 12.65%			
		Common Stock Warrants		1,086	584
Total Pacira Pharmaceuticals, Inc.				26,578	26,264
Quatrx Pharmaceuticals Company	Specialty Pharmaceuticals	Convertible Senior Debt Matures March 2012 Interest rate 8.00%	$ 1,888	1,888	1,888
		Preferred Stock Warrants		220	
		Preferred Stock Warrants		307	
		Preferred Stock		750	
Total Quatrx Pharmaceuticals Company				3,165	1,888
Total Specialty Pharmaceuticals (14.60%)*				61,424	61,603
Annie s, Inc.	Consumer & Business Products	Preferred Stock Warrants		321	96
Total Annie s, Inc.				321	96
IPA Holdings, LLC	Consumer & Business Products	Preferred Stock Warrants		275	24
		Preferred Stock		500	260
Total IPA Holding, LLC				775	284
Market Force Information, Inc.	Consumer & Business Products	Preferred Stock Warrants		24	105
		Preferred Stock		500	481
Total Market Force Information, Inc.				524	586

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Portfolio Company	Industry	Type of Investment(1)	Principal Amount	Cost(2)	Value(3)
TV Guide, Inc.	Consumer & Business Products	Revolving Line of Credit Matures October 2011 Interest rate Prime + 11.00% or Floor rate of 13.00%	$ 500	$ 479	$ 479
Total TV Guide, Inc.				479	479
Wageworks, Inc.	Consumer & Business Products	Preferred Stock Warrants		252	2,510
		Preferred Stock		250	390
Total Wageworks, Inc.				502	2,900
Total Consumer & Business Products (1.03%)*				2,601	4,345
Achronix Semiconductor Corporation	Semiconductors	Senior Debt Matures January 2015 Interest rate Prime + 10.60% or Floor rate of 13.85%	$ 2,500	2,396	2,396
		Preferred Stock Warrants		160	152
Total Achronix Semiconductor Corporation				2,556	2,548
Enpirion, Inc.	Semiconductors	Preferred Stock Warrants		157	
Total Enpirion, Inc.				157	
iWatt, Inc.	Semiconductors	Preferred Stock Warrants		46	3
		Preferred Stock Warrants		51	1
		Preferred Stock Warrants		73	2
		Preferred Stock Warrants		458	7
		Preferred Stock		490	983
Total iWatt, Inc.				1,118	996
Kovio Inc.	Semiconductors	Senior Debt Matures March 2015 Interest rate Prime + 5.50% or Floor rate of 9.25%	$ 1,250	1,213	1,213
		Preferred Stock Warrants		27	27
Total Kovio Inc.				1,240	1,240
NEXX Systems, Inc.	Semiconductors	Preferred Stock Warrants		297	1,330
		Preferred Stock		277	802
Total NEXX Systems, Inc.				574	2,132

Quartics, Inc.	Semiconductors	Preferred Stock Warrants	53
Total Quartics, Inc.			53

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Portfolio Company	Industry	Type of Investment[1]	Principal Amount	Cost[2]	Value[3]
Total Semiconductors (1.64%)*				$ 5,698	$ 6,916
AcelRX Pharmaceuticals, Inc.	Drug Delivery	Senior Debt Matures December 2014 Interest rate Prime + 3.25% or Floor rate of 8.50%	$ 5,000	4,889	4,889
		Senior Debt Matures December 2014 Interest rate Prime + 3.25% or Floor rate of 8.50%	$ 5,000	4,889	4,889
		Common Stock Warrants		178	102
		Common Stock Warrants		178	102
Total AcelRX Pharmaceuticals, Inc.				10,134	9,982
Alexza Pharmaceuticals, Inc.[4]	Drug Delivery	Senior Debt Matures October 2013 Interest rate Prime + 6.5% or Floor rate of 10.75%	$ 11,770	11,699	12,121
		Preferred Stock Warrants		645	103
Total Alexza Pharmaceuticals, Inc.				12,344	12,224
BIND Biosciences, Inc.	Drug Delivery	Senior Debt Matures July 2014 Interest rate Prime + 7.45% or Floor rate of 10.70%	$ 5,000	4,655	4,805
		Preferred Stock Warrants		53	75
		Preferred Stock Warrants		50	76
		Preferred Stock Warrants		188	312

Total BIND Biosciences, Inc.				4,946	5,268
Labopharm USA, Inc.(5)	Drug Delivery	Senior Debt Matures December 2012 Interest rate 10.95%	$ 9,771	9,718	9,718
		Senior Debt Matures December 2012 Interest rate Prime + 3.20% or Floor rate of 10.95%	$ 3,257	3,417	3,417
Total Labopharm USA, Inc.				13,135	13,135
Merrion Pharmaceuticals, Inc.(5)	Drug Delivery	Senior Debt Matures January 2015 Interest rate Prime + 9.20% or Floor rate of 12.45%	$ 5,000	4,735	3,870
		Common Stock Warrants		213	23
Total Merrion Pharmaceuticals, Inc.				4,948	3,893
Transcept Pharmaceuticals, Inc.	Drug Delivery	Common Stock Warrants		36	57
		Common Stock Warrants		51	86
		Common Stock		500	275
Total Transcept Pharmaceuticals, Inc.				587	418
Revance Therapeutics, Inc.	Drug Delivery	Senior Debt Matures March 2015 Interest rate Prime + 6.60% or Floor rate of 9.85%	$ 22,000	21,257	21,257
		Preferred Stock Warrants		557	557
Total Revance Therapeutics, Inc.				21,814	21,814
Total Drug Delivery (15.81%)*				67,908	66,734

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Portfolio Company	Industry	Type of Investment(1)	Principal Amount	Cost(2)	Value(3)
BARRX Medical, Inc.	Therapeutic	Senior Debt Matures December 2011 Interest rate 11.00%	$ 768	$ 1,295	$ 1,295
		Preferred Stock Warrants		76	110
		Preferred Stock		1,501	2,607
Total BARRX Medical, Inc.				2,872	4,012
EKOS Corporation	Therapeutic	Preferred Stock Warrants		175	
		Preferred Stock Warrants		153	
Total EKOS Corporation				328	
Gelesis, Inc.(8)	Therapeutic	Senior Debt Matures April 2013 Interest rate Prime + 4.65% or Floor rate of 10.75%	$ 2,771	2,820	
Total Gelesis, Inc.				2,820	
Gynesonics, Inc.	Therapeutic	Senior Debt Matures October 2013 Interest rate Prime + 8.25% or Floor rate of 11.50%	$ 5,846	5,775	5,842
		Preferred Stock Warrants		228	240
		Preferred Stock		532	451
Total Gynesonics, Inc.				6,535	6,533
Light Science Oncology, Inc.	Therapeutic	Preferred Stock Warrants		99	176
Total Light Science Oncology, Inc.				99	176
Novasys Medical, Inc.	Therapeutic	Preferred Stock Warrants		71	
		Preferred Stock Warrants		54	1
		Preferred Stock		1,000	1,001

Total Novasys Medical, Inc.				1,125	1,002
Oraya Therapeutics, Inc.	Therapeutic	Senior Debt Matures March 2015 Interest rate Prime + 4.75% or Floor rate of 9.50%	$ 7,500	7,317	7,317
		Preferred Stock Warrants		232	232
Total Oraya Therapeutics, Inc.				7,549	7,549
Pacific Child & Family Associates, LLC	Therapeutic	Senior Debt Matures January 2015 Interest rate LIBOR + 8.0% or Floor rate of 10.50%	$ 5,685	5,592	5,592
		Revolving Line of Credit Matures January 2015 Interest rate LIBOR + 6.5% or Floor rate of 9.00%	$ 1,500	1,483	1,396
		Senior Debt Matures January 2015 Interest rate LIBOR + 10.50% or Floor rate of 13.0%, PIK interest 3.75%	$ 5,900	6,185	6,302
Total Pacific Child & Family Associates, LLC				13,260	13,290
Total Therapeutic (7.72%)*				34,588	32,562

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Portfolio Company	Industry	Type of Investment[(1)]	Principal Amount	Cost[(2)]	Value[(3)]
Cozi Group, Inc.	Internet Consumer & Business Services	Preferred Stock Warrants		$ 147	$
		Preferred Stock		177	48
Total Cozi Group, Inc.				324	48
Invoke Solutions, Inc.	Internet Consumer & Business Services	Preferred Stock Warrants		56	
		Preferred Stock Warrants		26	
Total Invoke Solutions, Inc.				82	
InXpo, Inc.	Internet Consumer & Business Services	Senior Debt Matures March 2014 Interest rate Prime + 7.5% or Floor rate of 10.75%	$ 3,500	3,403	3,403
		Preferred Stock Warrants		98	82
Total InXpo, Inc.				3,501	3,485
Prism Education Group, Inc.	Internet Consumer & Business Services	Preferred Stock Warrants		43	109
Total Prism Education Group, Inc.				43	109
RazorGator Interactive Group, Inc.	Internet Consumer & Business Services	Preferred Stock Warrants		13	
		Preferred Stock Warrants		28	
		Preferred Stock Warrants		1,183	
		Preferred Stock		1,000	
Total RazorGator Interactive Group, Inc.				2,224	
Reply! Inc.[(4)]	Internet Consumer & Business Services	Senior Debt Matures June 2015	$ 13,000	12,862	12,862

		Interest rate Prime + 6.87% or Floor rate of 10.12%			
		Preferred Stock Warrants		320	206
Total Reply! Inc.				13,182	13,068
ScriptSave (Medical Security Card Company, LLC)	Internet Consumer & Business Services	Senior Debt Matures February 2016 Interest rate Prime + 8.75% or Floor rate of 11.25%	$ 20,158	19,786	20,391
Total ScriptSave				19,786	20,391
Trulia, Inc.	Internet Consumer & Business Services	Senior Debt Matures March 2015 Interest rate Prime + 2.75% or Floor rate of 6.00%	$ 5,000	4,856	4,856
		Senior Debt Matures March 2015 Interest rate Prime + 5.50% or Floor rate of 8.75%	$ 5,000	4,857	4,857
		Preferred Stock Warrants		188	187
Total Trulia, Inc.				9,901	9,900

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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	$ 7,382	$ 7,382
		Senior Debt Matures September 2015 Interest rate Libor + 7.00% or Floor rate of 8.50%	$ 11,500	11,309	11,309
		Revolving Line of Credit Matures September 2015 Interest rate Libor + 6.00% or Floor rate of 7.50%	$ 300	283	283
Total Vaultlogix, Inc.				18,974	18,974
Total Internet Consumer & Business Services (15.63%)				68,017	65,975
Lilliputian Systems, Inc.	Energy	Preferred Stock Warrants		106	
		Common Stock Warrants		48	
Total Lilliputian Systems, Inc.				154	
Total Energy (0.00%)*				**154**	
Box.net, Inc.	Information Services	Senior Debt Matures March 2015 Interest rate Prime + 3.75% or	$ 4,808	4,686	4,686

		Floor rate of 7.50%			
		Senior Debt Matures July 2014 Interest rate Prime + 5.25% or Floor rate of 8.50%	$ 1,590	1,602	1,634
		Preferred Stock Warrants		73	1,998
		Preferred Stock Warrants		117	1,352
		Preferred Stock Warrants		194	191
		Preferred Stock		500	3,137
		Preferred Stock		1,500	2,272
Total Box.net, Inc.				8,672	15,270
Buzznet, Inc.	Information Services	Preferred Stock Warrants		9	
		Preferred Stock		250	34
Total Buzznet, Inc.				259	34
Cha Cha Search, Inc.	Information Services	Senior Debt Matures February 2015 Interest rate Prime + 6.25% or Floor rate of 9.50%	$ 3,000	2,916	2,916
		Preferred Stock Warrants		58	10
Total Cha Cha Search, Inc.				2,974	2,926
XL Education Corp.	Information Services	Common Stock		880	880
Total XL Education Corp.				880	880
hi5 Networks, Inc.	Information Services	Preferred Stock Warrants		213	
		Preferred Stock		250	741
Total hi5 Networks, Inc.				463	741
Jab Wireless, Inc.	Information Services	Senior Debt Matures August 2016 Interest rate Prime + 6.25% or Floor rate of 6.75%	$ 18,121	17,858	17,858
Jab Wireless, Inc.	Information Services	Preferred Stock Warrants		265	281
Total Jab Wireless, Inc.				18,123	18,139

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Portfolio Company	Industry	Type of Investment[1]	Principal Amount	Cost[2]	Value[3]
Solutionary, Inc.	Information Services	Preferred Stock Warrants		$ 94	$
		Preferred Stock Warrants		2	
		Preferred Stock		250	42
Total Solutionary, Inc.				346	42
Intelligent Beauty, Inc.	Information Services	Preferred Stock Warrants		230	90
Total Intelligent Beauty, Inc.				230	90
Good Technologies, Inc.	Information Services	Common Stock		603	95
Total Good Technologies, Inc.				603	95
Zeta Interactive Corporation	Information Services	Preferred Stock Warrants		172	110
		Preferred Stock		501	485
Total Zeta Interactive Corporation				673	595
Total Information Services (9.20%)				**33,223**	**38,812**
Novadaq Technologies, Inc.[5]	Diagnostic	Common Stock		1,415	808
Total Novadaq Technologies, Inc.[5]				1,415	808
Optiscan Biomedical, Corp.	Diagnostic	Senior Debt Matures December 2013 Interest rate Prime + 8.20% or Floor rate of 11.45%	$ 10,750	10,792	11,162
		Preferred Stock Warrants		1,069	668
		Preferred Stock		3,656	2,251
Total Optiscan Biomedical, Corp.				15,517	14,081
Total Diagnostic (3.53%)*				16,932	14,889
deCODE genetics ehf.	Biotechnology Tools	Senior Debt Matures September 2014 Interest rate Prime + 10.25% or	$ 5,000	4,740	4,740

		Floor rate of 13.50%, PIK interest 2.00%			
		Preferred Stock Warrants		305	358
Total deCODE genetics ehf.				5,045	5,098
Kamada, LTD.	Biotechnology Tools	Common Stock		427	398
Total Kamada, LTD.				427	398
Labcyte, Inc.	Biotechnology Tools	Senior Debt Matures May 2013 Interest rate Prime + 8.6% or Floor rate of 11.85%	$ 2,800	2,774	2,849
		Common Stock Warrants		192	190
		Common Stock Warrants		5	5
Total Labcyte, Inc.				2,971	3,044
NeurogesX, Inc.	Drug Discovery	Senior Debt Matures February 2015 Interest rate Prime + 6.25% or Floor rate of 9.50%	$ 15,000	14,433	14,433
		Common Stock Warrants		503	132
Total NeurogesX, Inc.				14,936	14,565

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Portfolio Company	Industry	Type of Investment(1)	Principal Amount	Cost(2)	Value(3)
NuGEN Technologies, Inc.	Biotechnology Tools	Preferred Stock Warrants		$ 45	$ 203
		Preferred Stock Warrants		33	15
		Preferred Stock		500	473
Total NuGEN Technologies, Inc.				578	691
Total Biotechnology Tools (5.64%)*				23,957	23,796
Entrigue Surgical, Inc.	Surgical Devices	Senior Debt Matures December 2014 Interest rate Prime + 5.90% or Floor rate of 9.65%	$ 3,000	2,863	2,863
		Preferred Stock Warrants		87	87
Total Entrigue Surgical, Inc.				2,950	2,950
Transmedics, Inc.(4)	Surgical Devices	Senior Debt Matures February 2014 Interest rate Prime + 9.70% or Floor rate of 12.95%	$ 8,375	9,115	4,733
		Preferred Stock Warrants		225	
		Preferred Stock		1,169	
Total Transmedics, Inc.				10,509	4,733
Total Surgical Devices (1.82%)*				13,459	7,683
Glam Media, Inc.	Media/Content/Info	Preferred Stock Warrants		482	138
Total Glam Media, Inc.				482	138
Everyday Health, Inc. (Waterfront Media, Inc.)	Media/Content/Info	Preferred Stock Warrants		60	364
		Preferred Stock		1,000	945
Total Everyday Health				1,060	1,309

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	9,866	9,866
		Senior Debt Matures November 2015 Interest rate Libor + 7.50% or Floor rate of 10.0%	$ 9,875	9,648	9,648
		Senior Debt Matures November 2015 Interest rate Libor + 7.50% or Floor rate of 10.0%	$ 10,125	9,891	9,891
Total Women s Marketing, Inc.				29,405	29,405
Total Media/Content/Info (7.31%)*				30,947	30,852

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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	$ 11,096	$ 11,096
		Senior Debt Matures December 2012 Interest rate Prime + 9.55% or Floor rate of 12.8%	$ 13,750	13,542	13,542
		Preferred Stock Warrants		675	623
Total BrightSource Energy, Inc.				25,313	25,261
Calera, Inc.	Clean Tech	Preferred Stock Warrants		513	660
Total Calera, Inc.				513	660
EcoMotors, Inc.	Clean Tech	Senior Debt Matures February 2014 Interest rate Prime + 6.1% or Floor rate of 9.35%	$ 5,383	5,260	5,421
		Preferred Stock Warrants		154	451
		Common Stock Warrants		154	451
Total EcoMotors, Inc.				5,568	6,323
Enphase Energy, Inc.	Clean Tech	Senior Debt Matures June 2014 Interest rate Prime + 5.75% or Floor rate of 9.0%	$ 4,248	4,135	4,135
		Preferred Stock Warrants		102	17
Total Enphase Energy, Inc.				4,237	4,152

GreatPoint Energy, Inc.	Clean Tech	Preferred Stock Warrants		548	203
Total GreatPoint Energy, Inc.				548	203
NanoSolar, Inc.	Clean Tech	Senior Debt Matures September 2014 Interest rate Prime + 7.75% or Floor rate of 11.0%	$ 10,000	9,515	9,515
		Preferred Stock Warrants		355	355
Total NanoSolar, Inc.				9,870	9,870
Propel Biofuels, Inc.	Clean Tech	Senior Debt Matures September 2013 Interest rate 11.0%	$ 1,540	1,562	1,570
		Preferred Stock Warrants		211	195
Total Propel Biofuels, Inc.				1,773	1,765
Scientific Conservation, Inc.	Clean Tech	Senior Debt Matures October 2014 Interest rate 6.25%	$ 202	196	196
		Preferred Stock Warrants		8	2
Total Scientific Conservation, Inc.				204	198

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Portfolio Company	Industry	Type of Investment(1)	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%	$ 1,031	$ 966	$ 966
		Senior Debt Matures June 2013 Interest rate Prime + 7.25% or Floor rate of 10.50%	$ 8,927	9,660	9,660
		Preferred Stock Warrants		335	11
		Preferred Stock Warrants		259	71
		Preferred Stock Warrants		142	142
		Preferred Stock Warrants		426	427
Total Solexel, Inc.				11,788	11,277
Trilliant, Inc.	Clean Tech	Preferred Stock Warrants		89	46
		Preferred Stock Warrants		73	38
Total Trilliant, Inc.				162	84
Total Clean Tech (14.17%)*				59,976	59,793
Total Investments				$ 587,405	$ 576,477

* 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 $28,443, $40,649 and $12,205 respectively. The tax cost of investments is $588,807.

(3) Except for warrants in twelve publicly traded companies and common stock in five publicly traded companies, all investments are restricted at September 30, 2011. No unrestricted securities of the same issuer are outstanding. The Company uses the Standard Industrial Code for classifying the industry grouping of its portfolio companies.

(4) Debt investments of this portfolio company have been pledged as collateral under the Wells Facility.

(5) Non-U.S. company or the company s principal place of business is outside the United States.

(6) Affiliate investment that is defined under the Investment Company Act of 1940 as companies in which HTGC owns at least 5% but not more than 25% of the voting securities of the company.

(7)

Control investment that is defined under the Investment Company Act of 1940 as companies in which HTGC owns at least 25% of the voting securities of the company, or has greater than 50% representation on its board.

(8) Debt is on non-accrual status at September 30, 2011, and is therefore considered non-income producing.

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Portfolio Company	Industry	Type of Investment(1)	Principal Amount	Cost(2)	Value(3)
Acceleron Pharmaceuticals, Inc.	Drug Discovery	Preferred Stock Warrants		$ 69	$ 922
		Preferred Stock Warrants		35	189
		Preferred Stock Warrants		39	99
		Preferred Stock		1,341	2,316
Total Acceleron Pharmaceuticals, Inc.				1,484	3,526
Aveo Pharmaceuticals, Inc.	Drug Discovery	Senior Debt Matures September 2013 Interest rate Prime + 7.15% or Floor rate of 11.9%	$ 25,000	26,108	26,108
		Preferred Stock Warrants		190	686
		Preferred Stock Warrants		104	165
		Preferred Stock Warrants		24	58
		Preferred Stock Warrants		288	770
		Preferred Stock Warrants		236	630
Total Aveo Pharmaceuticals, Inc.				26,950	28,417
Dicerna Pharmaceuticals, Inc.	Drug Discovery	Senior Debt Matures July 2012 Interest rate Prime + 9.20% or Floor rate of 12.95%	$ 4,699	4,678	4,706
		Preferred Stock Warrants		205	182
		Preferred Stock Warrants		30	33
		Preferred Stock Warrants		28	25
		Preferred Stock		503	503
Total Dicerna Pharmaceuticals, Inc.				5,444	5,449
EpiCept Corporation	Drug Discovery	Common Stock Warrants		4	112
		Common Stock Warrants		40	10
Total EpiCept Corporation				44	122
Horizon Therapeutics, Inc.	Drug Discovery	Preferred Stock Warrants		231	
Total Horizon Therapeutics, Inc.				231	
Inotek Pharmaceuticals Corp.	Drug Discovery	Preferred Stock		1,500	
Total Inotek Pharmaceuticals Corp.				1,500	

Merrimack Pharmaceuticals, Inc.	Drug Discovery	Preferred Stock Warrants		155	170
		Preferred Stock		2,000	1,547
Total Merrimack Pharmaceuticals, Inc.				2,155	1,717
Paratek Pharmaceuticals, Inc.	Drug Discovery	Preferred Stock Warrants		137	155
		Preferred Stock		1,000	999
Total Paratek Pharmaceuticals, Inc.				1,137	1,154
PolyMedix, Inc.	Drug Discovery	Senior Debt Matures September 2013 Interest rate Prime + 7.1% or Floor rate of 12.35%	$ 10,000	9,605	9,605
		Preferred Stock Warrants		480	248
Total PolyMedix, Inc.				10,085	9,853

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Portfolio Company	Industry	Type of Investment[1]	Principal Amount	Cost[2]	Value[3]
Portola Pharmaceuticals, Inc.	Drug Discovery	Senior Debt Matures April 2011 Interest rate Prime + 2.16%	$ 1,666	$ 2,033	$ 2,033
		Preferred Stock Warrants		152	506
Total Portola Pharmaceuticals, Inc.				2,185	2,539
Total Drug Discovery (12.79%)*				51,215	52,777
Affinity Videonet, Inc.	Communications & Networking	Preferred Stock Warrants		102	180
Total Affinity Videonet, Inc.				102	180
E-band Communications, Corp.[6]	Communications & Networking	Preferred Stock		2,880	3,069
Total E-Band Communications, Corp.				2,880	3,069
IKANO Communications, Inc.	Communications & Networking	Senior Debt Matures August 2011 Interest rate 12.00%	$ 1,654	1,953	1,953
		Preferred Stock Warrants		45	
		Preferred Stock Warrants		72	
Total IKANO Communications, Inc.				2,070	1,953
Intelepeer, Inc.	Communications & Networking	Senior Debt Matures May 2013 Interest rate Prime + 8.125%	$ 7,624	7,468	7,459
		Preferred Stock Warrants		102	111
Total Intelepeer, Inc.				7,570	7,570
Neonova Holding Company	Communications & Networking	Preferred Stock Warrants		94	12
		Preferred Stock		250	140
Total Neonova Holding Company				344	152
Opsource, Inc.[4]	Communications & Networking	Senior Debt Matures June 2013 Interest rate Prime + 7.75% or Floor rate of 11.00%	$ 5,000	4,888	4,888
		Senior Debt Matures October 2013 Interest rate Prime + 7.25% or Floor rate of 10.50%	$ 2,000	1,944	1,905

	Revolving Line of Credit Matures June 2011 Interest rate Prime + 5.25% or Floor rate of 8.50%	$ 1,500	1,458	1,458
	Preferred Stock Warrants		223	105
Total Opsource, Inc.			8,513	8,356

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

December 31, 2010

(dollars in thousands)

Portfolio Company	Industry	Type of Investment(1)	Principal Amount	Cost(2)	Value(3)
Pac-West Telecomm, Inc.	Communications & Networking	Senior Debt Matures April 2014 Interest rate Prime + 7.5% or Floor rate of 12.0%	$ 10,000	$ 9,634	$ 9,634
		Preferred Stock Warrants		121	147
Total Pac-West Telecomm, Inc.				9,755	9,781
PeerApp, Inc.	Communications & Networking	Senior Debt Matures April 2013 Interest rate Prime + 7.5% or Floor rate of 11.50%	$ 2,911	2,855	2,792
		Preferred Stock Warrants		61	65
Total PeerApp, Inc.				2,916	2,857
Peerless Network, Inc.	Communications & Networking	Preferred Stock Warrants		95	138
		Preferred Stock		1,000	1,930
Total Peerless Network, Inc.				1,095	2,068
Ping Identity Corporation	Communications & Networking	Preferred Stock Warrants		52	6
Total Ping Identity Corporation				52	6
Purcell Systems, Inc.	Communications & Networking	Preferred Stock Warrants		123	330
Total Purcell Systems, Inc.				123	330
Seven Networks, Inc.	Communications & Networking	Preferred Stock Warrants		174	40
Total Seven Networks, Inc.				174	40

Stoke, Inc.[4]	Communications & Networking	Senior Debt Matures May 2013 Interest rate Prime + 7.0% or Floor rate of 10.25%	$ 4,000	3,883	3,883
		Preferred Stock Warrants		53	210
		Preferred Stock Warrants		65	133
		Preferred Stock		500	500
Total Stoke, Inc.				4,501	4,726
Tectura Corporation	Communications & Networking	Senior Debt Matures December 2012 Interest rate 11%	$ 5,625	5,512	5,512
		Revolving Line of Credit Matures July 2011 Interest rate 11%	$ 17,477	18,488	18,488
		Preferred Stock Warrants		50	10
Total Tectura Corporation				24,050	24,010
Total Communications & Networking (15.78%)*				64,145	65,098

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CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

December 31, 2010

(dollars in thousands)

Portfolio Company	Industry	Type of Investment[1]	Principal Amount	Cost[2]	Value[3]
Atrenta, Inc.	Software	Preferred Stock Warrants		$ 102	$ 46
		Preferred Stock Warrants		34	15
		Preferred Stock Warrants		95	22
		Preferred Stock		250	143
Total Atrenta, Inc.				481	226
Blurb, Inc.	Software	Senior Debt Matures June 2011 Interest rate Prime + 3.50% or Floor rate of 8.5%	$ 1,162	1,392	1,392
		Preferred Stock Warrants		25	349
		Preferred Stock Warrants		299	228
Total Blurb, Inc.				1,716	1,969
Braxton Technologies, LLC.	Software	Preferred Stock Warrants		188	
Total Braxton Technologies, LLC.				188	
Bullhorn, Inc.	Software	Preferred Stock Warrants		43	234
Total Bullhorn, Inc.				43	234
Clickfox, Inc.	Software	Senior Debt Matures July 2013 Interest rate Prime + 6.00% or Floor rate of 11.25%	$ 6,000	5,801	5,801
		Revolving Line of Credit Matures July 2011 Interest rate Prime + 5.00% or Floor rate of 12.00%	$ 2,000	1,997	1,996
		Preferred Stock Warrants		177	643
		Preferred Stock Warrants		152	643
Total Clickfox, Inc.				8,127	9,083
Forescout Technologies, Inc.	Software	Preferred Stock Warrants		99	14

Total Forescout Technologies, Inc.				99	14
GameLogic, Inc.	Software	Preferred Stock Warrants		92	
Total GameLogic, Inc.				92	
HighJump Acquisition, LLC.	Software	Senior Debt Matures May 2013 Interest rate Libor + 9.25% or Floor rate of 12.50%	$ 17,500	17,386	17,386
Total HighJump Acquisition, LLC.				17,386	17,386
HighRoads, Inc.	Software	Preferred Stock Warrants		44	65
Total HighRoads, Inc.				44	65

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

December 31, 2010

(dollars in thousands)

Portfolio Company	Industry	Type of Investment[(1)]	Principal Amount	Cost[(2)]	Value[(3)]
Infologix, Inc.[(7)]	Software	Senior Debt Matures November 2013 Interest rate 18.00%	$ 5,500	$ 5,162	$ 5,162
		Convertible Senior Debt Matures November 2014 Interest rate 12.00%		1,111	1,127
		Revolving Line of Credit Matures May 2011 Interest rate 12.00%	$ 12,317	12,317	12,317
		Senior Debt Matures December 2010 Interest rate 18.00%	$ 2,178	2,178	2,178
		Senior Debt Matures April 2013 Interest rate 8.00%	$ 1,350	1,350	1,350
		Senior Debt Matures September 2011 Interest rate 10.00%	$ 500	509	509
		Preferred Stock Warrants		725	1,394
		Common Stock		5,000	9,620
		Common Stock		36	69
		Common Stock		3,355	6,455
Total Infologix, Inc.				31,743	40,181
PSS Systems, Inc.	Software	Preferred Stock Warrants		51	17
Total PSS Systems, Inc.				51	17
Rockyou, Inc.	Software	Preferred Stock Warrants		117	186
Total Rockyou, Inc.				117	186
Sportvision, Inc.	Software	Preferred Stock Warrants		39	
Total Sportvision, Inc.				39	
Unify Corporation	Software	Senior Debt Matures June 2015 Interest rate Libor + 8.50% or Floor rate of 10.50%	$ 24,000	22,248	22,968
		Revolving Line of Credit Matures June 2015 Interest rate Libor + 7.50% or Floor rate of 9.50%	$ 3,750	3,731	3,476
		Preferred Stock Warrants		1,434	693
Total Unify Corporation				27,413	27,137
WildTangent, Inc.	Software	Preferred Stock Warrants		238	10

Total WildTangent, Inc.				238	10
Total Software (23.39%)*				87,777	96,508
Luminus Devices, Inc.	Electronics & Computer Hardware	Senior Debt Matures December 2011 Interest rate 11.875%	$ 540	540	540
		Preferred Stock Warrants		183	
		Preferred Stock Warrants		84	
		Preferred Stock Warrants		334	
Total Luminus Devices, Inc.				1,141	540

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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)
Maxvision Holding, LLC.	Electronics & Computer Hardware	Senior Debt Matures October 2012 Interest rate Prime + 7.25% or Floor rate of 10.75%	$ 5,000	$ 5,377	$ 377
		Senior Debt Matures April 2012 Interest rate Prime + 5.0% or Floor rate of 8.5%	$ 3,409	3,382	3,382
		Revolving Line of Credit Matures April 2012 Interest rate Prime + 5.0% or Floor rate of 8.5%	$ 3,100	3,163	3,163
		Common Stock		81	
Total Maxvision Holding, LLC.				12,003	6,922
Shocking Technologies, Inc.	Electronics & Computer Hardware	Preferred Stock Warrants		63	90
Total Shocking Technologies, Inc.				63	90
Spatial Photonics, Inc.	Electronics & Computer Hardware	Preferred Stock Warrants		129	
		Preferred Stock		767	267
Total Spatial Photonics, Inc.				896	267
VeriWave, Inc.	Electronics & Computer Hardware	Preferred Stock Warrants		54	
		Preferred Stock Warrants		46	
Total VeriWave, Inc.				100	
Total Electronics &				14,203	7,819

Computer Hardware (1.90%)*

Aegerion Pharmaceuticals, Inc.	Specialty Pharmaceuticals	Preferred Stock Warrants		69	761
		Preferred Stock		1,475	2,206
Total Aegerion Pharmaceuticals, Inc.				1,544	2,967
Althea Technologies, Inc.	Specialty Pharmaceuticals	Senior Debt Matures October 2013 Interest rate Prime + 7.70% or Floor rate of 10.95%	$ 12,000	11,661	11,661
		Preferred Stock Warrants		309	276
Total Althea Technologies, Inc.				11,970	11,937
Chroma Therapeutics, Ltd.(5)	Specialty Pharmaceuticals	Senior Debt Matures September 2013 Interest rate Prime + 7.75% or Floor rate of 12.00%	$ 10,000	9,797	10,021
		Preferred Stock Warrants		490	632
Total Chroma Therapeutics, Ltd.				10,287	10,653

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CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

December 31, 2010

(dollars in thousands)

Portfolio Company	Industry	Type of Investment[1]	Principal Amount	Cost[2]	Value[3]
Pacira Pharmaceuticals, Inc.[4]	Specialty Pharmaceuticals	Senior Debt Matures May 2014 Interest rate Prime + 6.25% or Floor rate of 10.25%	$ 11,250	$ 11,105	$ 11,105
		Senior Debt Matures May 2014 Interest rate Prime + 8.65% or Floor rate of 12.65%	$ 15,000	13,749	13,749
		Preferred Stock Warrants		1,086	1,255
Total Pacira Pharmaceuticals, Inc.				25,940	26,109
QuatRx Pharmaceuticals Compny	Specialty Pharmaceuticals	Senior Debt Matures October 2011 Interest rate Prime + 8.90% or Floor rate of 12.15%	$ 9,306	9,474	9,474
		Convertible Senior Debt Interest Rate of 8.0% Matures March 2012	$ 1,888	1,888	2,467
		Preferred Stock Warrants		220	
		Preferred Stock Warrants		307	
		Preferred Stock		751	
Total QuatRx Pharmaceuticals Company				12,640	11,941
Total Specialty Pharmaceuticals (15.42%)*				62,381	63,607
Annie s, Inc.	Consumer & Business Products	Preferred Stock Warrants		321	75
Total Annie s, Inc.				321	75
IPA Holdings, LLC.[4]	Consumer &	Senior Debt	$ 8,250	8,505	8,160

	Business Products	Matures November 2012 Interest rate Prime + 6.75% or Floor rate of 11.0%			
		Senior Debt Matures May 2013 Interest rate Prime + 9.75% or Floor rate of 14.0%	$ 6,500	7,019	6,995
		Revolving Line of Credit Matures November 2012 Interest rate Prime + 6.25% or Floor rate of 10.50%	$ 856	761	761
		Preferred Stock Warrants		275	
		Common Stock		500	
Total IPA Holdings, LLC.				17,060	15,916
Market Force Information, Inc.	Consumer & Business Products	Preferred Stock Warrants		24	60
		Preferred Stock		500	439
Total Market Force Information, Inc.				524	499
Trading Machines, Inc.(8)	Consumer & Business Products	Senior Debt Matures January 2014 Interest rate Prime + 10.25% or Floor rate of 13.50%	$ 9,812	8,644	4,000
		Preferred Stock Warrants		878	
		Preferred Stock		50	
Total Trading Machines, Inc.				9,572	4,000

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CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

December 31, 2010

(dollars in thousands)

Portfolio Company	Industry	Type of Investment(1)	Principal Amount	Cost(2)	Value(3)
Velocity Technology Solutions, Inc.	Consumer & Business Products	Senior Debt Matures February 2015 Interest rate LIBOR + 8% or Floor rate of 11.00%	$ 15,417	$ 15,072	$ 14,574
		Senior Debt Matures February 2015 Interest rate LIBOR + 10% or Floor rate of 13.00%	$ 8,333	8,317	8,526
Total Velocity Technology Solutions, Inc.				23,389	23,100
Wageworks, Inc.	Consumer & Business Products	Preferred Stock Warrants		253	1,443
		Preferred Stock		250	283
Total Wageworks, Inc.				503	1,726
Total Consumer & Business Products (10.98%)*				51,369	45,316
Enpirion, Inc.	Semiconductors	Preferred Stock Warrants		157	1
Total Enpirion, Inc.				157	1
iWatt, Inc.	Semiconductors	Preferred Stock Warrants		46	1
		Preferred Stock Warrants		51	33
		Preferred Stock Warrants		73	44
		Preferred Stock Warrants		458	391
		Preferred Stock		490	940
Total iWatt, Inc.				1,118	1,409
NEXX Systems, Inc.	Semiconductors	Preferred Stock Warrants		297	1,113
		Preferred Stock		277	704
Total NEXX Systems, Inc.				574	1,817
Quartics, Inc.	Semiconductors	Preferred Stock Warrants		53	
Total Quartics, Inc.				53	
Solarflare Communications, Inc.	Semiconductors	Preferred Stock Warrants		83	

		Common Stock		642	
Total Solarflare Communications, Inc.				725	
Total Semiconductors (0.78%)*				2,627	3,227
Alexza Pharmaceuticals, Inc.(4)	Drug Delivery	Senior Debt Matures October 2013 Interest rate Prime + 6.5% or Floor rate of 10.75%	$ 15,000	14,526	14,472
		Preferred Stock Warrants		645	193
Total Alexza Pharmaceuticals, Inc.				15,171	14,665
Labopharm USA, Inc.(5)	Drug Delivery	Senior Debt Matures December 2012 Interest rate 10.95%	$ 20,000	19,872	19,872
		Common Stock Warrants		635	329
Total Labopharm USA, Inc.				20,507	20,201

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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]
Transcept Pharmaceuticals, Inc.	Drug Delivery	Common Stock Warrants		$ 36	$ 60
		Common Stock Warrants		51	16
		Common Stock		500	308
Total Transcept Pharmaceuticals, Inc.				587	384
Total Drug Delivery (8.54%)*				36,265	35,250
BARRX Medical, Inc.	Therapeutic	Senior Debt Mature December 2011 Interest rate 11.00%	$ 2,901	3,350	3,350
		Preferred Stock Warrants		76	70
		Preferred Stock		1,500	1,890
Total BARRX Medical, Inc.				4,926	5,310
EKOS Corporation	Therapeutic	Preferred Stock Warrants		174	
		Preferred Stock Warrants		153	
Total EKOS Corporation				327	
Gelesis, Inc.[8]	Therapeutic	Senior Debt Matures May 2012 Interest rate Prime + 7.5% or Floor rate of 10.75%	$ 2,771	2,800	45
Total Gelesis, Inc.				2,800	45
Gynesonics, Inc.	Therapeutic	Senior Debt Mature October 2013 Interest rate Prime + 8.25% or Floor rate of 11.50%	$ 6,500	6,277	6,277
		Preferred Stock Warrants		228	221
		Preferred Stock		532	456
Total Gynesonics, Inc.				7,037	6,954
Light Science Oncology, Inc.	Therapeutic	Preferred Stock Warrants		99	26

Total Light Science Oncology, Inc.				99	26
Novasys Medical, Inc.	Therapeutic	Preferred Stock Warrants		71	1
		Preferred Stock Warrants		54	7
		Preferred Stock		1,000	1,159
Total Novasys Medical, Inc.				1,125	1,167
Pacific Child & Family Associates, LLC.	Therapeutic	Senior Debt Matures January 2015 Interest rate LIBOR + 8.0% or Floor rate of 10.50%	$ 6,539	6,392	5,802
		Senior Debt Matures January 2015 Interest rate LIBOR + 10.50% or Floor rate of 13.0%	$ 5,900	5,996	5,996
Total Pacific Child & Family Associates, LLC.				12,388	11,798
Total Therapeutic (6.13%)*				28,702	25,300

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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]
Cozi Group, Inc.	Internet Consumer & Business Services	Preferred Stock Warrants		$ 147	$
		Preferred Stock		177	292
Total Cozi Group, Inc.				324	292
Invoke Solutions, Inc.	Internet Consumer & Business Services	Preferred Stock Warrants		56	74
		Preferred Stock Warrants		26	18
Total Invoke Solutions, Inc.				82	92
Prism Education Group, Inc.	Internet Consumer & Business Services	Preferred Stock Warrants		43	50
Total Prism Education Group, Inc.				43	50
RazorGator Interactive Group, Inc.[4]	Internet Consumer & Business Services	Revolving Line of Credit Matures October 2011 Interest rate Prime + 9.50% or Floor rate of 14.00%	$ 2,108	1,855	1,855
		Preferred Stock Warrants		13	
		Preferred Stock Warrants		28	
		Preferred Stock Warrants		1,183	
		Preferred Stock		1,000	
Total RazorGator Interactive Group, Inc.				4,079	1,855
Reply! Inc.[4]	Internet Consumer & Business Services	Senior Debt Matures June 2013 Interest rate Prime + 6.5% or Floor rate of 9.75%	$ 5,000	4,646	4,646
		Preferred Stock Warrants		320	320
Total Reply! Inc.				4,966	4,966
Total Internet Consumer & Business Services (1.76%)*				9,494	7,255
Lilliputian Systems, Inc.	Energy	Preferred Stock Warrants		106	3
		Common Stock Warrants		49	

Total Lilliputian Systems, Inc.					155	3
Total Energy (0.00%)*					155	3
Box.net, Inc.	Information Services	Senior Debt Matures May 2011 Interest rate Prime + 1.50% or Floor rate of 7.50%	$	213	270	270
		Senior Debt Matures September 2011 Interest rate Prime + 0.50% or Floor rate of 6.50%	$	127	139	139
		Preferred Stock Warrants			73	184
		Preferred Stock Warrants			117	117
		Preferred Stock			500	500
Total Box.net, Inc.					1,099	1,210

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December 31, 2010

(dollars in thousands)

Portfolio Company	Industry	Type of Investment(1)	Principal Amount	Cost(2)	Value(3)
Buzznet, Inc.	Information Services	Preferred Stock Warrants		$ 9	$
		Preferred Stock		250	37
Total Buzznet, Inc.				259	37
XL Education Corp.	Information Services	Common Stock		880	880
Total XL Education Corp.				880	880
hi5 Networks, Inc.	Information Services	Preferred Stock Warrants		213	
		Preferred Stock		250	247
Total hi5 Networks, Inc.				463	247
Jab Wireless, Inc.	Information Services	Preferred Stock Warrants		265	122
Total Jab Wireless, Inc.				265	122
Solutionary, Inc.	Information Services	Preferred Stock Warrants		94	
		Preferred Stock Warrants		2	
		Preferred Stock		250	50
Total Solutionary, Inc.				346	50
Intelligent Beauty, Inc.	Information Services	Senior Debt Matures March 2013 Interest rate Prime + 8.0% or Floor rate of 11.25%	$ 5,812	5,563	5,557
		Senior Debt Matures October 2013 Interest rate Prime + 8.0% or Floor rate of 11.25%	$ 2,000	1,942	1,942
		Preferred Stock Warrants		230	230
Total Intelligent Beauty, Inc.				7,735	7,729
Good Technologies, Inc.	Information Services	Common Stock		603	150
Total Good Technologies, Inc.				603	150
Coveroo, Inc.	Information Services	Preferred Stock Warrants		7	
Total Coveroo, Inc.				7	

Zeta Interactive Corporation	Information Services	Preferred Stock Warrants	172	57
		Preferred Stock	500	375
Total Zeta Interactive Corporation			672	432
Total Information Services (2.63%)*			12,329	10,857
Novadaq Technologies, Inc.(5)	Diagnostic	Common Stock	1,415	675
Total Novadaq Technologies, Inc.			1,415	675

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CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)

December 31, 2010

(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 + 7.0% or Floor rate of 10.25%	$ 10,750	$ 10,392	$ 10,392
		Preferred Stock Warrants		1,069	637
		Preferred Stock		3,656	3,207
Total Optiscan Biomedical Corp.				15,117	14,236
Total Diagnostic (3.61%)*				16,532	14,911
Kamada, LTD.[(5)]	Biotechnology Tools	Preferred Stock Warrants		159	164
		Common Stock		752	1,754
Total Kamada, LTD.				911	1,918
Labcyte, Inc.	Biotechnology Tools	Senior Debt Matures May 2013 Interest rate Prime + 8.6% or Floor rate of 11.85%	$ 3,885	3,761	3,821
		Common Stock Warrants		192	
Total Labcyte, Inc.				3,953	3,821
NuGEN Technologies, Inc.	Biotechnology Tools	Preferred Stock Warrants		45	44
		Preferred Stock Warrants		33	1
		Preferred Stock		500	203
Total NuGEN Technologies, Inc.				578	248
Total Biotechnology Tools (1.45%)*				5,442	5,987
Crux Biomedical, Inc.	Surgical Devices	Preferred Stock Warrants		37	
		Preferred Stock		250	
Total Crux Biomedical, Inc.				287	
Transmedics, Inc.[(4)]	Surgical Devices	Senior Debt Matures February 2014	$ 8,375	8,913	8,913

		Interest rate Prime + 9.70% or Floor rate of 12.95%		
		Preferred Stock Warrants	224	159
		Preferred Stock	1,100	1,100
Total Transmedics, Inc.			10,237	10,172
Total Surgical Devices (2.47%)*			10,524	10,172
Glam Media, Inc.	Media/Content/ Info	Preferred Stock Warrants	482	283
Total Glam Media, Inc.			482	283
Everyday Health, Inc.	Media/Content/ Info	Preferred Stock Warrants	60	630
		Preferred Stock	1,000	1,310
Total Everyday Health, Inc.			1,060	1,940
Total Media/Content/Info (0.54%)*			1,542	2,223

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(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%	$ 3,750	$ 3,265	$ 3,265
		Senior Debt Matures June 2012 Interest rate Prime + 9.55% or Floor rate of 12.80%	$ 4,583	4,156	4,156
		Preferred Stock Warrants		675	674
Total BrightSource Energy, Inc.				8,096	8,095
Calera, Inc.	Clean Tech	Senior Debt Matures July 2013 Interest rate Prime + 7.0% or Floor rate of 10.25%	$ 3,621	3,109	3,109
		Preferred Stock Warrants		513	527
Total Calera, Inc.				3,622	3,636
GreatPoint Energy, Inc.	Clean Tech	Senior Debt Matures October 2013 Interest rate Prime + 8.2% or Floor rate of 11.45%	$ 5,000	4,322	4,322
		Preferred Stock Warrants		548	627
Total GreatPoint Energy, Inc.				4,870	4,949
Propel Biofuels, Inc.	Clean Tech	Senior Debt Matures September 2013 Interest rate 11.0%	$ 2,118	1,880	1,850
		Preferred Stock Warrants		211	192

Total Propel Biofuels, Inc.				2,091	2,042
Solexel, Inc.	Clean Tech	Senior Debt Matures June 2013 Interest rate Prime + 8.25% or Floor rate of 11.50%	$ 1,109	1,010	1,010
		Senior Debt Matures June 2013 Interest rate Prime + 7.25% or Floor rate of 10.50%	$ 6,000	5,519	5,519
		Preferred Stock Warrants		335	292
Total Solexel, Inc.				6,864	6,821
Trilliant, Inc.	Clean Tech	Preferred Stock Warrants		88	99
		Preferred Stock Warrants		72	80
Total Trilliant, Inc.				160	179
Total Clean Tech (6.24%)*				25,703	25,722
Total Investments				$ 480,405	$ 472,032

* 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 $22,458, $32,232 and $9,774 respectively. The tax cost of investments is $481,432.
(3) Except for warrants in ten publicly traded companies and common stock in five publicly traded companies, all investments are restricted at December 31, 2010 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 HTGC owns at least 5% but not more than 25% of the voting securities of the company.
(7) Control investment that is defined under the Investment Company Act of 1940 as companies in which HTGC owns at least 25% of the voting securities of the company, or has greater than 50% representation on its board.
(8) Debt is on non-accrual status at December 31, 2010, and is therefore considered non-income producing.

See notes to consolidated financial statements.

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED STATEMENT OF OPERATIONS

(in thousands, except per share data)

	Three Months Ended September 30, 2011	2010	Nine Months Ended September 30, 2011	2010
Investment income:				
Interest Income				
Non Control/Non Affiliate investments	$ 16,405	$ 13,356	$ 50,146	$ 35,649
Affiliate investments	5		9	
Control investments		766	777	2,487
Total interest income	$ 16,410	$ 14,122	$ 50,932	$ 38,136
Fees				
Non Control/Non Affiliate investments	2,264	1,524	7,639	4,285
Control investments	10		84	246
Total fees	2,274	1,524	7,723	4,531
Total investment income	18,684	15,646	58,655	42,667
Operating expenses:				
Interest	3,408	2,139	8,803	6,237
Loan fees	881	333	2,493	936
General and administrative	1,659	1,680	6,196	5,220
Employee Compensation:				
Compensation and benefits	3,273	2,594	9,888	7,691
Stock-based compensation	870	752	2,518	1,959
Total employee compensation	4,143	3,346	12,406	9,650
Total operating expenses	10,091	7,498	29,898	22,043
Net investment income	8,593	8,148	28,757	20,624
Net realized gain (loss) on investments	(1,601)	(18,865)	3,429	(15,144)
Net increase (decrease) in unrealized appreciation on investments	(769)	2,894	(2,823)	(12,218)
Net realized and unrealized gain (loss)	(2,370)	(15,971)	606	(27,362)
Net increase (decrease) in net assets resulting from operations	$ 6,223	$ (7,823)	$ 29,363	$ (6,738)
Net investment income before investment gains and losses per common share:				
Basic	$ 0.20	$ 0.23	$ 0.67	$ 0.57
Change in net assets per common share:				
Basic	$ 0.14	$ (0.23)	$ 0.67	$ (0.20)

Diluted	$ 0.14	$ (0.23)	$ 0.67	$ (0.20)
Weighted average shares outstanding:				
Basic	43,071	35,208	42,920	35,227
Diluted	43,337	35,208	43,251	35,227

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							
	Shares	Par Value	Capital in excess of par value	Unrealized Appreciation on Investments	Accumulated Realized Gains(Losses) on Investments	Distributions in Excess of Investment Income	Provision for Income Taxes on Investment Gains	Net Assets
Balance at December 31, 2009	35,634	$ 35	$ 409,036	$ (10,029)	$ (28,129)	$ (4,056)	$ (342)	$ 366,515
Net increase in net assets resulting from operations				(12,218)	(15,144)	20,624		(6,738)
Issuance of common stock	413		1,856					1,856
Issuance of common stock under restricted stock plan	488	1						1
Acquisition of common stock under repurchase plan	(403)		(3,699)					(3,699)
Issuance of common stock as stock dividend	140		1,332					1,332
Retired shares from net issuance	(114)		(1,160)					(1,160)
Dividends declared						(21,582)		(21,582)
Stock-based compensation			2,024					2,024
Balance at September 30, 2010	36,158	$ 36	$ 409,389	$ (22,247)	$ (43,273)	$ (5,014)	$ (342)	$ 338,549
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		$	$	$ (2,823)	$ 3,429	$ 28,757	$	$ 29,363
Issuance of common stock	167		893					893
Issuance of common stock under restricted stock plan	253							
Issuance of common stock as stock dividend	123		1,245					1,245
Retired shares from net issuance	(79)		(887)					(887)
Issuance of the Convertible Senior Notes (see Note 4)			5,190					5,190
Dividends declared						(28,853)		(28,853)
Stock-based compensation			2,567					2,567
Balance at September 30, 2011	43,908	$ 43	$ 486,557	$ (10,861)	$ (47,604)	$ (5,743)	$ (342)	$ 422,050

See notes to consolidated financial statements (unaudited).

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

(unaudited)

(dollars in thousands)

	Nine Months Ended September 30, 2011	2010
Cash flows from operating activities:		
Net increase (decrease) in net assets resulting from operations	$ 29,363	$ (6,738)
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in and provided by		
Purchase of investments	(337,631)	(242,360)
Principal payments received on investments	223,193	180,754
Proceeds from sale of investments	17,053	7,295
Net unrealized appreciation (depreciation) on investments	2,823	12,218
Net realized (gain) loss on investments	(3,429)	15,144
Accretion of paid-in-kind principal	(1,651)	(2,366)
Accretion of loan discounts	(5,752)	(3,026)
Accretion of loan discount on Convertible Senior Notes	496	
Accretion of loan exit fees		(956)
Depreciation	268	298
Stock-based compensation	480	553
Amortization of restricted stock grants	2,088	1,471
Amortization of deferred loan origination revenue	(1,755)	(2,137)
Change in operating assets and liabilities:		
Interest receivable	(147)	(347)
Prepaid expenses and other assets	3,279	541
Accounts payable	(810)	(103)
Income tax payable		8
Accrued liabilities	(429)	(5,891)
Net cash used in by operating activities	(72,561)	(45,642)
Cash flows from investing activities:		
Purchases of capital equipment	(122)	(218)
Other long-term assets		(137)
Net cash used in investing activities	(122)	(355)
Cash flows from financing activities:		
Proceeds from issuance of common stock, net	6	1,856
Stock repurchase program		(3,699)
Forfeiture of Stock due to Employee Option Exercises		(1,160)
Dividends paid	(27,607)	(20,250)
Borrowings of credit facilities	43,750	29,400
Repayments of credit facilities	(25,000)	
Issuance of Convertible Senior Notes	75,000	
Cash paid for issuance costs for Convertible Senior Notes	(3,110)	
Fees paid for credit facilities and debentures	(1,061)	(1,967)
Net cash provided by financing activities	61,978	4,180

Net decrease in cash	(10,705)	(41,817)
Cash and cash equivalents at beginning of period	107,014	124,828
Cash and cash equivalents at end of period	$ 96,309	$ 83,011

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, Massachusetts, Boulder, Colorado and McLean, Virginia. 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).

The Company formed Hercules Technology II, L.P. (HT II), which was licensed on September 27, 2006, and Hercules Technology III, L.P. (HT III), which was licensed on May 26, 2010 to operate as small business investment companies (SBICs) under the authority of the Small Business Administration (SBA). 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 (HTM), a limited liability company. HTM is a wholly-owned subsidiary of the Company. The Company is the sole limited partner of HT II and HT III and HTM is the general partner of HT II and HT III (see Note 4).

In aggregate, HT II and HT III hold approximately $334.9 million in assets and accounted for approximately 35.5% of our total assets prior to consolidation at September 30, 2011.

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, 2010. The year-end consolidated balance sheet 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.

Certain prior period information has been reclassified to conform to the current period presentation.

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 September 30, 2011, 83.7% 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 discussed with the Company s 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.

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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.

Debt Investments

The Company follows the guidance set forth in ASC 820 which establishes a framework for measuring the fair value of assets and liabilities and outlines a fair value hierarchy which prioritizes the inputs used to measure fair value and the effect of fair value measures on earnings. The Company s debt securities are primarily invested in equity sponsored technology, life science and clean 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.

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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 valuation 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. The Company periodically reviews the valuation of its portfolio companies that have not been involved in a qualifying external event to determine if the enterprise value of the portfolio company may have increased or decreased since the last valuation measurement date.

Investments measured at fair value on a recurring basis are categorized in the tables below based upon the lowest level of significant input to the valuations as of September 30, 2011 (unaudited) and as of December 31, 2010:

(in thousands)		Investments at Fair Value as of September 30, 2011		
Description	**9/30/2011**	**Quoted Prices In Active Markets For Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Senior secured debt	$ 513,367	$	$	$ 513,367
Preferred stock	28,928			28,928
Common stock	6,864	5,889		975
Warrants	27,318		3,023	24,295
	$ 576,477	$ 5,889	$ 3,023	$ 567,565

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(in thousands) Description	12/31/2010	Investments at Fair Value as of December 31, 2010 Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Senior secured debt	$ 394,198	$	$	$ 394,198
Subordinated debt	7,420			7,420
Preferred stock	24,607			24,607
Common stock	22,117	4,943	16,144	1,030
Warrants	23,690		6,289	17,401
	$ 472,032	$ 4,943	$ 22,433	$ 444,656

The table below presents reconciliation for all financial assets and liabilities measured at fair value on a recurring basis, excluding accrued interest components, using significant unobservable inputs (Level 3) for the nine months ended September 30, 2011 (unaudited) and for the year ended December 31, 2010.

(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[3]	Gross Transfers out of Level 3[3]	Balances, September 30, 2011
Senior Debt	$ 394,198	$ (4,302)	$ 3,404	$ 362,866	$	$ (239,299)	$	$	$ (3,500)	$ 513,367
Subordinated Debt	7,420					(7,420)				
Preferred Stock	24,607	(941)	193	1,569				3,500		28,928
Common Stock	1,030		(55)							975
Warrants	17,401	(978)	5,034	4,505			(402)		(1,265)	24,295
Total	$ 444,656	$ (6,221)	$ 8,576	$ 368,940	$	$ (246,719)	$ (402)	$ 3,500	$ (4,765)	$ 567,565

(in thousands)	Balance, January 1, 2010	Net Realized Gains (losses)[1]	Net change in unrealized appreciation or depreciation[2]	Purchases, sales, repayments, and exit, net	Transfer in & out of Level 3	Balances, December 31, 2010
Senior Debt	$ 319,129	$ (12,835)	$ (3,076)	$ 98,058	$ (7,078)	$ 394,198
Subordinated Debt				7,420		7,420
Senior Debt-Second Lien	6,005			(6,005)		
Preferred Stock	22,875	(1,250)	(995)	2,603	1,374	24,607
Common Stock	1,773	(15,037)	(743)	15,037		1,030
Warrants	11,076	(1,225)	568	8,650	(1,668)	17,401
Total	$ 360,858	$ (30,347)	$ (4,246)	$ 125,763	$ (7,372)	$ 444,656

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

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

(3) Transfers in/out of Level 3 relate to the conversion of MaxVision Holding, LLC. debt to equity during the second quarter and the initial public offering of Pacira Pharmaceuticals, Inc.

For the nine months ended September 30, 2011, approximately $3.4 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 $747,000 in unrealized depreciation was recorded for equity Level 3 investments relating to assets still held at the reporting date.

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For the year ended December 31, 2010, approximately $3.1 million, $3.0 million and $461,000 in unrealized depreciation was recorded for debt, equity and warrant Level 3 investments, respectively, relating to assets still held at the reporting date.

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

The following table summarizes our realized and unrealized gain and loss and changes in our unrealized appreciation and depreciation on control and affiliate investments for the three and nine months ended September 30, 2011 and September 30, 2010:

(in thousands)		Three months ended September 30, 2011				Nine months ended September 30, 2011			
Portfolio Company	**Type**	**Fair Value at September 30, 2011**	**Investment Income**	**Unrealized (Depreciation) /Appreciation**	**Realized Gain /(Loss)**	**Investment Income**	**Unrealized (Depreciation) /Appreciation**	**Reversal of Unrealized (Depreciation) /Appreciation**	**Realized Gain/ (Loss)**
MaxVision Holding, LLC.	Control	$ 2,983	$ 10	$ 14	$	$ 861	$ (3,546)		$
E-Band Communiations, Corp.	Non-Controlled Affiliate		5	(53)		9	(3,425)		
Total		$ 2,983	$ 15	$ (39)	$	$ 870	$ (6,971)	$	$

(in thousands)		Three months ended September 30, 2010				Nine months ended September 30, 2010			
Portfolio Company	**Type**	**Fair Value at September 30, 2011**	**Investment Income**	**Unrealized (Depreciation) /Appreciation**	**Realized Gain /(Loss)**	**Investment Income**	**Unrealized (Depreciation) /Appreciation**	**Reversal of Unrealized (Depreciation) /Appreciation**	**Realized Gain /(Loss)**
InfoLogix, Inc.	Control	$ 33,935	$ 796	$ (4,266)	$	$ 2,448	$ (1,419)	$ 128	$ 2,491
E-Band Communiations, Corp.	Non-Controlled Affiliate	2,846		(371)			572		
Total		$ 36,781	$ 796	$ (4,637)	$	$ 2,448	$ (847)	$ 128	$ 2,491

The Company s 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.

A summary of the composition of the Company s investment portfolio as of September 30, 2011 (unaudited) and December 31, 2010 at fair value is shown as follows:

	September 30, 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	$ 414,723	71.9%	$ 357,963	75.8%
Senior secured debt	125,962	21.9%	59,251	12.6%
Preferred stock	28,928	5.0%	26,813	5.7%

Subordinated Debt		0.0%	8,094	1.7%
Common Stock	6,864	1.2%	19,911	4.2%
	$ 576,477	100.0%	$ 472,032	100.0%

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A summary of the Company s investment portfolio, at value, by geographic location as of September 30, 2011 (unaudited) and as of December 31, 2010 is shown as follows:

	September 30, 2011		December 31, 2010	
(in thousands)	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
United States	$ 562,296	97.5%	$ 438,585	92.9%
Canada	808	0.1%	20,876	4.4%
England	9,082	1.6%	10,653	2.3%
Ireland	3,893	0.7%		0.0%
Israel	398	0.1%	1,918	0.4%
	$ 576,477	100.0%	$ 472,032	100.0%

The following table shows the fair value of our portfolio by industry sector at September 30, 2011 (unaudited) and December 31, 2010:

	September 30, 2011		December 31, 2010	
(in thousands)	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
Drug Discovery	$ 81,264	14.1%	$ 52,777	11.2%
Drug Delivery	66,734	11.6%	35,250	7.5%
Internet Consumer & Business Services	65,975	11.4%	7,255	1.5%
Specialty Pharmaceuticals	61,603	10.7%	63,607	13.5%
Clean Tech	59,793	10.4%	25,722	5.4%
Communications & Networking	56,119	9.7%	65,098	13.8%
Information Services	38,812	6.7%	10,857	2.3%
Therapeutic	32,562	5.7%	25,300	5.4%
Media/Content/Info	30,852	5.4%	2,223	0.5%
Biotechnology Tools	23,796	4.1%	5,987	1.3%
Software	22,094	3.8%	96,508	20.4%
Diagnostic	14,889	2.6%	14,911	3.2%
Surgical Devices	7,683	1.3%	10,172	2.1%
Semiconductors	6,916	1.2%	3,227	0.7%
Consumer & Business Products	4,345	0.8%	45,316	9.6%
Electronics & Computer Hardware	3,040	0.5%	7,819	1.6%
Energy		0.0%	3	0.0%
	$ 576,477	100.0%	$ 472,032	100.0%

During the three and nine-month periods ended September 30, 2011 the Company made investments in debt securities, including restructured loans, totaling approximately $146.1 million and $351.3 million, respectively. During the three and nine-month periods ended September 30, 2011 the Company funded equity investments of approximately $1.1 million and $1.6 million, respectively. During the three and nine-month periods ended September 30, 2010, the Company made investments in debt securities, including restructured loans, totaling approximately $55.7 million and $286.0 million, respectively, and funded equity investments, including restructured loans, of approximately $187,000 and $18.0 million for the three and nine-month periods ended September 30, 2010.

During the three-months ended September 30, 2011, the Company recognized no realized gains or losses and for the nine-months ended September 30, 2011 the Company recognized net realized gains of approximately $10.1 million from the sale of common stock in its public portfolio companies. During the three and nine-months ended September 30, 2011, the Company recognized realized losses of approximately $1.6 million and $6.7 million from equity, loan, and warrant investments in portfolio companies that have been liquidated. During the

nine months ended September 30, 2010, we recognized net realized gains of approximately $3.6 million from the sale of common stock in public portfolio companies, approximately $465,000 from mergers of private portfolio companies and realized losses of approximately $19.2 million from equity and warrant investments in portfolio companies that have been liquidated. During the three months ended September 30, 2010 we recognized realized losses of approximately $18.9 million from equity and loan 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 $9.8 million and $6.6 million of unamortized fees at September 30, 2011 and December 31, 2010, respectively, and approximately $7.2 million and $5.1 million in exit fees receivable at September 30, 2011 and December 31, 2010, 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 $285,000 and $1.4 million in PIK income in the three and nine-month periods ended September 30, 2011, respectively. The Company recorded approximately $552,000 and $1.7 million in PIK income in the same periods ended September 30, 2010, respectively.

In certain investment transactions, the Company may provide advisory services. For services that are separately identifiable and external evidence exists to substantiate fair value, income is recognized as earned, which is generally when the investment transaction closes. The Company had no income from advisory services in the three and nine-month periods ended September 30, 2011.

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 September 30, 2011, approximately 60.9% of the Company s portfolio company loans were secured by a first priority security in all of the assets of the portfolio company, 38.3% of the loans were to porfolio companies that were prohibited from pledging or encumbering 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 and the SBIC debentures as sources of liquidity remain a strategic advantage due to their flexible structure, long-term duration, and low fixed interest rates. Based on market quotations on or around September 30, 2011 the Convertible Senior Notes were trading for $0.875 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 its SBIC debentures would be approximately $211.6 million, compared to the carrying amount of $188.8 million as of September 30, 2011.

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.

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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. As of September 30, 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. The Company s net investment of $75.0 million in HT II as of September 30, 2011 fully funds the required regulatory capital for HT II. HT II has a total of $125.0 million of SBA guaranteed debentures outstanding as of September 30, 2011 and has paid the SBA commitment fees of approximately $1.5 million. As of September 30, 2011, the Company held investments in HT II in 84 companies with a fair value of approximately $180.8 million, accounting for approximately 31.4% 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 $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 $63.75 million was outstanding as of September 30, 2011. As of September 30, 2011, HT III has paid commitment fees of approximately $750,000. As of September 30, 2011, the Company held investments in HT III in 20 companies with a fair value of approximately $92.4 million, accounting for approximately 16.0% of the Company s total portfolio. See Note 12.

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 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 September 30, 2011 as a result of having sufficient capital as defined under the SBA regulations. As of September 30, 2011, HT III could draw up to $36.25 million of additional leverage from SBA.

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 semiannually. There are no principal payments required on these issues prior to maturity and no prepayment penalties. Debentures under the SBA generally mature ten years after being borrowed. Based on the initial draw down date of 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 quarter ended September 30, 2011 for HT II was approximately $125.0 million with an average interest rate of approximately 5.0%. The average amount of debentures outstanding for the quarter ended September 30, 2011 for HT III was approximately $63.75 million with an average interest rate of approximately 3.5%.

In aggregate, HT II and HT III hold approximately $334.9 million in assets, and accounted for approximately 35.5% of our total assets prior to consolidation at September 30, 2011.

The Company reported the following SBA debentures outstanding on its Consolidated Balance Sheet as of September 30, 2011 (unaudited) and December 31, 2010:

(in thousands)

Issuance/Pooling Date	**Maturity Date**	**Interest Rate**[(1)]	**September 30, 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	$
Total SBA Debentures			**$ 188,750**	**$ 170,000**

(1) Interest rate includes annual charge

At September 30, 2011 (unaudited) and December 31, 2010, the Company had the following borrowing capacity and outstanding borrowings:

	September 30, 2011		**December 31, 2010**	
	Total Available	**Carrying Value**[(1)]	**Total Available**	**Carrying Value**[(1)]
Union Bank Facility	$ 20,000	$	$ 20,000	$
Wells Facility	75,000		50,000	
Convertible Senior Notes[(2)]	75,000	70,082		
SBA Debenture[(3)]	225,000	188,750	225,000	170,000
Total	$ 395,000	$ 258,832	$ 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 $4,918 at September 30, 2011.

(3) The Company has the ability to borrow an additional $36.3 million subject to SBA approval and compliance with SBIC regulations for which they have received commitment.

Wells Facility

On August 25, 2008, the Company, through a special purpose wholly-owned subsidiary of the Company, Hercules Funding II, LLC, entered into a two-year revolving senior secured credit facility with an optional one-year extension with total commitments of $50.0 million, with Wells Fargo Capital Finance as a lender and as an arranger and administrative agent (the Wells Facility). The Wells Facility has the capacity to increase to $300.0 million if additional lenders are added to the syndicate. The Wells Facility expired in August 2011. Borrowings under the Wells Facility will generally bear interest at a rate per annum equal to LIBOR plus 3.25% or PRIME plus 2.0%, but not less than 5.0%. The Wells 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 Wells Facility generally requires payment of interest on a monthly basis. All outstanding principal is due upon maturity. The Company has paid a total of approximately $1.1 million in structuring fees in connection with the Wells Facility which has been amortized through August 2011.

The Wells Facility requires various financial and operating covenants. These covenants require the Company to maintain certain financial ratios and a minimum tangible net worth of $250.0 million, contingent upon the Company s total commitments under all lines of credit not exceeding $250.0 million. To the extent our total commitment exceeds $250.0 million, the minimum tangible net worth covenant will increase on a pro rata basis commensurate with our net worth on a dollar for dollar basis. 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. The Company was in compliance with all covenants at September 30, 2011.

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. Borrowings under the 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 facility will be secured by loans in the borrowing base. The Wells Facility requires various financial and operating covenants. These covenants require the Company to maintain certain financial ratios and a minimum tangible net worth in an amount, when added to outstanding Subordinated Indebtedness, that is in excess of $314.0 million plus 90% of the cumulative amount of equity raised after March 31, 2011. 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%. 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. This new arrangement replaced the previous $300.0 million Wells Facility under which Wells Fargo Capital Finance had committed $50.0 million in capital. 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 August 2014. There was no outstanding debt under the Wells Facility at September 30, 2011.

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). 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%, an advance rate of 50% against eligible loans, and secured by loans in the borrowing base. The Union Bank Facility required the payment of a non-use fee of 0.25% annually. The Union Bank Facility is collateralized by debt investments in the Company s portfolio companies, and includes an advance rate equal to 50.0% of eligible 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. In February 2011, the maturity date of the facility was extended from May 1, 2011 to July 31, 2011. Union Bank Facility provides for customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, bankruptcy events and change of control. The Company was in compliance with all covenants at September 30, 2011.

On June 7, 2011, the Company entered into an amendment to the Union Bank Facility which extended the borrowing termination date to September 30, 2011. The amendment to the Union Bank Facility also amends the maturity date of Union Bank s $20.0 million commitment to mean the earliest of: (a) December 31, 2011; (b) the date on which Union Bank s obligation to make loans is terminated and the obligations are declared to be due and payable or the commitment is terminated; or (c) the date of prepayment in full by the Company. There was no outstanding debt under the Union Bank Facility at September 30, 2011.

On November 2, 2011, the Company renewed and amended 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 requires various financial and operating covenants. These covenants require the Company to maintain certain financial ratios and a minimum tangible net worth in an amount, when added to outstanding Subordinated Indebtedness, that is in excess of $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. The other terms of the Union Bank Facility generally remain unchanged, including the stated interest rate. 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.

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. During the first quarter of 2009, the Company paid off all remaining 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 $727,000 as of September 30, 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. 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.

Convertible Senior Notes

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

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 balance sheet. 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 September 30, 2011, the equity component, net of issuance costs, as recorded in the capital in excess of par value in the balance sheet was approximately $4.9 million.

As of September 30, 2011, the components of the carrying value of the Convertible Senior Notes were as follows:

(in thousands)	**As of September 30, 2011**
Principal amount of debt	$ 75,000
Original issue discount, net of accretion	(4,918)
Carrying value of debt	$ 70,082

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For the three and nine months ended September 30, 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 September 30, 2011	Nine Months Ended September 30, 2011
Stated interest expense	$ 1,125	$ 2,062
Accretion of original issue discount	270	496
Amortization of debt issuance cost	144	264
Total interest expense	$ 1,539	$ 2,822
Cash paid for interest expense	$	$

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 7.9% for the three and nine months ended September 30, 2011.

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 September 30, 2011, the Company declared a distribution of $0.22 per share. The determination of the tax attributes of the Company s distributions is made annually as of the end of the Company s fiscal year based upon its taxable income for the full year and distributions paid for the full year. As a result, a determination made on a quarterly basis may not be representative of the actual tax attributes of the Company s distributions for a full year. If the Company had determined the tax attributes of its distributions year-to-date as of September 30, 2011, approximately 97% would be from ordinary income and spill over earnings from 2010 and approximately 3% 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 2011 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 our

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ordinary income for each calendar year, (2) 98.2% of our capital gain net income for the 1-year period ending October 31 in that calendar year and (3) any income realized, but not distributed, in the preceding year (the Excise Tax Avoidance Requirements). 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 we choose to carry over taxable income into the next tax year, dividends declared and paid by us in a year may differ from taxable income for that year as such dividends may include the distribution of current year taxable income, the distribution of prior year taxable income carried over into and distributed in the current year, or returns of capital.

Taxable income for the nine-month period ended September 30, 2011 was approximately $27.1 million or $0.63 per share. Taxable net realized gains for the same period were $8.6 million or approximately $0.20 per share. Taxable income for the nine-month period ended September 30, 2010 was approximately $19.3 million or $0.55 per share. Taxable net realized losses for the same period were approximately $17.8 million or approximately $0.51 loss per share.

6. Shareholders Equity

At September 30, 2011, the Company was authorized to issue 100 million shares of common stock with a par value of $0.001. Each share of common stock entitles the holder to one vote.

On August 2, 2011, the Company approved the extension of the stock repurchase plan as previously approved on February 8, 2010 under the same terms and conditions that allows the Company to repurchase up to $35.0 million of its common stock set to expire on February 11, 2011 for an additional twelve month period with a new expiration date of February 26, 2012. During the nine month period ended September 30, 2011, the Company did not repurchase any common stock.

The Company has issued stock options for common stock subject to future issuance, of which 4,366,535 and 4,729,849 were outstanding at September 30, 2011 and December 31, 2010, 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 shareholders 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 Hercules during the terms of the Plans. The amendments further specify that no one person shall be granted awards of restricted stock relating to more than 25% of the shares available for issuance under the 2004 Plan. Further, the amount of voting securities that would result from the exercise of all of the Company s outstanding warrants, options and rights, together with any restricted stock issued pursuant to the Plans, at the time of issuance shall not exceed 25% of its outstanding voting securities, except that if the amount of voting securities that would result from such exercise of all of the Company s outstanding warrants, options and rights issued to Hercules 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 nine months ended September 30, 2011 and 2010 (unaudited) is as follows:

	For Nine Months Ended September 30, 2011 Common Stock Options	2010 Common Stock Options
Outstanding at Beginning of Period	4,729,849	4,924,405
Granted	526,700	368,250
Exercised	(156,994)	(413,337)
Cancelled	(733,020)	(222,923)
Outstanding at End of Period	4,366,535	4,656,395
Weighted-average exercise price	$ 11.39	$ 11.28

Options generally vest 33% one year after the date of grant and ratably over the succeeding 24 months. All options may be exercised for a period ending seven years after the date of grant. At September 30, 2011, options for approximately 3.5 million shares were exercisable at a weighted average exercise price of approximately $11.92 per share with a weighted average remaining contractual term of 2.45 years.

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The Company determined that the fair value of options granted under the 2006 and 2004 Plans during the nine-month periods ended September 30, 2011 and 2010 was approximately $1.2 million and $652,000 million respectively. During the three month periods ended September 30, 2011 and 2010, approximately $126,000 and $182,000 of share-based cost due to stock option grants was expensed, respectively. During the nine-month periods ended September 30, 2011 and 2010, approximately $480,000 and $538,000 of share-based cost due to stock option grants was expensed, respectively. As of September 30, 2011, there was approximately $1.1 million of total unrecognized compensation costs related to stock options. These costs are expected to be recognized over a weighted average period of 2.23 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 nine-month periods ended September 30, 2011 and 2010 (unaudited):

	For Nine Months Ended September 2011	2010
Expected Volatility	46.39%	46.39%
Expected Dividends	10%	10%
Expected term (in years)	4.5	4.5
Risk-free rate	0.79% - 1.98%	1.10% - 2.51%

The following table summarizes stock options outstanding and exercisable at September 30, 2011 (unaudited):

(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 - $6.74	488,559	4.46	$ 2,105	$ 4.21	323,411	$ 4.46	$ 1,393	$ 4.21
$8.49 - $12.84	2,232,726	4.16	1	11.43	1,516,925	3.08		11.90
$13.00 - $15.00	1,645,250	1.47		13.46	1,645,250	1.47		13.46
Total	4,366,535	3.18	$ 2,106	$ 11.39	3,485,586	$ 2.45	$ 1,393	$ 11.92

During the nine months ended September 30, 2011 and 2010, respectively, the Company granted approximately 306,600 and 491,500 shares of restricted stock pursuant to the Plans. Each restricted stock award granted in 2011 and 2010 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 nine-month periods ended September 30, 2011 and 2010, was approximately $3.4 million and $5.1 million, respectively. During the three month periods ended September 30, 2011 and 2010, the Company expensed approximately $762,000 and $582,000 of compensation expense related to restricted stock, respectively. During the nine-month periods ended September 30, 2011 and 2010, the Company expensed approximately $2.1 million and $1.5 million of compensation expense related to restricted stock, respectively. As of September 30, 2011, there was approximately $6.8 million of total unrecognized compensation costs related to restricted stock. These costs are expected to be recognized over a weighted average period of 2.77 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

In 2008, the FASB issued ASC 260, *Earnings Per Share* formerly known as FASB Staff Position (FSP) EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities.* Under this standard, unvested awards of share-based payments with non-forfeitable rights to receive dividends or dividend equivalents, such as the Company s restricted stock issued under the Plans, are considered participating securities for purposes of calculating change in net assets per share. Under the two-class method a portion of net increase in net assets resulting from operations is allocated to these participating securities and therefore is excluded from the calculation of change in net assets per share allocated to common stock, as shown in the table below. The standard was effective for financial statements issued for fiscal years beginning after December 15, 2008. The Company adopted this standard beginning with financial statements ended March 31, 2009. The adoption of this standard did not result in a change to the previously reported basic change in net assets per share and diluted change in net assets per share.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands, except per share data)	**2011**	**2010**	**2011**	**2010**
Numerator				
Net increase in net assets resulting from operations	$ 6,223	$ (7,823)	$ 29,363	$ (6,738)
Less: Dividends declared-common and restricted shares	(9,648)	(7,197)	(28,853)	(21,582)
Undistributed earnings	(3,425)	(15,020)	510	(28,320)
Undistributed earnings-common shares	(3,425)	(15,020)	510	(28,320)
Add: Dividend declared-common shares	9,473	7,034	28,329	21,152
Numerator for basic and diluted change in net assets per common share	$ 6,048	$ (7,986)	$ 28,839	$ (7,168)
Denominator				
Basic weighted average common shares outstanding	43,071	35,208	42,920	35,227
Common shares issuable	265		331	
Weighted average common shares outstanding assuming dilution	43,336	35,208	43,251	35,227
Change in net assets per common share				
Basic	$ 0.14	$ (0.23)	$ 0.67	$ (0.20)
Diluted	$ 0.14	$ (0.23)	$ 0.67	$ (0.20)

The calculation of change in net assets per common share assuming dilution, excludes all anti-dilutive shares. For the three and nine-month periods ended September 30, 2011 and 2010, 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 2.5 million and 3.9 million shares, respectively.

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9. Financial Highlights

Following is a schedule of financial highlights for the nine months ended September 30, 2011 and 2010:

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

FINANCIAL HIGHLIGHTS

(unaudited)

(dollars in thousands, except per share amounts)

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Per share data:		
Net asset value at beginning of period	$ 9.50	$ 10.29
Net investment income	0.67	0.59
Net realized gain (loss) on investments	0.08	(0.43)
Net unrealized appreciation (depreciation) on investments	(0.07)	(0.35)
Total from investment operations	0.68	(0.19)
Net increase/(decrease) in net assets from capital share transactions	0.04	(0.19)
Distributions	(0.67)	(0.61)
Stock-based compensation expense included in investment income[1]	0.06	0.06
Net asset value at end of period	$ 9.61	$ 9.36
Ratios and supplemental data:		
Per share market value at end of period	$ 8.52	$ 10.11
Total return[2]	(-12.62%)	(-0.65%)
Shares outstanding at end of period	43,908	36,158
Weighted average number of common shares outstanding	42,920	35,208
Net assets at end of period	$ 422,050	$ 338,549
Ratio of operating expense to average net assets	9.53%	7.01%
Ratio of net investment income before provision for income tax expense and investment gains and losses to average net assets	9.17%	7.62%
Average debt outstanding	$ 220,664	$ 223,766
Weighted average debt per common share	$ 5.14	$ 6.36
Portfolio turnover	4.17%	1.72%

(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 September 30, 2011 totaled approximately $148.2 million. 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 $136.0 million of non-binding term sheets outstanding at September 30, 2011. 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 December 2013. Total rent expense amounted to approximately $278,000 and $832,000 during the three and nine month periods ended September 30, 2011 respectively. There was approximately $268,000 and $765,000 recorded in the same periods ended September 30, 2010.

Future commitments under operating leases as of September 30, 2011 (unaudited) were as follows:

		Payments due by period (in thousands)			
Contractual Obligations	**Total**	**Less than 1 year**	**1 - 3 years**	**3 - 5 years**	**After 5 years**
Operating Lease Obligations[(1)]	$ 2,488	$ 1,242	$ 1,245	$	$
Total	$ 2,488	$ 1,242	$ 1,245	$	$

(1) 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 January 2010, the FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures* (ASU 2010-06), which amends ASC 820 and requires additional disclosure related to recurring and nonrecurring fair value measurements with respect to transfers in and out of Levels 1 and 2 and activity in Level 3 fair value measurements. The update also clarifies existing disclosure requirements related to the level of disaggregation and disclosure about inputs and valuation techniques. ASU 2010-06 is effective for interim and annual periods beginning after December 15, 2009 except for disclosures related to activity in Level 3 fair value measurements which are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. The Company adopted the requirements of ASU-2010-06 in the fourth quarter of 2009 and its adoption did not have a material effect on our consolidated financial statements.

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. We are evaluating the impact that our adoption of this update may have on our financial position or results of operations.

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12. Subsequent Events

Portfolio Company Developments

In October 2011, Hercules portfolio company LaboPharm, Inc. was acquired by Paladin Labs resulting in the full repayment of Hercules debt of approximately $12.0 million and the cancellation of the remaining warrants.

Company Developments

In October 2011, Hercules announced the opening of its new office in McLean, Virginia, thereby expanding to the Mid-Atlantic and South-Atlantic regions.

On November 2, 2011, Hercules renewed and amended 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 will mature on November 2, 2014, 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. The other terms of the Union Bank Facility generally remain unchanged, including the stated interest rate.

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13,000,000 Shares Common Stock

This prospectus relates to the offer, from time to time, of 13,000,000 shares of our common stock, par value $0.001 per share by us.

The shares of common stock may be offered at prices and 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 9, 2010, 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 9, 2011. 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.

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 and Boulder. 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 May 19, 2011, the last reported sale price of a share of our common stock on the Nasdaq Global Select Market was $10.52. The net asset value per share of our common stock at March 31, 2011 (the last date prior to the date of this prospectus on which we determined net asset value) was $9.20.

An investment in our common stock 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 common stock, 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 common stock. 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 shares of common stock unless accompanied by a prospectus supplement.

The date of this prospectus is May 23, 2011

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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 shares of common stock 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 common stock 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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Hercules Technology Growth Capital, Inc., our logo and other trademarks of Hercules Technology Growth Capital, Inc. mentioned in this prospectus are the property of Hercules Technology Growth Capital, Inc. All other trademarks or trade names referred to in this prospectus are the property of their respective owners.

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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 13,000,000 shares of our common stock on the terms to be determined at the time of the offering. Shares of our common stock 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 shares of our common stock that we may offer. Each time we use this prospectus to offer shares of our common stock, 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.

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 lower middle market 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 March 31, 2011 our total assets were approximately $574.4 million, of which, our investments comprised $445.1 million at fair value and $468.8 million at cost. Our investments at fair value were comprised of our debt investments, warrant portfolio and equity investments valued at approximately $396.6 million, $21.5 million and $27.0 million, respectively, or 89.1%, 4.8% and 6.1% of total investments, respectively. Our total investments at value in foreign companies were approximately $29.8 million or 5.2% of total assets at March 31, 2011. During the three-month period ended March 31, 2011, we made debt commitments totaling $97.5 million and funded approximately $83.9 million. Debt commitments for the year ended March 31, 2011 included commitments of approximately $50.0 million to new portfolio companies and $47.5 million to 3 existing portfolio companies. During the three-month period ended March 31, 2011, we made and funded equity commitments of approximately $500,000 to one company. Since inception through March 31, 2011, we have made debt and equity commitments of approximately $2.2 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 March 31, 2011, we held investments in HT II in 54 companies with a fair value of approximately $158.6 million. HT II s portfolio companies accounted for approximately 35.6% of our total portfolio at March 31, 2011. As of March 31, 2011, we held investments in HT III in 11 companies with a fair value of approximately $73.5 million. HT III s portfolio accounted for approximately 16.5% of our total portfolio at March 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 March 31, 2011, our proprietary SQL-based database system included over 20,000 technology-related companies and approximately 4,800 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 and Boulder. 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 ventures active in the technology, clean technology and life science industries 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

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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, and media and life sciences. Within the life sciences sub-sector, we 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 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.

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. Since 2007, 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.

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.

At the same time, 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 in 2010 as compared to 2009. Therefore, to the extent we have capital available, we believe this is an opportune time to invest in the structured lending market for technology-related companies. Today s economy creates potentially new attractive lending opportunities and we believe that the market for technology-related companies in 2011 is improving as evidenced by the improved IPO market in 2010 as compared to the previous two years.

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As of March 31, 2011, our investment professionals, including Manuel A. Henriquez, our co-founder, Chairman, President and Chief Executive Officer, are currently comprised of 26 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, particularly due to the recent credit market dislocation and 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 three months of 2011, venture capital-backed companies received, in approximately 661 transactions, equity financing in an aggregate amount of approximately $6.4 billion, representing a 35.1% increase from the same period of the preceding year, as reported by Dow Jones VentureSource. In addition, overall, the median round size in the first three months of 2011 was approximately $5.0 million, up from $4.5 million in 2010. We believe the larger number of companies provides us a greater opportunity to provide debt financing to these venture backed companies. Overall, seed- and first-round deals made up 40% of the deal flow in the first three months of 2011 and later-stage deals made up roughly 40% of all capital invested.

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 during 2008 and 2009. 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 in 2011. In addition, lending requirements of traditional lenders have become more stringent due to the significant write-offs in the financial services sector, the re-pricing of credit risk in the broadly syndicated market and the financial turmoil affecting the banking system and financial market, which have negatively impacted the debt and equity capital market in the United States and most other markets. At the same time, the venture capital market for the technology-related companies in which we invest has continued to be active. Therefore, to the extent we have capital available, we believe this is an opportune time to be active in the structured lending market for technology-related companies.

Structured Debt with Warrants Products Complement Equity Financing From Venture Capital and Private Equity Funds. We believe that technology-related companies and their financial sponsors will continue to view structured debt securities as an attractive source of capital because it augments the capital provided by venture capital and private equity funds. We believe that our structured debt with warrants 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 emerging-growth and expansion-stage companies 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. Our team members have originated structured debt, structured debt with warrants and equity investments in over 150 technology-related companies, representing over $2.2 billion in commitments from inception to March 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

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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 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.

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 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 complementary 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, including select publicly listed companies and lower middle market companies and established-stage companies. We believe that this provides us with a broader range of potential investment opportunities than those available to many of our competitors, who generally focus their investments on a particular stage in a company   s development. Because of the flexible structure of our investments and the extensive experience of our investment professionals, we believe we are well positioned to take advantage of these investment opportunities at all stages of prospective portfolio companies   development.

Benefit from Our Efficient Organizational Structure. We believe that the perpetual nature of our corporate structure enables us to be a long-term partner for our portfolio companies in contrast to traditional 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

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including sourcing, originations, transaction monitoring and post-investment performance. As of March 31, 2011, our proprietary SQL-based database system included over 20,000 technology-related companies and over 4,800 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 shares of common stock 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 March 31, 2011 was 350.8% since we exclude SBA leverage from this ratio and we have no other borrowings outstanding. The amount of leverage that we employ will depend on our assessment of market and other factors at the time of any proposed borrowing.

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We, through a special purpose wholly-owned subsidiary, Hercules Funding II, LLC, entered into a two-year revolving senior secured credit facility with an optional one-year extension with total commitments of $50 million, with Wells Fargo Capital Finance as a lender and as an arranger and administrative agent (the Wells Facility). The Wells Facility has the capacity to increase to $300 million if additional lenders are added to the syndicate. The Wells Facility expires in August 2011, unless the option to extend the facility is exercised by the parties to the agreement.

Borrowings under the Wells Facility will generally bear interest at a rate per annum equal to LIBOR plus 3.25% or PRIME plus 2.0%, but not less than 5.0%. The Wells Facility requires the payment of a non-use fee of 0.3% annually. The Wells 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 Wells Facility generally requires payment of interest on a monthly basis. All outstanding principal is due upon maturity. We have paid a total of $1.1 million in structuring fees in connection with the Wells Facility which is being amortized through August 2011. There was no outstanding debt under the Wells Facility at March 31, 2011.

The Wells Facility requires various financial and operating covenants applicable to the Company and its subsidiaries, in addition to those applicable to Hercules Funding II, LLC. The covenants applicable to the Company and its subsidiaries include a requirement that we maintain a minimum tangible net worth of approximately $311 million, contingent upon our total commitments under all lines of credit not exceeding approximately $311 million. To the extent our total commitments exceed approximately $311 million, the minimum tangible net worth covenant will increase on a pro rata basis commensurate with our net worth on a dollar for dollar basis. In addition, the tangible net worth covenant will increase by 90 cents on the dollar for every dollar of equity capital subsequently raised by us. See Management s Discussion and Analysis of Financial Condition and Results of Operations Borrowings Wells Facility. 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 March 31, 2011.

During March 2011, we received a commitment to renew the Wells Facility. Under this three-year senior secured facility, Wells Fargo Capital Finance and the Royal Bank of Canada (RBC) have made commitments of $75 million and $25 million, respectively. Borrowings under the facility are expected to be at an interest 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 facility will be secured by loans in the borrowing base. The facility contains an accordion feature, in which we can increase the credit line up to an aggregate of $300 million, funded by additional lenders and with the agreement of Well Fargo Capital Finance and RBC and subject to other customary conditions. We expect to continue discussions with various other potential lenders to join the new facility; however, there is no assurance that additional lenders will join the facility. This new arrangement will replace the existing $300 million Wells Facility under which Wells Fargo Capital Finance had committed $50 million in capital and is subject to customary closing conditions and completion of legal documentation. We expect the covenants and events of default to be consistent with our existing Wells Facility. No assurance can be given that Wells Fargo Capital Finance, RBC and the Company will execute definitive documentation, that the definitive documentation will reflect the terms described herein or that the facility will be entered into at all.

On February 10, 2010, we entered a $20.0 million one-year revolving senior secured credit facility with Union Bank (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 March 31, 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. In February 2011, we extended the termination date of this facility from May 1, 2011 to July 31, 2011.

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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 March 31, 2011, we held investments in HT II in 54 companies with a fair value of approximately $158.6 million. HT II s portfolio companies accounted for approximately 35.6% of our total portfolio at March 31, 2011. As of March 31, 2011, we held investments in HT III in 11 companies with a fair value of approximately $73.5 million. HT III s portfolio accounted for approximately 16.5% of our total portfolio at March 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 March 31, 2011, HT II has the capacity to issue a total of $150.0 million of SBA guaranteed debentures, subject to SBA approval of which $125.0 million was outstanding as of March 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 March 31, 2011, HT III had the potential to borrow up to $75.0 million of SBA-guaranteed debentures under the SBIC program. With our net investment of $37.5 million in HT III as of March 31, 2011, HT III has the capacity to issue a total of $75.0 million of SBA guaranteed debentures, subject to SBA approval, of which $38.75 million was outstanding as of March 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.

In January 2011, we repaid $25.0 million of SBA debentures under our first license, priced at approximately 6.63%, including annual fees. We recognized a fee expense of approximately $550,000 in connection with the repayment. In April 2011, we received approval from the SBA to borrow $25.0 million under a new capital commitment under our second license held by HT III. This commitment allows us to borrow to the maximum of $225.0 million under two SBIC licenses, subject to SBA approval.

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.

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 common stock.

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

Closed and Pending Commitments

As of May 5, 2011, we have closed commitments of approximately $51.5 million to new and existing portfolio companies, and funded approximately $39.0 million since the close of the first quarter. In addition, we have pending commitments (signed term sheets) of approximately $57.0 million.

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

2011 Closed Commitments and Pending Commitments (dollars in millions)	
Closed Commitments, January 1, 2011 - March 31, 2011	$ 98.0
Closed Commitments, April 1, 2011 - May 5, 2011	51.5
Total 2011 Closed Commitments[a]	**149.5**
Pending Commitments (as of May 5, 2011)[b]	57.0
Total	**$ 206.5**

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.

SBA Facility

In April 2011, we received approval from the SBA to borrow $25.0 million under a new capital commitment under our second license held by HT III. This commitment allows us to borrow to the maximum of $225.0 million under two SBIC licenses, subject to SBA approval.

Convertible Debt Offering

In April 2011, we issued and priced $75.0 million in aggregate principle amount of 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 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 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.

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 in respect of the Company, holders of 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 equity components of the notes were approximately 92.8% and 7.2%, respectively. The original issue discount equal to the estimated equity component of 7.2% of the Convertible Senior Notes will initially be recorded in capital in excess of par value in the consolidated statement of assets and liabilities. As a result, we will 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%.

Portfolio Company Developments

In April 2011, two additional portfolio companies, BrightSource Energy, Inc. and Wageworks, Inc., filed their S-1 registration statements to complete their respective IPOs. The pricing range for these two companies is not currently available. In total, as of May 20, 2011, we held investments in six companies in IPO registration. There can be no assurances that these companies will complete their IPOs in a timely manner or at all.

Resignation of CFO and Appointment of Interim CFO

On May 18, 2011, David M. Lund announced his resignation, effective May 31, 2011, from his position as Vice President of Finance and Chief Financial Officer of the Company. Effective June 1, 2011, the Company s Board of Directors appointed Jessica Baron as Vice President of Finance and Interim Chief Financial Officer of the Company while the Company conducts a search for Mr. Lund s successor.

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 and Boulder, Colorado. 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 1-800-SEC-0330. 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 common stock 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 Hercules Technology Growth Capital.

Stockholder Transaction Expenses (as a percentage of the public offering price):	
Sales load (as a percentage of offering price)(1)	%
Offering expenses	%
Dividend reinvestment plan fees	%(2)
Total stockholder transaction expenses (as a percentage of the public offering price)	%
Annual Expenses (as a percentage of net assets attributable to common stock):(9)	
Operating expenses	6.1%(3)(4)
Interest payments on borrowed funds	2.2%(5)
Fees paid in connection with borrowed funds	0.9%(6)
Acquired fund fees and expenses(7)	0.0%
Total annual expenses	9.2%(8)

(1) In the event that the shares of common stock to which this prospectus relates are sold to or through underwriters, a corresponding prospectus supplement will disclose the applicable sales load.

(2) 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.

(3) Operating expenses represent our estimated operating expenses for the year ending December 31, 2011 including income tax expense (benefit) including excise tax, excluding interests and fees on indebtedness. This percentage for the year ended December 31, 2010 was 5.6%. See Management s Discussion and Analysis and Results of Operations, Management, and Compensation of Executive Officers and Directors.

(4) 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.

(5) Interest payments on borrowed funds represents estimated interest payments on borrowed funds for 2011 including our Wells Facility and the SBA debentures.

Citigroup has an equity participation right through a warrant participation agreement on the pool of loans and warrants and shares underlying the warrants collateralized under our prior credit facility with Citigroup (the Citigroup Facility). As a fee and incentive to Citigroup for the extension of the Citigroup Facility, we entered into a Warrant Participant Agreement with Citigroup in August 2005. Pursuant to the Warrant Participation Agreement, we granted to Citigroup a 10% participation in all warrants held as collateral. However, no additional warrants are included in collateral subsequent to the Citigroup 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 equals $3,750,000 (the Maximum Participation Limit). The obligations under the warrant participation agreement continue until the Maximum Participation Limit has been reached even though the Citigroup Facility was terminated. During the quarter ended March 31, 2011, we recorded a decrease of the derivative liability related to this obligation and decreased its unrealized appreciation by approximately $37,000 for Citigroup s participation in unrealized gains in the warrant portfolio. The value of their participation right on unrealized appreciation in the related equity investments was approximately $444.1 at March 31, 2011 and is included in accrued liabilities and decreased the unrealized gain recognized by us at March 31. Since inception of the warrant participation agreement, we have paid Citigroup approximately $1.1 million under the warrant participation agreement thereby reducing our realized gains by this amount. 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.

(6) Fees paid in connection with borrowed funds represents estimated fees paid in connection with borrowed funds for 2011 including our Wells Facility and the SBA debentures. This percentage for the year ended December 31, 2010 was approximately 0.3%.

(7) For the quarter ended March 31, 2011 and for the year ended December 31, 2010, 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.

(8) Total annual expenses is the sum of operating expenses, interest payments on borrowed funds and fees paid in connection with borrowed funds.

(9) Average net assets attributable to common stock equals the weighted estimated average net assets for 2011 which is $407.7 million.

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 investment, assuming a 5% annual return	$ 127	$ 279	$ 420	$ 732

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.

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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, 2007 and 2006 and the selected statement of operations data for fiscal 2009, 2008, 2007 and 2006 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 2010 and the financial statement of operations data for fiscal 2010 have been derived from our audited financial statements, which have been audited by PricewaterhouseCoopers LLP, our independent registered public accounting firm.

	For the three months ended March 31, 2011	2010	For the year ended December 31, 2010	2009	2008	2007	2006
Investment income:							
Interest	$ 16,456	$ 11,235	$ 54,700	$ 62,200	$ 67,283	$ 48,757	$ 26,278
Fees	2,695	1,285	4,774	12,077	8,552	5,127	3,230
Total investment income	19,151	12,520	59,474	74,277	75,835	53,884	29,508
Operating expenses:							
Interest	2,233	2,026	8,572	9,387	13,121	4,404	5,770
Loan fees	934	298	1,259	1,880	2,649	1,290	810
General and administrative	2,206	1,889	7,086	7,281	6,899	5,437	5,409
Employee Compensation:							
Compensation and benefits	3,253	2,238	10,474	10,737	11,595	9,135	5,779
Stock-based compensation	721	457	2,709	1,888	1,590	1,127	617
Total employee compensation	3,974	2,695	13,183	12,625	13,185	10,262	6,396
Total operating expenses	9,347	6,908	30,100	31,173	35,854	21,393	18,385
Net investment income before provision for income taxes and investment gains and losses	9,804	5,612	29,374	43,104	39,981	32,491	11,123
Provision for income taxes						2	643
Net investment income	9,804	5,612	29,374	43,104	39,982	32,489	10,480
Net realized gain (loss) on investments	4,370	362	(26,382)	(30,801)	2,643	2,791	(1,604)
Provision for Excise Tax					(203)	(139)	
Net increase (decrease) in unrealized appreciation on investments	(15,352)	(260)	1,990	1,269	(21,426)	7,268	2,508
Net realized and unrealized gain (loss)	(10,982)	102	(24,392)	(29,532)	(18,986)	9,920	904
Net increase (decrease) in net assets resulting from operations	$ (1,178)	$ 5,714	$ 4,982	$ 13,572	$ 20,995	$ 42,409	$ 11,384
Cash and stock dividends declared per common share	$ 0.23	$ 0.16	$ 0.80	$ 1.26	$ 1.32	$ 1.20	$ 0.90

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($ in thousands, except per share data)	As of March 31, 2011	As of December 31, 2010	2009	2008	2007	2006
Balance sheet data:						
Investments, at value	$ 445,054	$ 472,032	$ 374,669	$ 578,211	$ 525,492	$ 280,596
Cash and cash equivalents	114,435	107,014	124,828	17,242	7,856	16,404
Total assets	574,406	591,247	508,967	608,672	541,943	301,142
Total liabilities	171,199	178,716	142,452	226,214	141,206	45,729
Total net assets	403,207	412,531	366,515	382,458	400,737	255,413
Other Data:						
Total debt investments, at value	$ 396,565	$ 401,618	$ 325,134	$ 536,964	$ 477,643	$ 264,086
Total warrant investments, at value	21,467	23,690	14,450	17,883	21,646	8,441
Total equity investments, at value	27,022	46,724	35,085	23,364	26,203	8,069
Unfunded commitments	131,100	117,200	11,700	82,000	130,602	55,500
Net asset value per share[(1)]	$ 9.20	$ 9.50	$ 10.29	$ 11.56	$ 12.31	$ 11.65

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

The following tables set forth certain quarterly financial information for each of the nine quarters up to and ending March 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.

	For the Quarter End				
(Amounts in thousands, except per share data)	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010
Selected Quarterly Data (unaudited):					
Total investment income	$ 19,151	$ 16,807	$ 15,646	$ 14,501	$ 12,520
Net investment income before provision for income taxes and investment gains and losses	9,804	8,751	8,148	6,863	5,612
Net increase (decrease) in net assets resulting from operations	(1,178)	11,721	(7,823)	(4,630)	5,714
Net increase (decrease) in net assets resulting from operations per common share (basic)	$ 0.23	$ 0.30	$ (0.23)	$ (0.14)	$ 0.16

	For the Quarter End			
(Amounts in thousands, except per share data)	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
Net increase (decrease) in net assets resulting from operations per common share (basic)	$ 0.24	$ 0.39	$ (0.38)	$ 0.14

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RISK FACTORS

Investing in our common stock may be speculative and involves a high degree of risk. Before you invest in shares of our common stock, 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 common stock. 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 common stock could decline, and you may lose all or part of your investment.

Risks Related to our Business Structure and Current Economic and Market Conditions

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.

Capital markets have experienced a period of disruption and instability and we cannot predict whether these conditions will reoccur.

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.

We have identified a material weakness in our internal control over financial reporting, and our business and stock price may be adversely affected if we have not adequately addressed the weakness.

As a result of our evaluation of our internal control over financial reporting for the year ended December 31, 2010, management identified a material weakness related to our valuation process specifically involving debt investments. We have corrected the valuation process to refine our application of ASC 820 and believe that our audited consolidated financial statements for the year ended December 31, 2010 reflect the fair value of our debt

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investments in accordance with ASC 820 using the new valuation procedure. During the year ended December 31, 2010, we recognized additional unrealized depreciation of $803,000, which is not material to the 2010 consolidated financial statements. As of March 31, 2011, management has evaluated the remedial action, assessed the operating effectiveness of the remediated controls and concluded that it has remediated the material weakness described above.

In connection with the preparation of our Consolidated Financial Statements for the three-month period ended March 31, 2011, we identified a material weakness in our internal control over financial reporting related to 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. Our consolidated financial statements for the quarter ended March 31, 2011 reflect the fair value of our investments and we have taken remediation steps to enhance the internal control procedures in order to effectively remediate the deficiencies in our internal control processes related to such errors.

If we cannot produce reliable financial reports, investors could lose confidence in our reported financial information, the market price of our stock and the Convertible Senior Notes could decline significantly, we may be unable to obtain additional financing to operate and expand our business, and our business and financial condition could be harmed. See Management s Discussion and Analysis of Financial Condition and Results of Operation Controls and Procedures.

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.

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.

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 a revenue procedure issued by the Internal Revenue Service, RICs are permitted to treat certain distributions made with respect to tax years ending prior to January 1, 2012, and payable in up to 90% in their stock, as taxable dividends that will satisfy their annual distribution obligations for federal income tax and excise tax purposes. In situations where this revenue procedure is not applicable, the Internal Revenue Service has also issued private letter rulings on cash/stock dividends paid by RICs and real estate investment trusts using a 20% cash standard (instead of the 10% cash standard of the revenue procedure) if certain requirements are satisfied. We previously determined to pay 90% 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. 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 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

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LLC and Union Bank, N.A. 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.

As of March 31, 2011, there were zero amounts outstanding under our secured facilities with Wells Fargo and Union Bank and $163.75 million principal amount of indebtedness outstanding incurred by our SBIC subsidiaries. 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 March 31, 2011 our asset coverage for senior indebtedness was 350.8% since we exclude SBA leverage from this ratio and we had no other borrowings outstanding.

	Assumed Return on Our Portfolio (Net of Expenses)				
	(10)%	**(5)%**	**0%**	**5%**	**10%**
Corresponding return to stockholder(1)	(26.70)%	(15.44)%	(4.17)%	7.09%	18.35%

(1) Assumes $574.4 million in total assets, $163.75 million in debt outstanding, $403.2 million in stockholders equity, and an average cost of funds of 6.5%, which is the approximate average cost of funds of the SBA debentures for the period ended March 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 March 31, 2011, portfolio investments, which are valued at fair value by the Board of Directors, were approximately 77.5% 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.

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 March 31, 2011 that represent greater than 5% of net assets:

	March 31, 2011	
(in thousands)	**Fair Value**	**Percentage of Net Assets**
Aveo Pharmaceuticals, Inc.	$ 28,614	7.1%
Unify Corporation	25,864	6.4%
Pacira Pharmaceuticals	25,481	6.3%
Brightsource Energy, Inc.	24,897	6.2%
Anthera Pharmaceuticals	24,824	6.2%
Tectura Corporation	24,232	6.0%

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

Unify Corporation is a global provider of application development, data management and migration solutions.

Pacira Pharmaceuticals 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.

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

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.

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

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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.

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.

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.

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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.

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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 quarter ended March 31, 2011, the Company recorded an increase on participation liability and increased its unrealized gains by a net amount of approximately $37,000 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 $444,000 at March 31, 2011 and is included in accrued liabilities and decreased the unrealized gain recognized by us at March 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 could constrain our ability to grow our business.

On August 25, 2008, we, through a special purpose wholly-owned subsidiary, entered into a two-year revolving senior secured credit facility with an optional one-year extension with initial commitments of $50 million at closing with Wells Fargo Capital Finance (the Wells Facility). The Wells Facility has the capacity to increase to $300 million if additional lenders are added to the lending syndicate. As of March 31, 2011, we had zero outstanding borrowings under the Wells Facility.

During March 2011, we received a commitment to renew the Wells Facility. Under this three-year senior secured facility, Wells Fargo Capital Finance and RBC have made commitments of $75.0 million and $25.0 million, respectively. Borrowings under the facility are expected to be at an interest 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 facility will be secured by loans in the borrowing base. 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 RBC 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 new credit facility. This new arrangement will replace the existing $300.0 million Wells Facility under which Wells Fargo Capital Finance had committed $50.0 million in capital and is subject to customary closing conditions and completion of legal documentation. We expect the covenants and events of default to be consistent with our existing Wells Facility. No assurance can be given that Wells Fargo Capital Finance, RBC and the Company will execute definitive documentation, that the definitive documentation will reflect the terms described herein or that the facility will be entered into at all.

On February 10, 2010, we entered a $20.0 million one-year revolving senior secured credit facility with Union Bank (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 March 31, 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. In February 2011, we extended the termination date of this facility from May 1, 2011 to July 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.

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, 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. See Management s Discussion and Analysis of Results of Operations and Financial Condition Borrowings.

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

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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 March 31, 2011, we did not have any outstanding borrowings under either of our secured credit facilities with Wells Fargo or Union Bank and $163.75 million principal amount of indebtedness outstanding incurred by our SBIC subsidiaries. Available borrowing capacity under these facilities as of March 31, 2011 was $106.25 million and subject to terms, conditions and approvals of the SBA.

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 March 31, 2011, HT II s and HT III s portfolio companies accounted for approximately 35.6% and 16.5%, 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 March 31, 2011 as a result of having sufficient capital as defined under the SBA regulations. See Regulation Small Business Administration Regulations.

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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 March 31, 2011, HT II had the potential to borrow up to $150.0 million of SBA-guaranteed debentures under the SBIC program. With our net investment of $75.0 million in HT II as of March 31, 2011, HT II has the capacity to issue a total of $150.0 million of SBA guaranteed debentures, subject to SBA approval, of which $125.0 million is outstanding as of March 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 March 31, 2011, HT III had the potential to borrow up to $75.0 million of SBA-guaranteed debentures under the SBIC program. With our net investment of $37.5 million in HT III as of March 31, 2011, HT III has the capacity to issue a total of $75.0 million of SBA guaranteed debentures, subject to SBA approval, of which $38.75 million was outstanding as of March 31, 2011. As of March 31, 2011, there was $163.75 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.

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.

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 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 March 31, 2011, approximately 44.8% of the fair value of our portfolio was composed of investments in three industries: 16.7% was composed of investments in the drug discovery industry, 16.0% was composed of investments in the specialty pharma industry and 12.1% was composed of investments in the software 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 in the clean technology and renewable energy sector face considerable uncertainties including development, operational and regulatory challenges.

Our investments in the clean technology sector are subject to substantial risks. Companies of this nature are relatively new and have been developed through advancement in technologies which may not be proven or whose commercial application is limited. Some of these portfolio companies may be dependent upon favorable regulatory incentives, and there is significant uncertainty about the extent to which such favorable regulatory incentives will be available in the future. Furthermore, production levels for wind, solar, and other renewable energies may be dependent upon adequate wind, sunlight, or biogas production which can vary from period to period, resulting in volatility in production levels and profitability. Demand for clean technology and renewable energy is also influenced by the available supply and prices for other energy products, such as coal, oil and natural gases. A change in prices in these energy products could reduce demand for alternative energy. There is 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.

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. Beginning in mid-2000, there was substantial excess production capacity and a significant slowdown in many technology-related industries. This overcapacity, together with a cyclical economic downturn, resulted 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. For example, the recent earthquake and tsunami in Japan may have an adverse impact on us or our 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.

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 an 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.

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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 harm 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 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 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.

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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 and consequently increase the possibility of an adverse effect on our 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 constitutes 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.

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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 harm 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.

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.

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The inability of our portfolio companies to commercialize their technologies or create or develop commercially viable products or businesses would have a negative impact on our investment returns.

The possibility that our portfolio companies will not be able to commercialize their technology, products or business concepts presents significant risks to the value of our investment. Additionally, although some of our portfolio companies may already have a commercially successful product or product line when we invest, technology-related products and services often have a more limited market- or life-span than have products in other industries. Thus, the ultimate success of these companies often depends on their ability to continually innovate, or raise additional capital, in increasingly competitive markets. Their inability to do so could affect our investment return. In addition, the intellectual property held by our portfolio companies often represents a substantial portion of the collateral, if any, securing our investments. We cannot assure you that any of our portfolio companies will successfully acquire or develop any new technologies, or that the intellectual property the companies currently hold will remain viable. Even if our portfolio companies are able to develop commercially viable products, the market for new products and services is highly competitive and rapidly changing. Neither our portfolio companies nor we have any control over the pace of technology development. Commercial success is difficult to predict, and the marketing efforts of our portfolio companies may not be successful.

An investment strategy focused 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

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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. 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.

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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 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 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 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.

During the quarter ended March 31, 2011, we received early loan repayments and pay down of working capital loans of approximately $64.3 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 March 31, 2011, approximately 63.7% of our portfolio company loans were secured by a first priority security in all of the assets of the portfolio company, 29.4% of portfolio company loans were prohibited from pledging or encumbering their intellectual property, 6.1% of portfolio company loans were secured by a second priority security in all of the assets of the portfolio company and 0.8% 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 representing approximately 12.4% of the aggregate outstanding balance of our portfolio as of March 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 Common Stock

Investing in shares of our common stock 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 common stock may not be suitable for investors with lower risk tolerance.

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

If our common stock is trading below its net asset value per share, we will generally not be able to issue additional shares of our common stock at its market price without first obtaining the approval for such issuance from our stockholders and our independent directors. If our common stock trades below net asset value, the higher cost of equity capital may result in it being unattractive to raise new equity, which may limit our ability to grow. The risk of trading below net asset value is separate and distinct from the risk that our net asset value per share may decline. We cannot predict whether shares of our common stock will trade above, at or below our net asset value.

Provisions of our charter and bylaws could deter takeover attempts and have an adverse impact on the price of our common stock.

Our charter and bylaws contain provisions that may have the effect of discouraging, delaying, or making difficult a change in control of our company or the removal of our incumbent directors.

Under our charter, our Board of Directors is divided into three classes serving staggered terms, which will make it more difficult for a hostile bidder to acquire control of us. In addition, our Board of Directors may, without stockholder action, authorize the issuance of shares of stock in one or more classes or series, including preferred stock. Subject to compliance with the 1940 Act, our Board of Directors may, without stockholder action, amend our charter to increase the number of shares of stock of any class or series that we have authority to issue. The existence of these provisions, among others, may have a negative impact on the price of our common stock and may discourage third party bids for ownership of our company. These provisions may prevent any premiums being offered to you for shares of our common stock. See Description of our Capital Stock.

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 9, 2010, 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 quarter ended March 31, 2011.

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 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.

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.

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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.

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.

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

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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.

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USE OF PROCEEDS

We intend to use the net proceeds from selling shares of common stock 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 shares of common stock 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.

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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 Price to NAV	Premium/ Discount of Low Sales Price to NAV	Cash Dividend per Share(2)
	NAV(1)	High	Low			
2008						
First quarter	$ 12.28	$ 12.75	$ 9.59	103.8%	78.1%	$ 0.300
Second quarter	$ 12.21	$ 11.32	$ 8.93	92.7%	73.1%	$ 0.340
Third quarter	$ 12.25	$ 11.35	$ 7.95	92.7%	64.9%	$ 0.340
Fourth quarter	$ 11.56	$ 10.24	$ 4.57	88.6%	39.5%	$ 0.340
2009						
First quarter	$ 10.94	$ 8.62	$ 3.93	78.8%	31.2%	$ 0.320
Second quarter	$ 10.27	$ 8.89	$ 4.76	86.6%	46.3%	$ 0.300
Third quarter	$ 10.37	$ 10.35	$ 8.33	99.8%	80.3%	$ 0.300
Fourth quarter	$ 10.29	$ 11.22	$ 8.96	109.0%	87.1%	$ 0.340
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 (through May 19, 2011)	*	$ 11.36	$ 10.09	*	*	$ 0.220

(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 May 19, 2011 was $10.52 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 13, 2011	June 23, 2011		0.220
			$	6.245

* Dividend paid in cash and stock

On May 5, 2011, the Board of Directors announced a cash dividend of $0.22 per share to be paid on June 23, 2011 to shareholders of record as of May 13, 2011. This dividend is the Company s twenty-third consecutive quarterly dividend declaration since its initial public offering, and will bring the total cumulative dividend declared to date to $6.25 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 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 actual tax attributes of our distributions for a full year. If we had determined the tax attributes of our distributions year-to-date as of September 30, 2010, approximately 95.0% would be from ordinary income and spill over earnings from 2009 and 5.0% would be a return of capital. However there can be no certainty to stockholders that this determination is representative of what the tax attributes of our 2010 distributions to stockholders will actually be.

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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. For a more detailed discussion, see Regulation.

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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 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 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 may also 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 and Boulder.

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 sciences and lower middle market 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. We are treated for federal income tax purposes as a regulated investment company, or a RIC under Subchapter M of the Code as of January 1, 2006. 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. Since 2007, 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 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.

Portfolio and Investment Activity

The total value of our investment portfolio was $445.1 million at March 31, 2011 as compared to $472.0 million at December 31, 2010. During the three month period ended March 31, 2011 we made debt commitments totaling $97.5 million and funded approximately $83.9 million. Debt commitments for the quarter ended March 31, 2011 included commitments of approximately $50.5 million to five new portfolio companies and $47.5 million to three existing companies. During the three month period ended March 31, 2011 we made and funded equity commitments of $500,000 to one company. These commitments further diversify our portfolio by stage and industry sector. During the quarter ended March 31, 2010 we made debt commitments totaling $93.5 million and funded approximately $87.3 million, respectively. During the quarter ended March 31, 2010 we made and funded an equity commitment of approximately $1.1 million to one company.

At March 31, 2011, we had unfunded contractual commitments of $131.1 million to 23 portfolio companies. 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 executed approximately $73.0 million of non-binding term sheets outstanding to five new and existing companies at March 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 March 31, 2011 was approximately $396.6 million, compared to a fair value of approximately $325.8 million at March 31, 2010. The fair value of the equity portfolio at March 31, 2011 and 2010 was approximately $27.0 million and $45.2 million, respectively. The fair value of our warrant portfolio at March 31, 2011 and 2010 was approximately $21.5 million and $13.2 million, respectively.

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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 three-month period ended March 31, 2011, we received normal principal amortization repayments of $21.7 million, and early repayments and working line of credit pay-downs totaling $64.3 million. Total portfolio investment activity for the quarter ended March 31, 2011 and for the year ended December 31, 2010 is as follows:

(in millions)	March 31, 2011	December 31, 2010
Beginning Portfolio	$ 472.0	$ 374.7
Purchase of debt investments	84.3	320.4
Equity Investments	0.8	2.3
Sale of Investments	(15.1)	(34.2)
Principal payments received on investments	(24.6)	(81.6)
Early pay-offs and recoveries	(61.4)	(114.5)
Accretion of loan discounts and paid-in-kind principal	4.6	3.3
Net change in unrealized depreciation in investments	(15.3)	1.6
Ending Portfolio	$ 445.1	$ 472.0

The following table shows the fair value of our portfolio of investments by asset class:

	March 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	$ 359,042	80.7%	$ 357,963	75.8%
Senior Secured Debt	34,093	7.6%	59,251	12.6%
Subordinated Debt	24,897	5.6%	8,094	1.7%
Preferred Stock	21,333	4.8%	26,813	5.7%
Common Stock	5,689	1.3%	19,911	4.2%
	$ 445,054	100.0%	$ 472,032	100.0%

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

	March 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	$ 415,241	93.3%	$ 438,585	92.9%
Canada	18,528	4.2%	20,876	4.4%
England	10,634	2.4%	10,653	2.3%
Israel	651	0.1%	1,918	0.4%
	$ 445,054	100.0%	$ 472,032	100.0%

Our portfolio companies are primarily privately-held expansion and established-stage companies in the biopharmaceutical, clean technology, communications and networking, consumer and business products, electronics and computers, energy, information services, internet consumer and business services, medical 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.

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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.

As of March 31, 2011, the Company did not hold any Control Investments. The Company s 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 unrealized depreciation was recognized on this control investment during the three-month period ended March 31, 2011.

At March 31, 2011 and 2010, the Company had an investment in one portfolio company deemed to be an Affiliate. No income was derived from this investment as this is a non-income producing equity investment. No realized gains were related to this investment, and approximately $1.0 million and $52,000 of net unrealized depreciation was recognized on this control investment during the three-month periods ended March 31, 2011 and 2010, respectively.

The following table shows the fair value of our portfolio by industry sector at March 31, 2011 and December 31, 2010:

	March 31, 2011		December 31, 2010	
(in thousands)	Investments at Fair Value	Percentage of Total Porfolio	Investments at Fair Value	Percentage of Total Porfolio
Drug Discovery	$ 74,243	16.7%	$ 52,777	11.2%
Specialty Pharma	71,273	16.0%	63,607	13.5%
Software	53,714	12.1%	96,508	20.4%
Clean Tech	48,289	10.8%	25,722	5.4%
Communications & Networking	47,080	10.6%	65,098	13.8%
Drug Delivery	32,754	7.4%	35,250	7.5%
Internet Consumer & Business Services	27,665	6.2%	7,255	1.5%
Therapeutic	23,966	5.4%	25,300	5.4%
Consumer & Business Products	17,990	4.0%	45,316	9.6%
Diagnostic	13,926	3.1%	14,911	3.2%
Information Services	13,399	3.0%	10,857	2.3%
Electronics & Computer Hardware	5,667	1.3%	7,819	1.6%
Biotechnology Tools	5,146	1.2%	5,987	1.3%
Surgical Devices	4,520	1.0%	10,172	2.1%
Semiconductors	3,174	0.7%	3,227	0.7%
Media/Content/Info	2,247	0.5%	2,223	0.5%
Energy	1		3	
	$ 445,054	100%	$ 472,032	100%

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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. The following table shows the distribution of our outstanding debt investments on the 1 to 5 investment grading scale at fair value as of March 31, 2011 and December 31, 2010.

	March 31, 2011		December 31, 2010	
(in thousands)	Investments at Fair Value	Percentage of Total	Investments at Fair Value	Percentage of Total
Investment Grading				
1	$ 32,878	8.3%	$ 65,345	16.3%
2	205,997	52.0%	232,713	57.9%
3	146,313	36.9%	90,739	22.6%
4	6,141	1.5%	8,776	2.2%
5	5,236	1.3%	4,045	1.0%
	$ 396,565	100.0%	$ 401,618	100.0%

As of March 31, 2011, our investments had a weighted average investment grading of 2.44 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 March 31, 2011, 12 portfolio companies were graded 3, 2 portfolio companies were graded 4, and 2 portfolio companies were graded 5 as compared to 8 portfolio companies that were graded 3, 2 portfolio companies that were graded 4 and 2 portfolio companies that were graded 5 at December 31, 2010.

At March 31, 2011, there was one portfolio company on non-accrual status with a fair value of zero. There were two loans on non-accrual status as of December 31, 2010 with a fair value of approximately $4.0 million.

The effective yield on our debt investments for the three month periods ended March 31, 2011 and 2010 was 18.1% and 14.5%, respectively. This yield was higher period over period due to unearned income accelerations attributed to early payoffs and due to higher interest rate yield enhancers on new loans originated in 2011 relative to the loans that have been paid off or have amortized.

The overall weighted average yield to maturity of our loan obligations was approximately 13.7% and 13.9% at March 31, 2011 and December 31, 2010. 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 18% as of March 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, PIK provisions, prepayment fees, and diligence fees, which may be required to be included in income prior to receipt.

We funded $16.1 million of equity investments, which included restructured loans investments during the three month period ended March 31, 2010.

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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 $4.8 million and $6.6 million of unamortized fees at March 31, 2011 and December 31, 2010, respectively, and approximately $5.9 million and $5.1 million in exit fees receivable at March 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 $556,000 in PIK income in the three month period ended March 31, 2011.

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 March 31, 2011, approximately 63.7% of our portfolio company loans were secured by a first priority security in all of the assets of the portfolio company, 29.4% of portfolio company loans were prohibited from pledging or encumbering their intellectual property, 6.1% of portfolio company loans were secured by a second priority security in all of the assets of the portfolio company 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.

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 March 31, 2011, we held warrants in 91 technology and life science portfolio companies, with a fair value of approximately $21.5 million. These warrant holdings would require us to invest approximately $68.1 million to exercise such warrants. 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.

Results of Operations

Comparison of the three-month periods ended March 31, 2011 and 2010

Investment Income

Interest income totaled approximately $16.5 for the three month period ended March 31, 2011, compared with $11.2 million for the three-month period ended March 31, 2010. Income from commitment, facility and loan related fees totaled approximately $2.7 million for the three-month period ended March 31, 2011, compared with $1.3 million for the same periods ended March 31, 2010, respectively. The increase in interest income is attributable to a higher average interest earning investment portfolio and income from early repayments. Income from commitment, facility and loan related fees are primarily the result of an increase in accelerated one-time and early repayment fees.

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Operating Expenses

Operating expenses, which are comprised of interest and fees, general and administrative and employee compensation, totaled approximately $9.3 million and $6.9 million during the three month periods ended March 31, 2011 and 2010, respectively

Interest and fees totaled approximately $3.2 million and $2.3 million during the three-month periods ended March 31, 2011 and 2010, respectively. This $900,000 year-over-year increase is primarily attributable to an increase in interest expense on higher borrowings under our SBA debentures and an increase in amortization of deferred financing fees associated with the early repayment of certain SBA guaranteed debentures in the quarter ended March 31, 2011.

General and administrative expenses include legal, consulting and accounting fees, insurance premiums, rent, workout and various other expenses. Expenses increased to $2.2 million from $1.9 million for the three month periods ended March 31, 2011 and 2010, respectively, primarily due to accounting, auditing and tax-related expenses.

Employee compensation and benefits totaled approximately $3.3 million and $2.2 million during the three-month periods ended March 31, 2011 and 2010, respectively. This increase is primarily due to an increase in employee headcount and increased salary as compared to the same period of 2010. We expect to continue to hire to meet growth. Stock-based compensation totaled approximately $721,000 and $457,000 during the three month periods ended March 31, 2011 and 2010, respectively. These increases were due to the expense on restricted stock grants issued in the first quarter of 2011. 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 $0.23 for the quarter ended March 31, 2011 compared to $0.16 per share in the quarter ended March 31, 2010. 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.

During the quarter ended March 31, 2011, we recognized net realized gains of approximately $151,000 from the sale of common stock in public companies, approximately $644,000 from mergers of private portfolio companies and realized losses of approximately $433,000 from equity and warrant investments in portfolio companies that have been liquidated. We recorded net gains from the sales of equity investments in two portfolio companies that totaled $9.6 million, of which InfoLogix, Inc. represented a gain of $8.3 million and Kamada, LTD. a gain of $1.3 million. These gains were partially offset by realized losses due to the write off of warrant, equity and debt investments totaling $5.2 million in one portfolio company, Trading Machines, Inc. Cumulative net realized losses on investments since October 2004 to date totals $48.5 million. When compared to total commitments of approximately $2.2 billion over the same period, the net realized loss represents approximately 2.2% of total commitments, or an annualized loss rate of approximately 33 basis points.

A summary of realized gains and losses for the three month periods ended March 31, 2011 and 2010 is as follows:

(in thousands)	Three Months Ended March 31, 2011 Amount	2010 Amount
Realized gains	$ 9,599	$ 856
Realized losses	(5,229)	(494)
Net realized gains	$ 4,370	$ 362

During the three-month periods ended March 31, 2011 and March 31, 2010, net change in unrealized depreciation totaled approximately $15.3 million and $260,000, respectively.

The change in net unrealized appreciation and depreciation of our investments is based on portfolio asset valuations determined in good faith by our Board of Directors. This change in net unrealized depreciation was primarily comprised of decreases in the fair value of our portfolio companies due to company performance and market conditions of approximately $17.9 million and the reclassification of unrealized appreciation to net realized gains of $9.4 million. For the quarter ended March 31, 2011 approximately $1.8 million, $11.4 million and $2.1 million of the net change in unrealized depreciation recognized was attributable to debt, equity and warrant investments based on company performance. Included in these amounts are unrealized depreciation of approximately $9.6 million in debt and equity investments attributable to the reversal of prior period net unrealized appreciation upon being realized as a gain and approximately $5.2 million in debt, equity and warrant investments attributable to the reversal of prior period net unrealized depreciation upon being realized as a loss. As of March 31, 2011, the net change in unrealized appreciation recognized by the Company was increased by approximately $37,000 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.

The following table itemizes the change in net unrealized depreciation of investments for the three-month periods ended March 31, 2011 and 2010:

(in thousands)	Three Months Ended March 31, 2011 Amount	2010 Amount
Gross unrealized appreciation on portfolio investments	$ 6,340	$ 10,596
Gross unrealized depreciation on portfolio investments	(17,889)	(11,823)
Reversal of prior period net unrealized appreciation upon realization	(9,446)	928
Reversal of prior period net unrealized depreciation upon realization	5,606	
Citigroup Warrant Participation	37	38
Net increase (decrease) in unrealized depreciation on portfolio investments	$ (15,352)	$ (260)

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 months ended March 31, 2011, the net decrease in net assets resulting from operations totaled approximately $1.2 million. For the three-months ended March 31, 2010 the net increase in net assets resulting from operations totalled approximately $5.7 million. These changes are made up of the items previously described.

Basic and fully diluted net change in net assets per common share for the three month periods ended March 31, 2011 and 2010 was $(0.03) and $0.16, respectively.

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.

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.

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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 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

For a more detailed discussion, see the discussion set forth under Critical Accounting Policies Valuation of Portfolio Investments.

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.

Comparison of periods ended December 31, 2009 and 2008

Investment Income

Interest income totaled approximately $62.2 million and $67.3 million for 2009 and 2008, respectively. The decrease in interest income was directly related to decreases in investment assets. In 2009 and 2008, interest income included approximately $6.7 million and $4.3 million of income from accrued exit fees. Income from commitment, facility and loan related fees such as amendment fees and pre-payment penalties totaled approximately $12.1 million and $8.6 million for 2009 and 2008, respectively. At December 31, 2009 and 2008, we had approximately $2.4 million and $6.9 million of deferred income related to commitment and facility fees, respectively. The decrease in deferred income was attributed to the amortization of fee income and the lower deferred income due to lower investment originations.

Operating Expenses

Operating expenses totaled approximately $31.2 million and $35.9 million during 2009 and 2008, respectively. Operating expenses for the years ended December 31, 2009 and 2008 included interest expense, loan fees and unused commitment fees of approximately $11.3 and $15.8 million, respectively. The 28.6% decrease in interest expense was primarily due to lower outstanding loan balances on our credit facilities and lower cost of financing. The average debt balance outstanding in 2009 is $147.4 million as compared to $196.9 million in 2008. The weighted average cost of debt was approximately 7.7% at December 31, 2009 as compared to 8.0% at December 31, 2008. Employee compensation and benefits were approximately $10.7 million and $11.6 million during 2009 and 2008, respectively. General and administrative expenses include legal and accounting fees, insurance premiums, rent and various other expenses totaling $7.3 million and $6.9 million in 2009 and 2008 respectively.

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, 2009 totaled $43.1 as compared with a net investment income before income tax expense in 2008 of approximately $40.0 million. This change is made up of the items described above.

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Net Investment Realized Gains and Losses and Unrealized Appreciation and Depreciation

In 2009, we generated realized gains totaling approximately $3.7 million 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 sixteen portfolio companies. We recognized realized gains of approximately $6.9 million during the year ended December 31, 2008 from the sale of common stock of nine portfolio companies. We recognized realized losses in 2008 of approximately $4.3 million on the disposition of investments in ten portfolio companies. A summary of realized gains and losses for the years end December 31, 2009 and 2008 is as follows:

	December 31,	
(in thousands)	**2009**	**2008**
Realized gains	$ 3,738	$ 6,925
Realized losses.	(34,539)	$ (4,282)
Net realized (losses)	$ (30,801)	$ 2,643

For the year ended December 31, 2009, net unrealized investment depreciation totaled approximately $1.3 million and for the year ended December 31, 2008, net unrealized appreciation totaled approximately $21.4 million. The net unrealized appreciation and depreciation of investments is based on portfolio asset valuations determined in good faith by our Board of Directors. As of December 31, 2009, the net unrealized investment appreciation recognized by the company was reduced by approximately $29,000 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 2009 and 2008:

	December 31,	
(in thousands)	**2009**	**2008**
Gross unrealized appreciation on portfolio investments	$ 42,272	$ 6,139
Gross unrealized depreciation on portfolio investments	(73,969)	(25,250)
Reversal of prior period net unrealized appreciation upon a realization event	32,937	(2,458)
Citigroup Warrant Participation	29	143
Net unrealized appreciation/(depreciation) on portfolio investments	$ 1,269	$ (21,426)

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.

Through December 31, 2005 we were taxed under Subchapter C of the Code. We elected to be treated as a RIC under Subchapter M of the Code with the filing of our 2006 federal income tax return. Provided we continue to qualify as a RIC, our income generally will not be subject to federal income or excise taxes to the extent we make the requisite distributions to stockholders. At December 31, 2009, zero excise tax provision was recorded since we have paid out distributable earnings. See Certain United States Federal Income Tax Considerations. Of the dividends declared during the year ended December 31, 2009, 100% was comprised of ordinary income. In 2008, of the dividends paid, $1.23 was comprised of ordinary income and $0.09 was comprised of capital gains.

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

For the year ended December 31, 2009, net income totaled approximately $13.6 million compared to net income of approximately $21.0 million for the period ended December 31, 2008. These changes are made up of the items previously described.

Basic and fully diluted net change in net assets per common share were $0.38 and $0.37, respectively, for the year ended December 31, 2009, compared to both basic net and fully diluted net income per share of $0.64 for the year ended December 31, 2008.

Financial Condition, Liquidity and Capital Resources

At March 31, 2011, we had approximately $114.4 million in cash and cash equivalents and available borrowing capacity of approximately $50.0 million under the Wells Facility, $20.0 million under the Union Bank Facility and $36.25 million under the SBA program, subject to existing terms and advance rates and regulatory requirements. We primarily invest cash on hand in interest bearing deposit accounts.

As of March 31, 2011, net assets totaled $403.2 million, with a net asset value per share of $9.20. 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. Additionally, 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 2010 Annual Shareholder Meeting held on June 9, 2010, our shareholders 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. 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. Our asset coverage as of March 31, 2011 was 0%, excluding SBA leverage, based on our exemptive order from the SEC which allows us to exclude all SBA leverage from our asset coverage ratio. Total leverage when excluding the SEC exemptive order is approximately 350.8% at March 31, 2011. Total leverage including our SBIC debentures is approximately 40.4% at March 31, 2011.

At March 31, 2011 and December 31, 2010, we had the following borrowing capacity and outstanding amounts:

	March 31, 2011		December 31, 2010	
	Facility Amount	Amount Outstanding	Facility Amount	Amount Outstanding
Union Bank Facility	$ 20,000	$	$ 20,000	$
Wells Facility	50,000		50,000	
SBA Debenture[(1)]	200,000	163,750	225,000	170,000

Total	$ 270,000	$ 163,750	$ 295,000	$ 170,000

(1) The Company has the ability to borrow $36.25 million subject to SBA approval and compliance with SBIC regulations. In April 2011, the SBA approved a $25.0 million commitment request.

On September 27, 2006, HT II received a license and on May 26, 2010 HT III received a license to operate as Small Business Investment Companies under the SBIC program and are able to borrow funds from the SBA against eligible investments. As of March 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 March 31, 2011 as a result of having sufficient capital as defined under the SBA regulations. The portfolios of HT II and HT III accounted for approximately 52.0% of our total portfolio at March 31, 2011.

With our net investment of $75.0 million in HT II as of March 31, 2011, HT II has the capacity to issue a total of $150.0 million of SBA guaranteed debentures, of which $125.0 million was outstanding following a repayment of $25.0 million on debentures in January 2011. As of March 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 March 31, 2011, we held investments in HT II in 54 companies with a fair value of approximately $158.6 million, accounting for approximately 35.6% of our total portfolio at March 31, 2011.

As of March 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 March 31, 2011, HT III had the potential to borrow up to $75.0 million of SBA-guaranteed debentures under the SBIC program. With our net investment of $37.5 million in HT III as of March 31, 2011, HT III has the capacity to issue a total of $75.0 million of SBA guaranteed debentures, subject to SBA approval, of which $38.75 million was outstanding at March 31, 2011. As of March 31, 2011, HT III has paid the SBA commitment fees of approximately $750,000. As of March 31, 2011, we held investments in HT III in 11 companies with a fair value of approximately $73.5 million accounting for approximately 16.5% of our total portfolio at March 31, 2011. 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. See Subsequent Events.

Current Market Conditions

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.

At the same time, 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 invest in the structured lending market for technology-related companies. Today s economy creates potentially new attractive lending opportunities and we believe that the market for technology-related companies in 2011 is improving as evidenced by the improved IPO market in 2010 and 2011 as compared to the previous two years.

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We may acquire a portfolio of investments or sell a portion of our portfolio on an opportunistic basis. We, from time to time, engage in discussions with counterparties in respect of various potential transactions. 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 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.

We periodically review and assess investment portfolio acquisition opportunities of target companies that would be accretive to us. In the future, we may determine to acquire such portfolios which could affect our liquidity position and necessitate our need to raise additional capital to fund our growth.

Off Balance Sheet Arrangements

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 origination activity unfunded commitments may be significant from time to time. As of March 31, 2011, we had unfunded commitments of approximately $131.1 million. 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 and our Union Bank Facility 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 $73.0 million of non-binding term sheets outstanding, which generally convert to contractual commitments within approximately 45 to 60 days of signing. Non-binding outstanding term from prior release 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 March 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]	$ 163,750	$	$	$	$ 163,750
Operating Lease Obligations[4]	3,070	1,211	1,859		
Total	$ 166,820	$ 1,211	$ 1,859	$	$ 163,750

(1) Excludes commitments to extend credit to our portfolio companies.
(2) We also have a warrant participation obligation with Citigroup. See Note 4 to the Consolidated Financial Statements.
(3) Includes borrowings under the SBA debentures. There were no outstanding borrowings under the Wells Facility or the Union Bank Facility at March 31, 2011.
(4) Long-term facility leases.

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

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Borrowings

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 the normal terms. During the first quarter of 2009, we paid off all remaining 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 $444,000 as of March 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.

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 March 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. The Company s net investment of $75.0 million in HT II as of March 31, 2011 fully funds the required regulatory capital for HT II. In January 2011, HT II repaid $25.0 million of debentures. HT II has a total of $125.0 million of SBA guaranteed debentures outstanding as of March 31, 2011 and has paid the SBA commitment fees of approximately $1.5 million. As of March 31, 2011, the Company held investments in HT II in 54 companies with a fair value of approximately $158.6 million, accounting for approximately 35.6% 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 $37.5 million in HT III as of March 31, 2011, HT III has the capacity to issue a total of $75.0 million of SBA guaranteed debentures, subject to SBA approval, of which $38.75 million was outstanding as of March 31, 2011. As of March 31, 2011, HT III has paid commitment fees of approximately $750,000. 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. As of March 31, 2011, the Company held investments in HT III in 11 companies with a fair value of approximately $73.5 million, accounting for approximately 16.5% of the Company s total portfolio.

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 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 March 31, 2011 as a result of having sufficient capital as defined under the SBA regulations. As of March 31, 2011, HT II and HT III could draw up to $25.0 million and $36.25 million, respectively, of additional leverage from SBA.

The rates of borrowings under various draws from the SBA beginning in April 2007 are set semiannually in March and September and range from 3.22% 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 fee related to HT III debentures that pooled on March 29, 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 quarter ended March 31, 2011 for HT II was approximately $126.9 million with an average interest rate of approximately 5.0%. The average amount of debentures outstanding for the quarter ended March 31, 2011 for HT III was approximately $37.5 million with an average interest rate of approximately 4.08%.

During the quarter ended March 31, 2011, we repaid $25.0 million of SBA debentures under our first SBIC license. On April 27, 2011, we received approval from the SBA to borrow $25.0 million under a new capital commitment. See Subsequent Events.

Wells Facility

On August 25, 2008, Hercules, through a special purpose wholly-owned subsidiary, Hercules Funding II, LLC, entered into a two-year revolving senior secured credit facility with an optional one-year extension with total commitments of $50 million, with Wells Fargo Capital Finance as a lender and as an arranger and administrative agent (the Wells Facility). The Wells Facility has the capacity to increase to $300 million if additional lenders are added to the syndicate. We continue to be in discussions with various other potential lenders to join the facility; however, there is no assurance that additional lenders may join the facility. The Wells Facility expires in August 2011.

Borrowings under the Wells Facility will generally bear interest at a rate per annum equal to LIBOR plus 3.25% or PRIME plus 2.0%, but not less than 5.0%. The Wells Facility requires the payment of a non-use fee of 0.3% annually. The Wells 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 Wells Facility generally requires payment of interest on a monthly basis. All outstanding principal is due upon maturity. We have paid a total of $1.1 million in structuring fees in connection with the Wells Facility which is being amortized through August 2011. There was no outstanding debt under the Wells Facility at March 31, 2011.

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The Wells Facility includes various financial and operating covenants applicable to the Company and its 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 of $250 million, contingent upon our total commitments under all lines of credit not exceeding $250 million. To the extent our total commitments exceeds $250 million, the minimum tangible net worth covenant will increase on a pro rata basis commensurate with our net worth on a dollar for dollar basis. 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 March 31, 2011.

During March 2011, we received a commitment to renew the Wells Facility. Under this three-year senior secured facility, Wells Fargo Capital Finance and the Royal Bank of Canada (RBC) have made commitments of $75.0 million and $25.0 million, respectively. Borrowings under the facility are expected to be at an interest 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 facility will be secured by loans in the borrowing base. 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 RBC 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 new credit facility. This new arrangement will replace the existing $300 million Wells Facility under which Wells Fargo Capital Finance had committed $50 million in capital and is subject to customary closing conditions and completion of legal documentation. We expect the covenants and events of default to be consistent with our existing Wells Facility. No assurance can be given that Wells Fargo Capital Finance, RBC and Hercules will execute definitive documentation, that the definitive documentation will reflect the terms described herein or that the facility will be entered into at all.

Once the Wells Facility is renewed, we anticipate incurring a non-use fee expense of approximately $200,000 or $0.005 per share per quarter until we borrow under the facility. In total, we expect the expense from the Convertible Senior Notes and facility fees to negatively impact earnings in the near term by approximately $1.5 million or $0.04 per quarter until any of the capital is deployed. See Subsequent Events.

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). 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%, an advance rate of 50% against eligible loans, and secured by loans in the borrowing base. At March 31, 2011, there were no borrowings outstanding on this facility. The Union Bank Facility requires the payment of a nonuse 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 generally requires payment of interest on a monthly basis. All outstanding principal is due upon maturity. In February 2011, the maturity date of the facility was extended from May 1, 2011 to July 31, 2011. The Union Bank Facility includes various financial and operating covenants. These covenants require us to maintain certain financial ratios and a minimum tangible net worth. The Union Bank Facility provides for customary events of default, including, but not limited to, payment defaults, breech of representations or covenants, bankruptcy events and change of control.

Outstanding Borrowings

At March 31, 2011 and December 31, 2010, we had the following borrowing capacity and outstanding borrowings:

	March 31, 2011		December 31, 2010	
	Facility Amount	Amount Outstanding	Facility Amount	Amount Outstanding
Union Bank Facility	$ 20,000	$	$ 20,000	$
Wells Facility	50,000		50,000	
SBA Debenture[1]	200,000	163,750	225,000	170,000
Total	$ 270,000	$ 163,750	$ 295,000	$ 170,000

(1) The Company has the ability to borrow $36.25 million subject to SBA approval and compliance with SBIC regulations. In April 2011, the SBA approved a $25.0 million commitment request. See Subsequent Events.

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	$ 0.025
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 19, 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 13, 2011	June 23, 2011	0.220

	$	6.245

* Dividend paid in cash and stock.

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On May 5, 2011, the Board of Directors announced a cash dividend of $0.22 per share to be paid on June 23, 2011 to shareholders of record as of May 13, 2011. This dividend is the Company s twenty-third consecutive quarterly dividend declaration since its initial public offering, and will bring the total cumulative dividend declared to date to $6.25 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 2011 distributions to stockholders. If we had determined the tax attributes of our distributions year-to-date as of March 31, 2011, approximately 91% would be from ordinary income and spillover earnings from 2010, and 9% would be a return of capital.

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.

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 March 31, 2011, approximately 77.5% 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, life science and clean 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 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 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 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 excluding its interest rate sensitivity analysis, which was replaced by the hypothetical market participant method, as discussed above. 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. 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 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 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 equity related. 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 March 31, 2011, we had one portfolio company on non-accrual status with a fair value of zero. There were two loans on non-accrual status with a fair value of approximately $4.0 million as of December 31, 2010.

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 three-month periods ended March 31, 2011 and 2010, approximately $1.8 million and $1.7 million, respectively, in PIK and end of term income was recorded.

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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.

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, 2010 and 2009, no excise tax was recorded. At December 31, 2008, we recorded a liability for excise tax of approximately $203,000 on income and capital gains of approximately $5.0 million which was distributed in 2009. 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 January 2010, the FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures* (ASU 2010-06), which amends ASC 820 and requires additional disclosure related to recurring and nonrecurring fair value measurements with respect to transfers in and out of Levels 1 and 2 and activity in Level 3 fair value measurements. The update also clarifies existing disclosure requirements related to the level of disaggregation and disclosure about inputs and valuation techniques. ASU 2010-06 is effective for interim and annual periods beginning after December 15, 2009 except for disclosures related to activity in Level 3 fair value measurements which are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. The Company adopted the requirements of ASU-2010-06 in the fourth quarter of 2009 and its adoption did not have a material effect on our consolidated financial statements.

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Subsequent Events

Closed and Pending Commitments

As of May 5, 2011, we have closed commitments of approximately $51.5 million to new and existing portfolio companies, and funded approximately $39.0 million since the close of the first quarter. In addition, we have pending commitments (signed term sheets) of approximately $57.0 million.

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

2011 Closed Commitments and Pending Commitments (dollars in millions)	
Closed Commitments, January 1, 2011 - March 31, 2011	$ 98.0
Closed Commitments, April 1, 2011 - May 5, 2011	51.5
Total 2011 Closed Commitments(a)	**149.5**
Pending Commitments (as of May 5, 2011)(b)	57.0
Total	**$ 206.5**

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.

SBA Facility

In April 2011, the Company received approval from the SBA to borrow $25.0 million under a new capital commitment under its second license held by HT III. This commitment allows the Company to borrow to the maximum of $225.0 million under two SBIC licenses, subject to SBA approval.

Convertible Debt Offering

In April 2011, the Company issued and priced $75.0 million in aggregate principle amount of 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 in respect of the Company, holders of 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.

In accounting for the Convertible Senior Notes, the Company estimated that the values of the debt and equity components of the notes were approximately 92.8% and 7.2%, respectively. The original issue discount equal to the estimated equity component of 7.2% of the Convertible Senior Notes will initially be recorded in capital in excess of par value in the consolidated statement of assets and liabilities. As a result, the Company will 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%.

Portfolio Company Developments

In April 2011, two additional portfolio companies, BrightSource Energy, Inc. and Wageworks, Inc., filed their S-1 registration statements to complete their respective IPOs. The pricing range for these two companies is not currently available. In total, as of May 9, 2011, the Company holds investments in five companies in IPO registration. There can be no assurances that these companies will complete their IPOs in a timely manner or at all.

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 March 31, 2011, approximately 88.2% of our portfolio loans were at variable rates or variable rates with a floor and 11.8% 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 three-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 3.22% 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 March 29, 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, 2010 for HT III was approximately $13.9 million with an average interest rate of approximately

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3.215%. 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.

Interest is payable semi-annually 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 3.25% or PRIME plus 2.0%, but not less than 5.0%. The Wells Facility requires the payment of a non-use fee of 0.3% annually. 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. All outstanding principal is due upon maturity. There were no borrowings outstanding under this facility at March 31, 2011. The facility expires in August 2011.

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%, an advance rate of 50% against eligible loans, and secured by loans in the borrowing base. The Union Bank Facility requires the payment of a 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 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 March 31, 2011. In February 2011, the maturity date under the credit facility was extended from May 1, 2011 to July 31, 2011, subject to the same terms and conditions.

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 carried out an evaluation, under the supervision and with the participation of its management, including its Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer), of the effectiveness of the design and operation of these disclosure controls and procedures, as such term is defined in Exchange Act Rules 13a-15(e) and 15d-15(e), as of March 31, 2011. Based on this evaluation, the Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer) concluded that its disclosure controls and procedures were not effective as of as of March 31, 2011, the end of the period covered by its Quarterly Report on Form 10-Q, due to the material weakness described below involving investment portfolio holdings.

In light of this material weakness, the Company refined its procedures to ensure its financial statements were prepared in accordance with generally accepted accounting principles. The status of the remediation efforts, as discussed below, was regularly reviewed with management and the Company s Audit Committee of the Board of Directors. The Audit Committee was advised of issues encountered and key decisions reached by management relating to the remediation efforts. Accordingly, management believes that the financial statements included in its Quarterly Report on Form 10-Q and this Registration Statement present fairly in all material respects the Company s financial condition, results of operations and cash flows for the periods presented.

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Changes in Internal Control Over Financial Reporting

As described in Item 9A of the Company s Annual Report on Form 10-K for the year ended December 31, 2010, management identified remedial steps that were implemented with respect to a disclosed material weakness. The Company refined its procedures to ensure its financial statements were prepared in accordance with generally accepted accounting principles. During the three month period ended December 31, 2010, and in connection with the year-end audit process, the Company corrected the valuation process to refine its application of ASC 820. The Company applied a new procedure that assumes a sale of an 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 the new process, the Company has continued to evaluate the collateral for recoverability of the debt investments as well as apply all of its historical fair value analysis excluding its interest rate sensitivity analysis, which was replaced by the hypothetical market participant method. 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. 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 has completed its evaluation and testing of these additional processes.

As of March 31, 2011, management has evaluated the remedial action, assessed the operating effectiveness of the remediated controls and concluded that it has remediated the material weakness described above.

In connection with the preparation of the Company s Consolidated Financial Statements for the three-month period ended March 31, 2011, the Company identified a material weakness in its internal control over financial reporting. A material weakness is a deficiency, or combination of control deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the registrant s annual or interim financial statements will not be prevented or detected on a timely basis. 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. This control deficiency could result in misstatements of the aforementioned accounts and disclosures that would result in a material misstatement of the consolidated financial statements that would not be prevented or detected. Because of this material weakness, management concluded that the Company did not maintain effective control over financial reporting as of March 31, 2011. The Company has corrected the valuation process to refine its application of valuation procedures and believes that the Consolidated Financial Statements included in its Quarterly Report and this Registration Statement reflect the fair value of its portfolio investments in all material respects.

Remediation Efforts

The Company has designed its remediation efforts, as outlined below, to address the material weakness identified as of March 31, 2011 and to strengthen its internal control over financial reporting. Beginning in the second quarter of 2011 the Company has implemented the following remediation steps to address the material weakness as it relates to manual input errors in calculations used and to improve its internal control over financial reporting:

- adding additional layers of review to ensure accuracy, existence and completeness of the number of equity security holdings as of the measurement date;

adding additional review steps, particularly surrounding any manually input data, in the calculations used to support the fair value of investments as of the measurement date; and

seeking to recruit additional experienced professionals to augment and upgrade its financial staff to address issues of timeliness and completeness in financial reporting.

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The Company s consolidated financial statements for the quarter ended March 31, 2011 reflect the debt, equity and warrant portfolio investment holdings fair value. In connection with the preparation of the Company s Consolidated Financial Statements as of and for the three-month period ended March 31, 2011, the Company recorded additional unrealized depreciation on its investments subsequent to the preparation and review of management s valuation materials. The Company subsequently evaluated and corrected the error in the affected period, March 31, 2011, in accordance with U.S. generally accepted accounting principles. Management believes that the remediation steps above will enhance the internal control procedures in order to effectively remediate such deficiency in the Company s internal control processes related to such calculations. In addition, the Company conducted additional reviews of the portfolio investment listing and found no differences to balances previously reported.

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 lower middle market companies. 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. We source our investments through our principal office located in Silicon Valley, as well as our additional offices in Boston and Boulder.

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 March 31, 2011, we held investments in HT II in 54 companies with a fair value of approximately $158.6 million. HT II s portfolio companies accounted for approximately 35.6% of our total portfolio at March 31, 2011. As of March 31, 2011, we held investments in HT III in 11 companies with a fair value of approximately $73.5 million. HT III s portfolio accounted for approximately 16.5% of our total portfolio at March 31, 2011.

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 companies active in the technology, clean technology and life-science industries 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 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 sciences. Within the life sciences 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 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. Since 2007, 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 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.

Current Market Conditions

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.

At the same time, 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 in 2010 as compared to 2009. Therefore, to the extent we have capital available, we believe this is an opportune time to invest in the structured lending market for technology-related companies. Today s economy creates potentially new attractive lending opportunities and we believe that the market for technology-related companies in 2011 is improving as evidenced by the improved IPO market in 2010 as compared to the previous two years.

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 treated as a business development company under the Investment Company Act of 1940 Act. As a business development company, we are required to meet various regulatory tests. A business development company is required to invest at least 70% of its total assets in qualifying assets, including securities of private and thinly traded public 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, and any preferred stock we may issue in the future, of at least 200% subsequent to each borrowing or issuance of senior securities. See Regulation .

From incorporation through December 31, 2005, we were taxed as a corporation under Subchapter C of the Internal Revenue Code of 1986 or as amended (the Code). We have elected to be treated for federal income tax purposes as a regulated investment company, or RIC, under the Code. In order to continue to qualify as a RIC for federal income tax purposes, we must meet certain requirements, including certain minimum distribution requirements. See Certain United States Federal Income Tax Considerations.

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 additional offices in Boston, Boulder and Chicago. 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 as part of this

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Prospectus. Our annual reports on Form 10-K, quarterly reports on Form 10-Q and our current reports on Form 8-K, as well as any amendments to those reports, are available free of charge through our website as soon as reasonably practicable after we file them with the Securities and Exchange Commission (SEC). These reports are also available on the SEC s website at www.sec.gov.

We may acquire a portfolio of investments or sell a portion of our portfolio on an opportunistic basis. We, from time to time, engage in discussions with counterparties in respect of various potential transactions. 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 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.

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, particularly due to the recent credit market dislocation and 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 three months of 2011, venture capital-backed companies received, in approximately 661 transactions, equity financing in an aggregate amount of approximately $6.4 billion, representing a 33.3% increase from the first three months of 2010, as reported by Dow Jones VentureSource. In addition, overall, the median round size in the first three months of 2011 was approximately $5.0 million, up from $4.5 million in 2010. We believe the larger number of companies provides us a greater opportunity to provide debt financing to these venture backed companies. Overall, seed and first-round deals made up 40% of the deal flow in the first three months of 2011, and later-stage deals made up roughly 40% of all capital invested.

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 during 2008 and 2009. 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 in 2011. In addition, lending requirements of traditional lenders have become more stringent due to the significant write-offs in the financial services sector, the re-pricing of credit risk in the broadly syndicated market and the financial turmoil affecting the banking system and financial market, which have negatively impacted the debt and equity capital market in the United States and most other markets. At the same time, the venture capital market for the technology-related companies in which we invest has continued to be active. Therefore, to the extent we have capital available, we believe this is an opportune time to be active in the structured lending market for technology-related companies.

Structured Debt with Warrants Products Complement Equity Financing From Venture Capital and Private Equity Funds. We believe that technology-related companies and their financial sponsors will continue to view structured debt securities as an attractive source of capital because it augments the capital provided by venture capital and private equity funds. We believe that our structured debt with warrants 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, at Hercules, our team members have originated structured debt, debt with warrants and equity investments in over 150 technology-related companies, representing over $2.2 billion in commitments from inception to March 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 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 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 March 31, 2011, our proprietary SQL-based database system included over 20,000 technology-related companies and approximately 4,800 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 18% as of March 31, 2011. As of March 31, 2011, 88.2% of our loans were at variable rates or variable rates with a floor and 11.8% 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, 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 and facility fees.

In addition, the majority of our venture capital-backed companies structured debt investments 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 18% and may include an additional end-of-term payment or PIK (Paid in Kind), and are in an amount between $1.0 million and $25.0 million. 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, carry a contractual interest rate between PRIME and PRIME plus 10%, 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 March 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 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. During 2010, we began increasing our investments in lower middle market companies that may be or are approaching an operational level where they are EBITDA positive and possibly cash flow positive thereby decreasing their reliance on additional venture capital or private equity investments. At March 31, 2011, our investments in lower middle market companies accounted for approximately 30% of our total investments.

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 began shifting 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 to any warrants or other equity securities that we may acquire in connection with an investment in debt securities.

Operating Plan. We generally require that a prospective portfolio company, in addition to having potential access to capital to support leverage, demonstrate an operating plan capable of generating cash flows or the ability to potentially raise the additional capital necessary to cover its operating expenses and service its debt for a specific period. Specifically, we require that a prospective portfolio company demonstrate at the time of our proposed investment that it has cash on its balance sheet, or is in the process of completing a financing so that it will have cash on its balance sheet, sufficient to support its operations for a minimum of three to nine months.

Security Interest. In many instances we seek a first priority security interest in all of the portfolio company s tangible and intangible assets as collateral for our debt investment, subject in some cases to permitted exceptions. In other cases we may obtain a negative pledge prohibiting a company from pledging or otherwise encumbering their intellectual property. Although we do not intend to operate as an asset-based lender, the estimated liquidation value of the assets, if any, collateralizing the debt securities that we hold is an important factor in our credit analysis and subject to assumptions that may change over the life of the investment especially when attempting to estimate the value of intellectual property. We generally evaluate both tangible assets, such as accounts receivable, inventory and equipment, and intangible assets, such as intellectual property, customer lists, networks and databases.

Covenants. Our investments may include one or more of the following covenants; cross-default, or material adverse change provisions, require the portfolio company to provide periodic financial reports and operating metrics and will typically limit the portfolio company s ability to incur additional debt, sell assets, dividend recapture, engage in transactions with affiliates and consummate an extraordinary transaction, such as a merger or recapitalization without our consent. In addition, we may require other performance or financial based covenants, as we deem appropriate.

Exit Strategy. Prior to making a debt investment that is accompanied by an equity-related security in a prospective portfolio company, we analyze the potential for that company to increase the liquidity of its equity through a future event that would enable us to realize appreciation in the value of our equity interest. Liquidity events may include an initial public offering, a private sale of our equity interest to a third party, a merger or an acquisition of the company or a purchase of our equity position by the company or one of its stockholders.

Investment Process

We have organized our management team around the four key elements of our investment process:

Origination;

Underwriting;

Documentation; and

Loan and Compliance Administration.

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Our investment process is summarized in the following chart:

Origination

The origination process for our investments includes sourcing, screening, preliminary due diligence and deal structuring and negotiation, all leading to an executed non-binding term sheet. Our investment origination team, which consists of approximately 26 investment professionals, is headed by our Senior Managing Directors of Technology and Life Science, and our Chief Executive Officer. The origination team is responsible for sourcing potential investment opportunities and members of the investment origination team use their extensive relationships with various leading financial sponsors, management contacts within technology-related companies, trade sources, technology conferences and various publications to source prospective portfolio companies. Our investment origination team is divided into middle market, technology and life sciences sub-teams to better source potential portfolio companies.

In addition, we have developed a proprietary and comprehensive SQL-based database system to track various aspects of our investment process including sourcing, originations, transaction monitoring and post-investment performance. As of March 31, 2011, our proprietary SQL-based database system included over 20,000 technology-related companies and approximately 4,800 venture capital private equity sponsors/investors, as well as various other industry contacts. This proprietary SQL system allows our origination team to maintain, cultivate and grow our industry relationships while providing our origination team with comprehensive details on companies in the technology-related industries and their financial sponsors.

If a prospective portfolio company generally meets certain underwriting criteria, we perform preliminary due diligence, which may include high level company and technology assessments, evaluation of its financial sponsors support, market analysis, competitive analysis, identify key management, risk analysis and transaction size, pricing, return analysis and structure analysis. If the preliminary due diligence is satisfactory, and the origination team recommends moving forward, we then structure, negotiate and execute a non-binding term sheet with the potential portfolio company. Upon execution of a term sheet, the investment opportunity moves to the underwriting process to complete formal due diligence review and approval.

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Underwriting

The underwriting review includes formal due diligence and approval of the proposed investment in the portfolio company.

Due Diligence. Our due diligence on a prospective investment is typically completed by two or more investment professionals whom we define as the underwriting team. The underwriting team for a proposed investment consists of the deal sponsor who typically possesses general industry knowledge and is responsible for originating and managing the transaction, other investment professional(s) who perform due diligence, credit and corporate financial analyses and, as needed, our Chief Legal Officer and other legal professionals. To ensure consistent underwriting, we generally use our standardized due diligence methodologies, which include due diligence on financial performance and credit risk as well as an analysis of the operations and the legal and applicable regulatory framework of a prospective portfolio company. The members of the underwriting team work together to conduct due diligence and understand the relationships among the prospective portfolio company s business plan, operations and financial performance.

As part of our evaluation of a proposed investment, the underwriting team prepares an investment memorandum for presentation to the investment committee. In preparing the investment memorandum, the underwriting team typically interviews with select key management of the company and select financial sponsors and assembles information necessary to the investment decision. If and when appropriate, the investment professionals may also contact industry experts and customers, vendors or, in some cases, competitors of the company.

Approval Process. The sponsoring managing director or principal presents the investment memorandum to our investment committee for consideration. The approval of a majority of our investment committee and an affirmative vote by our Chief Executive Officer is required before we proceed with any investment. The members of our investment committee are our Chief Executive Officer, our Chief Legal Officer, our Chief Financial Officer, our Chief Credit Officer and the Senior Managing Directors of Technology and Life Science. The investment committee generally meets weekly and more frequently on an as-needed basis. The Senior Managing Directors abstain from voting with respect to investments they originate.

Documentation

Our documentation group, headed by our Chief Legal Officer, administers the front-end documentation process for our investments. This group is responsible for documenting the term sheet approved by the investment committee to memorialize the transaction with a prospective portfolio company. This group negotiates loan documentation and, subject to the approval of the Chief Legal Officer and/or the Associate General Counsel, final documents are prepared for execution by all parties. The documentation group generally uses the services of external law firms to complete the necessary documentation.

Loan and Compliance Administration

Our loan and compliance administration group, headed by our Chief Financial Officer and Senior Credit Officer, administers loans and tracks covenant compliance, if applicable, of our investments and oversees periodic reviews of our critical functions to ensure adherence with our internal policies and procedures. After funding of a loan in accordance with the investment committee s approval, the loan is recorded in our loan administration software and our SQL-based database system. The loan and compliance administration group is also responsible for ensuring timely interest and principal payments and collateral management as well as advising the investment committee on the financial performance and trends of each portfolio company, including any covenant violations that occur, to aid us in assessing the appropriate course of action for each portfolio company and evaluating overall portfolio quality. In addition, the loan and compliance administration group advises the investment committee and the Valuation Committee of our Board of Directors, accordingly, regarding the credit and investment grading for each portfolio company as well as changes in the value of collateral that may occur.

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The loan and compliance administration group monitors our portfolio companies in order to determine whether the companies are meeting our financing criteria and their respective business plans and also monitors the financial trends of each portfolio company from its monthly or quarterly financial statements to assess the appropriate course of action for each company and to evaluate overall portfolio quality. In addition, our management team closely monitors the status and performance of each individual company through our SQL-based database system and periodic contact with our portfolio companies management teams and their respective financial sponsors.

Credit and Investment Grading System. Our loan and compliance administration group uses an investment grading system to characterize and monitor our outstanding loans. Our loan and compliance administration group monitors and, when appropriate, recommends changes to investment grading. Our investment committee reviews the recommendations and/or changes to the investment grading, which are submitted on a quarterly basis to the Valuation Committee and our Board of Directors for approval.

From time to time, we will identify investments that require closer monitoring or become workout assets. We develop a workout strategy for workout assets and our investment committee monitors the progress against the strategy. We will incur losses from our investing activities, however, we work with our troubled portfolio companies in order to recover as much of our investments as is practicable, including possibly taking control of the portfolio company. There can be no assurance that principal will be recovered.

We use the following investment grading system approved by our Board of Directors:

Grade 1.	Loans involve the least amount of risk in our portfolio. The borrower is performing above expectations, and the trends and risk profile is generally favorable.
Grade 2.	The borrower is performing as expected and the risk profile is neutral to favorable. All new loans are initially graded 2.
Grade 3.	The borrower may be performing below expectations, and the loan s risk has increased materially since origination. We increase procedures to monitor a borrower that may have limited amounts of cash remaining on the balance sheet, is approaching its next equity capital raise within the next three to six months, or if the estimated fair value of the enterprise may be lower than when the loan was originated. We will generally lower the loan grade to a level 3 even if the company is performing in accordance to plan as it approaches the need to raise additional cash to fund its operations. Once the borrower closes its new equity capital raise, we may increase the loan grade back to grade 2.
Grade 4.	The borrower is performing materially below expectations, and the loan risk has substantially increased since origination. Loans graded 4 may experience some partial loss or full return of principal but are expected to realize some loss of interest which is not anticipated to be repaid in full, which, to the extent not already reflected, may require the fair value of the loan to be reduced to the amount we anticipate will be recovered. Grade 4 investments are closely monitored.
Grade 5.	The borrower is in workout, materially performing below expectations and a significant risk of principal loss is probable. Loans graded 5 will experience some partial principal loss or full loss of remaining principal outstanding is expected. Grade 5 loans will require the fair value of the loans be reduced to the amount, if any, we anticipate will be recovered.

At March 31, 2011, our investments had a weighted average investment grading of 2.44.

Managerial Assistance

As a business development company, we are required to offer, and provide upon request, managerial assistance to our portfolio companies. This assistance could involve, among other things, monitoring the operations of our portfolio companies, participating in board and management meetings, consulting with and advising officers of portfolio companies and providing other organizational and financial guidance. We may receive fees for these services.

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Competition

Our primary competitors provide financing to prospective portfolio companies and include non-bank financial institutions, federally or state chartered banks, venture debt funds, financial institutions, venture capital funds, private equity funds, investment funds and investment banks. Many of these entities have greater financial and managerial resources than we have, and the 1940 Act imposes certain regulatory restrictions on us as a business development company to which many of our competitors are not subject. However, we believe that few of our competitors possess the expertise to properly structure and price debt investments to venture capital and private equity backed technology-related companies. We believe that our specialization in financing technology-related companies will enable us to determine a range of potential values of intellectual property assets, evaluate the business prospects and operating characteristics of prospective portfolio companies and, as a result, identify investment opportunities that produce attractive risk-adjusted returns. For additional information concerning the competitive risks we face, see Risk Factors Risks Related to our Business Structure and Current Economic and Market Conditions We operate in a highly competitive market for investment opportunities, and we may not be able to compete effectively.

Corporate Structure

We are a Maryland corporation and an internally-managed, non-diversified, closed-end investment company that has elected to be regulated as a business development company under the 1940 Act. Hercules Technology II, L.P. (HT II) and Hercules Technology III, L.P. (HT III), our wholly-owned subsidiaries, are licensed under the Small Business Investment Act of 1958 as SBICs. Hercules Technology SBIC Management, LLC (HTM), another wholly-owned subsidiary, serves as the general partner of HT II and HT III. We also use wholly owned subsidiaries, all of which are structured as Delaware corporations and limited liability companies, to permit us to hold portfolio companies organized as limited liability companies, or LLCs, (or other forms of pass-through entities) and still satisfy the RIC tax requirement that at least 90% of our gross income for income tax purposes is investment income. Our wholly owned subsidiary, Hercules Funding II, LLC, functions as a vehicle to collateralize loans under our securitized facility with Wells Fargo Capital Finance.

Our principal executive offices are located at 400 Hamilton Avenue, Suite 310, Palo Alto, California 94301. We also have offices in Boston, Massachusetts and Boulder, Colorado.

Employees

As of March 31, 2011, we had 45 employees, including 26 investment and portfolio management professionals all of whom have extensive experience working on financing transactions for technology-related companies.

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PORTFOLIO COMPANIES

(dollars in thousands)

The following tables set forth certain information as of March 31, 2011 regarding each portfolio company in which we had a debt or equity investment. The general terms of our loans and other investments are described in Business Our Investments. We offer to make available significant managerial assistance to our portfolio companies. In addition, we may receive rights to observe the Board of Directors meetings of our portfolio companies.

Portfolio Company	Industry	Type of Investment(1)	Percentage of Class Held on a Fully Diluted Basis(8)	Principal Amount	Cost(2)	Value(3)
Acceleron Pharmaceuticals, Inc.	Drug Discovery	Preferred Stock Warrants	0.50%		$ 69	$ 601
149 Sidney Street		Preferred Stock Warrants	0.13%		35	128
Cambridge, MA 02139		Preferred Stock Warrants	0.05%		39	59
		Preferred Stock	0.86%		1,341	1,693
Total Acceleron Pharmaceuticals, Inc.					1,484	2,481
Anthera Pharmaceuticals inc.	Drug Discovery	Senior Debt				
6160 Stoneridge Mall Road,		Matures September 2014				
Ste 330		Interest rate Prime + 7.3% or				
Pleasanton, CA 94588		Floor rate of 10.55%		$ 25,000	23,786	23,786
		Common Stock Warrants	0.53%		541	571
		Common Stock Warrants	0.44%		443	467
Total Anthera Pharmaceuticals inc.					24,770	24,824
Aveo Pharmaceuticals, Inc.	Drug Discovery	Senior Debt				
75 Sidney Street 4th Floor		Matures September 2013				
Cambridge, MA 02139		Interest rate Prime + 7.15% or				
		Floor rate of 11.9%		$ 25,000	26,186	26,728
		Preferred Stock Warrants	0.30%		190	530
		Preferred Stock Warrants	0.07%		104	128
		Preferred Stock Warrants	0.02%		24	46
		Preferred Stock Warrants	0.24%		288	650
		Preferred Stock Warrants	0.19%		236	532
Total Aveo Pharmaceuticals, Inc.					27,028	28,614
Dicerna Pharmaceuticals, Inc.	Drug Discovery	Senior Debt				
480 Arsenal Street		Matures July 2012				
Bldg 1, Suite 120		Interest rate Prime + 9.20% or				
Watertown, MA 02472		Floor rate of 12.95%		$ 4,020	4,042	4,083
		Preferred Stock Warrants	0.81%		206	161
		Preferred Stock Warrants	0.13%		31	29
		Preferred Stock Warrants	0.09%		28	23
		Preferred Stock	0.90%		503	503

Total Dicerna Pharmaceuticals, Inc.				4,810	4,799
EpiCept Corporation 777 Old Saw Mill River Road Tarrytown, NY 10591	Drug Discovery	Common Stock Warrants Common Stock Warrants	0.46% 0.04%	4 40	71 6
Total EpiCept Corporation				44	77
Horizon Therapeutics, Inc. 1033 Skokie Boulevard, Suite 355 Northbrook, IL 60062	Drug Discovery	Preferred Stock Warrants	0.31%	231	57
Total Horizon Therapeutics, Inc.				231	57

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Portfolio Company	Industry	Type of Investment(1)	Percentage of Class Held on a Fully Diluted Basis(8)	Principal Amount	Cost(2)	Value(3)
Inotek Pharmaceuticals Corp. 33 Hayden Avenue, 2nd Floor	Drug Discovery	Preferred Stock	1.08%		$ 1,500	$
Lexington, MA 02421						
Total Inotek Pharmaceuticals Corp.					1,500	
Merrimack Pharmaceuticals, Inc. One Kendall Square	Drug Discovery	Preferred Stock Warrants	0.34%		155	139
Building 700, 2nd Floor						
Cambridge, MA 02139		Preferred Stock	0.61%		2,000	1,497
Total Merrimack Pharmaceuticals, Inc.					2,155	1,636
Paratek Pharmaceuticals, Inc. 75 Kneeland Street	Drug Discovery	Preferred Stock Warrants	0.52%		137	94
Boston, MA 02111		Preferred Stock	0.61%		1,000	1,000
Total Paratek Pharmaceuticals, Inc.					1,137	1,094
PolyMedix, Inc. 170 N. Radnor Chester Road	Drug Discovery	Senior Debt Matures September 2013				
Suite 300		Interest rate Prime + 7.1% or				
Radnor, PA 19087		Floor rate of 12.35%		$ 9,224	8,893	9,170
		Preferred Stock Warrants	0.77%		480	167
Total PolyMedix, Inc.					9,373	9,337
Portola Pharmaceuticals, Inc. 270 E Grand Avenue	Drug Discovery	Senior Debt Matures April 2011				
South San Francisco, CA 94080		Interest rate Prime + 2.16%		$ 416	791	791
		Preferred Stock Warrants	0.35%		152	533
Total Portola Pharmaceuticals, Inc.					943	1,324
Total Drug Discovery (18.41%)*					**73,475**	**74,243**
Affinity Videonet, Inc. 1641 California, 3rd Floor Denver, CO 80202	Communications & Networking	Preferred Stock Warrants	4.45%		102	169
Total Affinity Videonet, Inc.					102	169
E-band Communications, Corp.(6) 10095 Scripps Ranch Ct. Suite A. San Diego, CA 92131	Communications & Networking	Preferred Stock	11.00%		2,880	2,032
Total E-Band Communications, Corp.					2,880	2,032
IKANO Communications, Inc. 124 N. Charles Lindbergh	Communications & Networking	Preferred Stock Warrants Preferred Stock Warrants	1.37% 2.08%		45 72	

Salt Lake City, UT 84111						
Total IKANO Communications, Inc.					117	
Intelepeer, Inc. 2855 Campus Drive, Suite 450 San Mateo, CA 94404	Communications & Networking	Senior Debt Matures May 2013 Interest rate Prime + 8.125%		$ 7,271	7,137	7,094
		Preferred Stock Warrants	0.33%		102	103
Total Intelepeer, Inc.					7,239	7,197
Neonova Holding Company 1000 Perimeter Park Drive,	Communications & Networking	Preferred Stock Warrants	1.37%		94	14
		Preferred Stock	1.52%		250	165
Suite K						
Morrisville, NC 27560						
Total Neonova Holding Company					344	179

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Portfolio Company	Industry	Type of Investment(1)	Percentage of Class Held on a Fully Diluted Basis(8)	Principal Amount	Cost(2)	Value(3)
Opsource, Inc. 5201 Great America Parkway Suite 120 Santa Clara, CA 95054	Communications & Networking	Preferred Stock Warrants	0.58%		$ 223	$ 21
Total Opsource, Inc.					223	21
Pac-West Telecomm, Inc. 555 12th Street Suite 250 Oakland, CA 94607	Communications & Networking	Senior Debt Matures April 2013 Interest rate Prime + 7.5% or Floor rate of 11.50%		$ 4,500	4,175	4,138
		Preferred Stock Warrants	0.78%		121	138
Total Pac-West Telecomm, Inc.					4,296	4,276
PeerApp, Inc. 375 Elliot Street, Suite 150K Newton Upper Falls, MA 02464	Communications & Networking	Senior Debt Matures April 2013 Interest rate Prime + 7.5% or Floor rate of 11.50%		$ 2,638	2,610	2,582
		Preferred Stock Warrants	0.50%		61	61
Total PeerApp, Inc.					2,671	2,643
Peerless Network, Inc. 200 S. Wacker Drive, Suite 3100 Chicago, IL 60606	Communications & Networking	Preferred Stock Warrants	0.27%		95	123
		Preferred Stock	2.03%		1,000	1,280
Total Peerless Network, Inc.					1,095	1,403
Ping Identity Corporation 1099 18th Street, Suite 2950 Denver, CO 80202	Communications & Networking	Preferred Stock Warrants	0.93%		52	2
Total Ping Identity Corporation					52	2
Purcell Systems, Inc. 16125 East Euclid Avenue Spokane, WA 99216	Communications & Networking	Preferred Stock Warrants	1.17%		123	301
Total Purcell Systems, Inc.					123	301
Seven Networks, Inc. 2100 Seaport Blvd, Suite 100 Redwood City, CA 94063	Communications & Networking	Preferred Stock Warrants	0.89%		174	
Total Seven Networks, Inc.					174	
Stoke, Inc.(4) 5403 Betsy Ross Drive Santa Clara, CA 94043	Communications & Networking	Senior Debt Matures May 2013 Interest rate Prime + 7.0% or		$ 3,865	3,770	3,798

		Floor rate of 10.25%				
		Preferred Stock Warrants	0.24%		53	199
		Preferred Stock Warrants	0.11%		65	127
		Preferred Stock	0.23%		500	500
Total Stoke, Inc.					4,388	4,624
Tectura Corporation 333 Twin Dolphin Drive, Suite 750	Communications & Networking	Senior Debt Matures December 2012				
Redwood City, CA 94065		Interest rate 11%		$ 5,625	5,668	5,668
		Revolving Line of Credit Matures July 2011				
		Interest rate 11%		$ 17,477	18,563	18,563
		Preferred Stock Warrants	0.22%		51	1
Total Tectura Corporation					24,282	24,232
Total Communications & Networking (11.68%)*					**47,986**	**47,079**

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Portfolio Company	Industry	Type of Investment(1)	Percentage of Class Held on a Fully Diluted Basis(8)	Principal Amount	Cost(2)	Value(3)
Atrenta, Inc.	Software	Preferred Stock Warrants	0.77%		$ 102	$ 17
2077 Gateway Place, Suite 300		Preferred Stock Warrants	0.25%		34	5
San Jose, CA 95110		Preferred Stock Warrants	0.30%		95	10
		Preferred Stock	0.25%		250	131
Total Atrenta, Inc.					481	163
Blurb, Inc.	Software	Senior Debt				
580 California Street, Suite 300		Matures June 2011				
San Francisco, CA 94104		Interest rate Prime + 3.50% or				
		Floor rate of 8.5%		$ 590	835	835
		Preferred Stock Warrants	0.49%		25	347
		Preferred Stock Warrants	0.52%		299	215
Total Blurb, Inc.					1,159	1,397
Braxton Technologies, LLC.	Software	Preferred Stock Warrants	0.62%		188	
770 Wooten Road, Suite 105						
Colorado Springs, CO 80915						
Total Braxton Technologies, LLC.					188	
Bullhorn, Inc.	Software	Preferred Stock Warrants	0.80%		43	232
33-41 Farnsworth, 5th Floor						
Boston, MA 02210						
Total Bullhorn, Inc.					43	232
Clickfox, Inc.	Software	Senior Debt				
3445 Peachtree Road, Suite 1250		Matures July 2013				
Atlanta, GA 30326		Interest rate Prime + 6.00% or				
		Floor rate of 11.25%		$ 5,648	5,484	5,484
		Revolving Line of Credit				
		Matures July 2011				
		Interest rate Prime + 5.00% or				
		Floor rate of 12.00%		$ 2,000	1,999	1,999
		Preferred Stock Warrants	1.00%		177	623
		Preferred Stock Warrants	0.09%		152	616
Total Clickfox, Inc.					7,812	8,722
Forescout Technologies, Inc.	Software	Preferred Stock Warrants	0.90%		99	4
10001 De Anza Blvd., Suite 220						

Cupertino, CA 95014						
Total Forescout Technologies, Inc.					99	4
GameLogic, Inc.	Software	Preferred Stock Warrants	2.67%		92	
411 Waverly Oakds Road, Suite 312						
Boston, MA 02452						
Total GameLogic, Inc.					92	
HighJump Acquisition, LLC. 6455 City West Parkway	Software	Senior Debt Matures May 2013				
Eden Prairie, MN 55344		Interest rate Libor + 8.75% or				
		Floor rate of 12.00%		$ 17,500	17,502	17,201
Total HighJump Acquisition, LLC.					17,502	17,201
HighRoads, Inc.	Software	Preferred Stock Warrants	3.18%		44	77
150 Presidential Way						
Woburn, MA 01801						
Total HighRoads, Inc.					44	77
Rockyou, Inc.	Software	Preferred Stock Warrants	0.08%		117	48
585 Broadway Street, Suite A						
Redwood City, CA 94036						
Total Rockyou, Inc.					117	48

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Portfolio Company	Industry	Type of Investment(1)	Percentage of Class Held on a Fully Diluted Basis(8)	Principal Amount	Cost(2)	Value(3)
Sportvision, Inc.	Software	Preferred Stock Warrants	1.89%		$ 39	$
4619 N. Ravenswood						
Chicago, IL 60640						
Total Sportvision, Inc.					39	
Unify Corporation 1420 Rocky Ridge Drive, Suite 380	Software	Senior Debt Matures June 2015				
Roseville, CA 95661		Interest rate Libor + 8.25% or				
		Floor rate of 10.25%		$ 23,700	22,212	22,682
		Revolving Line of Credit Matures June 2015				
		Interest rate Libor + 7.25% or				
		Floor rate of 9.25%		$ 2,950	2,932	2,621
		Preferred Stock Warrants	4.70%		1,434	561
Total Unify Corporation					26,578	25,864
WildTangent, Inc.	Software					
18578 NE 67th Court, Building 5		Preferred Stock Warrants	0.17%		238	6
Redmond, WA 98052						
Total WildTangent, Inc.					238	6
Total Software (13.32%)*					**54,392**	**53,714**
Luminus Devices, Inc.	Electronics &	Preferred Stock Warrants	0.28%		183	
1100 Technology Park Drive	Computer	Preferred Stock Warrants	0.14%		84	
Billerica, MA 02821	Hardware	Preferred Stock Warrants	0.69%		334	
Total Luminus Devices, Inc.					601	
Maxvision Holding, LLC. 495 Production Avenue	Electronics & Computer	Senior Debt Matures October 2012				
Huntsville, AL 35758	Hardware	Interest rate Prime + 7.25% or Floor rate of 10.75%		$ 5,000	5,427	291
		Senior Debt Matures April 2012				
		Interest rate Prime + 5.0% or Floor rate of 8.5%		$ 3,159	3,141	1,777
		Revolving Line of Credit Matures April 2012		$ 3,100	3,168	3,168

		Interest rate Prime + 5.0% or Floor rate of 8.5%			
		Common Stock	1.25%	81	
Total Maxvision Holding, LLC				11,817	5,236
Shocking Technologies, Inc. 5870 Hellyer Avenue San Jose, CA 95138	Electronics & Computer Hardware	Preferred Stock Warrants	1.44%	63	77
Total Shocking Technologies, Inc.				63	77
Spatial Photonics, Inc.[8] 930 Hamlin Court Sunnyvale, CA 94086	Electronics & Computer Hardware	Preferred Stock Warrants	0.19%	130	
		Preferred Stock	0.84%	767	350
Total Spatial Photonics Inc.				897	350
VeriWave, Inc. 8770 SW Nimbus Avenue, Suite B Beaverton, OR 97008	Electronics & Computer Hardware	Preferred Stock Warrants	1.22%	54	
		Preferred Stock Warrants	0.31%	46	4
Total VeriWave, Inc.				100	4
Total Electronics & Computer Hardware (1.41%)*				**13,478**	**5,667**

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Portfolio Company	Industry	Type of Investment(1)	Percentage of Class Held on a Fully Diluted Basis(8)	Principal Amount	Cost(2)	Value(3)
Aegerion Pharmaceuticals, Inc. 1140 Route 22 East, Suite 304	Specialty Pharmaceuticals	Senior Debt Matures September 2014				
Bridgewater, NJ 08807		Interest rate Prime + 5.65% or				
		Floor rate of 10.40%		$ 10,000	$ 9,977	$ 9,977
		Preferred Stock Warrants	0.61%		69	922
		Common Stock	1.10%		1,475	3,064
Total Aegerion Pharmaceuticals, Inc.					11,521	13,963
Althea Technologies, Inc. 11040 Roselle Street	Specialty Pharmaceuticals	Senior Debt Matures October 2013				
San Diego, CA 92121		Interest rate Prime + 7.70% or				
		Floor rate of 10.95%		$ 12,000	11,779	11,326
		Preferred Stock Warrants	3.04%		309	
Total Althea Technologies, Inc.					12,088	11,326
Chroma Therapeutics, Ltd.(5) 93 Milton Park	Specialty Pharmaceuticals	Senior Debt Matures September 2013				
Abington, Oxon OX14 4RY		Interest rate Prime + 7.75% or				
		Floor rate of 12.00%		$ 10,000	9,900	10,047
		Preferred Stock Warrants	0.60%		490	587
Total Chroma Therapeutics, Ltd.					10,390	10,634
Pacira Pharmaceuticals, Inc. 5 Sylvan Way	Specialty Pharmaceuticals	Senior Debt Matures May 2014				
Parsippany, NJ 07054		Interest rate Prime + 6.25% or				
		Floor rate of 10.25%		$ 11,250	11,154	11,154
		Senior Debt Matures May 2014				
		Interest rate Prime + 8.65% or				
		Floor rate of 12.65%		$ 15,000	13,936	13,936
		Preferred Stock Warrants	1.03%		1,086	391
Total Pacira Pharmaceuticals, Inc.					26,176	25,481
QuatRx Pharmaceuticals Company 777 East Eisenhower Pkwy	Specialty Pharmaceuticals	Senior Debt Matures October 2011				
Suite 100		Interest rate Prime + 8.90% or				
Ann Arbor, MI 48108		Floor rate of 12.15%		$ 7,639	7,865	7,865
		Convertible Senior Debt				

		Matures March 2012		$ 1,888	1,888	1,888
		Preferred Stock Warrants	0.22%		220	
		Preferred Stock Warrants	0.18%		307	
		Preferred Stock	0.20%		750	116
Total Quatrx Pharmaceuticals Company					11,030	9,869
Total Specialty Pharmaceuticals (17.68%)*					**71,205**	**71,273**
Annie's, Inc. 564 Gateway Drive	Consumer & Business Products	Preferred Stock Warrants	0.47%		321	45
Napa, CA 94558						
Total Annie's, Inc.					321	45

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Portfolio Company	Industry	Type of Investment(1)	Percentage of Class Held on a Fully Diluted Basis(8)	Principal Amount	Cost(2)	Value(3)
IPA Holdings, LLC (4) 2775 Premiere Parkway, Suite 100 Deluth, GA 30097	Consumer & Business Products	Senior Debt Matures November 2012 Interest rate Prime + 6.75% or Floor rate of 11.0%		$ 7,875	$ 8,128	$ 7,849
		Senior Debt Matures May 2013 Interest rate Prime + 9.75% or Floor rate of 14.0%		$ 6,500	7,041	6,979
		Revolving Line of Credit Matures November 2012 Interest rate Prime + 6.25% or Floor rate of 10.50%		$ 856	842	842
		Preferred Stock Warrants	2.00%		275	
		Common Stock	1.00%		500	
Total IPA Holding, LLC					16,786	15,670
Market Force Information, Inc. 1877 Broadway, Suite 200 Boulder, CO 80302	Consumer & Business Products	Preferred Stock Warrants	0.37%		24	77
		Preferred Stock	0.69%		500	459
Total Market Force Information, Inc.					524	536
Wageworks, Inc. 1100 Park Place 4th Floor San Mateo, CA 94403	Consumer & Business Products	Preferred Stock Warrants	1%		252	1,452
		Preferred Stock	0%		250	287
Total Wageworks, Inc.					502	1,739
Total Consumer & Business Products (4.46%)*					**18,133**	**17,990**
Enpirion, Inc. 53 Frontage Road, Suite 210 Perryville III Corporate Park Hampton, NJ 08807	Semiconductors	Preferred Stock Warrants	0.21%		157	
Total Enpirion, Inc.					157	
iWatt, Inc. 90 Albright Way Los Gatos, CA 95032-1827	Semiconductors	Preferred Stock Warrants	0.24%		46	5
		Preferred Stock Warrants	0.11%		51	25
		Preferred Stock Warrants	0.13%		73	35
		Preferred Stock Warrants	0.61%		458	374
		Preferred Stock	1.05%		490	951

Total iWatt, Inc.				1,118	1,390
NEXX Systems, Inc. 900 Middlesex Turnpike	Semiconductors	Preferred Stock Warrants	2.11%	297	1,080
Billerica, MA 01821-3929		Preferred Stock	0.46%	277	704
Total NEXX Systems, Inc.				574	1,784
Quartics, Inc. 15241 Laguna Canyon Road	Semiconductors	Preferred Stock Warrants	0.06%	53	
Suite 200					
Irvine, CA 92618					
Total Quartics, Inc.				53	
Solarflare Communications, Inc. 9501 Jeronino Rd. Suite 100	Semiconductors	Preferred Stock Warrants	0.00%	83	
Irvine, CA 92618		Common Stock	0.00%	641	
Total Solarflare Communications, Inc.				724	
Total Semiconductors (0.79%)*				**2,626**	**3,174**

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Portfolio Company	Industry	Type of Investment[1]	Percentage of Class Held on a Fully Diluted Basis[8]	Principal Amount	Cost[2]	Value[3]
Alexza Pharmaceuticals, Inc.[4] 2091 Stierlin Court Mountain View, CA 94303	Drug Delivery	Senior Debt Matures October 2013 Interest rate Prime + 6.5% or Floor rate of 10.75%		$ 14,207	$ 13,877	$ 14,044
		Preferred Stock Warrants	0.62%		645	290
Total Alexza Pharmaceuticals, Inc.					14,522	14,334
BIND Biosciences, Inc. 64 Sidney Street Cambridge, MA 02139	Drug Delivery	Preferred Stock Warrants	0.10%		53	48
Total BIND Biosciences, Inc.					53	48
Labopharm USA, Inc.[5] 480 Armand-Frappier Blvd. Laval, Canada H7V 4B4	Drug Delivery	Senior Debt Matures December 2012 Interest rate 10.95%		$ 17,766	17,731	17,856
		Common Stock Warrants	1.10%		635	69
Total Labopharm USA, Inc.					18,366	17,925
Transcept Pharmaceuticals, Inc.	Drug Delivery	Common Stock Warrants	0.18%		36	74
1003 W. Cutting Blvd, Suite 110		Common Stock Warrants	0.27%		51	33
Point Richmond, CA 94804		Common Stock	0.31%		500	340
Total Transcept Pharmaceuticals, Inc.					587	447
Total Drug Delivery (8.12%)*					**33,528**	**32,754**
BARRX Medical, Inc. 540 Oakmead Parkway Sunnyvale, CA 94085	Therapeutic	Senior Debt Mature December 2011 Interest rate 11.00%		$ 2,209	2,693	2,693
		Preferred Stock Warrants	0.15%		76	60
		Preferred Stock	1.46%		1,500	1,571
Total BARRX Medical, Inc.					4,269	4,324
EKOS Corporation 22030 20th Ave. Southeast, Suite 101 Bothell, WA 98021	Therapeutic	Preferred Stock Warrants	0.79%		175	
		Preferred Stock Warrants	0.39%		153	
Total EKOS Corporation					328	
Gelesis, Inc. (7) 222 Berkley Street, Suite 1040	Therapeutic	Senior Debt Matures May 2012		$ 2,771	2,807	

Boston, MA 02116		Interest rate Prime + 7.5% or				
		Floor rate of 10.75%				
Total Gelesis, Inc.					2,807	
Gynesonics, Inc. 604 5th Avenue, Suite D	Therapeutic	Senior Debt Mature October 2013				
Redwood City, CA 94063		Interest rate Prime + 8.25% or				
		Floor rate of 11.50%		$ 6,500	6,328	6,255
		Preferred Stock Warrants	1.72%		228	197
		Preferred Stock	1.24%		532	462
Total Gynesonics, Inc.					7,088	6,914
Light Science Oncology, Inc. 15405 SE 37th Street, Suite 100	Therapeutic	Preferred Stock Warrants	0.15%		99	69
Bellevue, WA 98006						
Total Light Science Oncology, Inc.					99	69

Portfolio Company	Industry	Type of Investment[1]	Percentage of Class Held on a Fully Diluted Basis[8]	Principal Amount	Cost[2]	Value[3]
Novasys Medical, Inc.	Therapeutic	Preferred Stock Warrants	0.19%		$ 71	$
39684 Eureka Drive		Preferred Stock Warrants	0.05%		54	2
Newark, CA 94560		Preferred Stock	1.83%		1,000	1,001
Total Novasys Medical, Inc.					1,125	1,003
Pacific Child & Family Associates, LLC	Therapeutic	Senior Debt Matures January 2015				
216 N. Eighth Street						
Santa Paula, CA 93060		Interest rate LIBOR + 8.0% or				
		Floor rate of 10.50%		$ 6,254	6,137	5,589
		Senior Debt Matures January 2015				
		Interest rate LIBOR + 10.50% or				
		Floor rate of 13.0%		$ 5,900	6,067	6,067
Total Pacific Child & Family Associates, LLC					**12,204**	**11,656**
Total Therapeutic (5.94%)*					27,920	23,966
Cozi Group, Inc.	Internet Consumer & Business Services	Preferred Stock Warrants	0.85%		147	139
506 Second Avenue, Suite 710		Preferred Stock	0.58%		177	292
Seattle, WA 98104						
Total Cozi Group, Inc.					324	431
Invoke Solutions, Inc.	Internet Consumer & Business Services	Preferred Stock Warrants	1.48%		56	
375 Totten Pond Road,		Preferred Stock Warrants	0.33%		26	
Suite 400						
Waltham, MA 02451						
Total Invoke Solutions, Inc.					**82**	
InXpo, Inc.	Internet Consumer & Business Services					
770 N Halsted Street, Suite 6s		Senior Debt				
Chicago, IL 60642		Matures March 2014				
		Interest rate Prime + 7.5% or				
		Floor rate of 10.75%		$ 1,575	1,523	1,523
		Preferred Stock Warrants	0.62%		98	85
Total InXpo, Inc.					1,621	1,608

Prism Education Group, Inc. 233 Needham Street Newton, MA 02464	Internet Consumer & Business Services	Preferred Stock Warrants	0.98%	43	32
Total Prism Education Group, Inc.				43	32
RazorGator Interactive Group, Inc. 11150 Santa Monica Blvd. Suite 500 Los Angeles, CA 90025	Internet Consumer & Business Services	Preferred Stock Warrants Preferred Stock Warrants Preferred Stock Warrants Preferred Stock	0.90% 0.11% 1.97% 1.20%	13 28 1,183 1,000	
Total RazorGator Interactive Group, Inc.				2,224	

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Portfolio Company	Industry	Type of Investment(1)	Percentage of Class Held on a Fully Diluted Basis(8)	Principal Amount	Cost(2)	Value(3)
Reply! Inc.(4)	Internet Consumer &	Senior Debt				
12667 Alcosta Blvd., Suite 200	Business Services	Matures June 2013				
San Ramon, CA 94583		Interest rate Prime + 6.5% or				
		Floor rate of 9.75%		$ 4,553	$ 4,318	$ 4,414
		Senior Debt				
		Matures December 2013				
		Interest rate Prime + 6.5% or				
		Floor rate of 9.75%		$ 700	710	673
		Preferred Stock Warrants	1.10%		320	480
Total Reply! Inc.					5,348	5,567
ScriptSave						
(Medical Security Card Company, LLC)	Internet Consumer &	Senior Debt				
4911 E. Broadway, Suite 200	Business Services	Matures February 2016				
Tucson, AZ 85711		Interest rate Prime + 8.75% or				
		Floor rate of 11.25%		$ 20,500	20,027	20,027
Total ScriptSave					20,027	20,027
Total Internet Consumer & Business Services (6.86%)					**29,669**	**27,665**
Lilliputian Systems, Inc.	Energy	Preferred Stock Warrants	0.07%		106	1
36 Jonspin Road		Common Stock Warrants	0.05%		48	
Wilmington, MA 01887						