HERCULES TECHNOLOGY GROWTH CAPITAL INC
Form N-2
February 08, 2012
Table of Contents

As filed with the Securities and Exchange Commission on February 8, 2012

Securities Act File No. 333-

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM N-2

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

(Check appropriate box or boxes)

Pre-Effective Amendment No.

Post-Effective Amendment No.

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

(Exact name of Registrant as specified in charter)

400 Hamilton Avenue, Suite 310

Palo Alto, CA 94301

(Address of Principal Executive Offices)

Registrant s Telephone Number, including Area Code: (650) 289-3060

Manuel A. Henriquez

Chief Executive Officer

Hercules Technology Growth Capital, Inc.

400 Hamilton Avenue, Suite 310

Palo Alto, CA 94301

(Name and address of agent for service)

COPIES TO:

Cynthia M. Krus

Sutherland Asbill & Brennan LLP

1275 Pennsylvania Avenue, N.W.

Washington, DC 20004

APPROXIMATE DATE OF PROPOSED PUBLIC OFFERING:

As soon as practicable after the effective date of this Registration Statement.

If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a dividend reinvestment plan, check the following box. x

It is proposed that this filing will become effective (check appropriate box): x when declared effective pursuant to section 8(c).

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities Being Registered	Amount Being Registered	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee(1)
Common Stock, $0.001 par value per share(2)			
Preferred Stock, $0.001 par value per share(2)			
Warrants(2)			
Subscription Rights(3)			
Debt Securities(4)			

TOTAL	$ 200,000,000(5)	$	22,920

(1) Estimated pursuant to Rule 457 solely for the purposes of determining the registration fee. The proposed maximum offering price per security will be determined, from time to time, by the Registrant in connection with the sale by the Registrant of the securities registered under this registration statement.
(2) Subject to Note 5 below, there is being registered hereunder an indeterminate number of shares of common stock, preferred stock, or warrants as may be sold, from time to time. Warrants represent rights to purchase common stock, preferred stock or debt securities.
(3) Subject to Note 5 below, there is being registered hereunder an indeterminate number of subscription rights as may be sold, from time to time, representing rights to purchase common stock.
(4) Subject to Note 5 below, there is being registered hereunder an indeterminate principal amount of debt securities as may be sold, from time to time. If any debt securities are issued at an original issue discount, then the offering price shall be in such greater principal amount as shall result in an aggregate price to investors not to exceed $200,000,000.
(5) In no event will the aggregate offering price of all securities issued from time to time pursuant to this registration statement exceed $200,000,000.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933, AS AMENDED, OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

Table of Contents

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

PROSPECTUS (Subject to Completion)

February , 2012

$200,000,000

Common Stock

Preferred Stock

Warrants

Subscription Rights

Debt Securities

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

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

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

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

Our common stock is traded on the Nasdaq Global Select Market under the symbol HTGC. On February 7, 2012, the last reported sale price of a share of our common stock on the Nasdaq Global Select Market was $10.61. The net asset value per share of our common stock at September 30, 2011 (the last date prior to the date of this prospectus on which we determined net asset value) was $9.61.

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

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

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

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

The date of this prospectus is

Table of Contents

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

TABLE OF CONTENTS

Table of Contents

ABOUT THIS PROSPECTUS

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

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

Table of Contents

SUMMARY

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

Our Company

We are a specialty finance company that provides debt and equity growth capital to technology-related companies at various stages of development from seed and emerging growth to expansion and established stages of development, which include select publicly listed companies and select lower middle market 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 total investments at value in foreign companies were approximately $14.2 million or 2.5% of total assets at September 30, 2011. 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 million 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.

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

Table of Contents

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 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.

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 disruptions, 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.

Table of Contents

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 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

Table of Contents

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 in the first 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 underserved, in part because of the credit market collapse in 2008 and the resulting exit of debt capital providers to technology-related companies. The venture capital market for the technology-related companies in which we invest has been active and is continuing to show signs of increased investment activity. 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 180 technology-related companies, representing over $2.6 billion in commitments from inception to 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

Table of Contents

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 select 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 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.

Dividend Reinvestment Plan

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

Taxation

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

Use of Proceeds

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

Leverage

We borrow funds to make additional investments, and we have granted, and may in the future grant, a security interest in our assets to a lender in connection with any such borrowings, including any borrowings by any of our subsidiaries. We use this practice, which is known as leverage, to attempt to increase returns to our common stockholders. However, leverage involves significant risks. See Risk Factors. With certain limited exceptions, we are only allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowing. Our asset coverage for senior indebtedness as of September 30, 2011 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. The amount of leverage that we employ will depend on our assessment of market and other factors at the time of any proposed borrowing.

Table of Contents

Wells Facility

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

Borrowings under the Wells Facility will generally bear interest at a rate per annum equal to LIBOR plus 3.50%, with a floor of 5.00% and an advance rate of 50% against eligible loans. The Wells Facility is secured by loans in the borrowing base. The Wells Facility requires the monthly payment of a non-use fee of 0.3% for each payment date on or before September 1, 2011. The monthly payment of a non-use fee thereafter shall depend on the average balance that was outstanding on a scale between 0.0% and 0.75%. From September 1, 2011 through September 30, 2011, this non-use fee was 0.75%. On June 20, 2011 we paid an additional $1.1 million in structuring fees in connection with the Wells Facility which is being amortized through June 2014. There was no outstanding debt under the Wells Facility at September 30, 2011.

The Wells Facility includes various financial and operating covenants applicable to us and our subsidiaries, in addition to those applicable to Hercules Funding II, LLC. These covenants require us to maintain certain financial ratios and a minimum tangible net worth in an amount, when added to outstanding subordinated indebtedness, that is in excess of $314.0 million plus 90% of the cumulative amount of equity raised after March 31, 2011. In addition, the tangible net worth covenant will increase by 90 cents on the dollar for every dollar of equity capital subsequently raised by the Company. The Wells Facility provides for customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, bankruptcy events and change of control. We were in compliance with all covenants at September 30, 2011.

Union Bank Facility

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

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

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

Table of Contents

with a term out provision for the remaining 12 months. The Union Bank Facility requires the payment of a non-use fee of 0.50% annually. Union Bank Facility also provides for customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, bankruptcy events and change of control. We were in compliance with all covenants at September 30, 2011.

SBICs

Hercules Technology II, L.P. (HT II) and Hercules Technology III, L.P. (HT III), our wholly owned subsidiaries, are licensed by the U.S. Small Business Administration (SBA) as small business investment companies (SBICs) under the Small Business Investment Act of 1958. As of 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.

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 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 was 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, HT III has paid the SBA 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.

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.

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 securities.

Certain Anti-Takeover Provisions

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

Recent Developments

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.

Table of Contents

$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.

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 for more information with respect to our investment in BARRX Medical, Inc.

As of February 6, 2012, we held warrant positions in over 104 different technology-related companies, six 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.	4. Merrimack Pharmaceuticals, Inc.
2. BrightSource Energy, Inc.	5. NEXX Systems, Inc.
3. Enphase Energy, Inc.	6. WageWorks, Inc.

On February 2, 2012, our portfolio company, Cempra Holdings, LLC, priced its initial public offering, pricing the offering at $6.00 per share. See our Consolidated Schedule of Investments in this prospectus for more information with respect to our investment in Cempra Holdings, LLC.

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.

Common Stock Offering

On January 24, 2012, we completed a public offering through which we sold 5,000,000 shares of common stock at a price of $9.61 per share. Total proceeds from the offering were $48,050,000, before deducting estimated offering expenses payable by us.

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 (202) 551-8090. In addition, the SEC maintains an Internet website, at www.sec.gov, that contains reports, proxy and information statements, and other information regarding issuers, including us, who file documents electronically with the SEC.

Table of Contents

FEES AND EXPENSES

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

Stockholder Transaction Expenses (as a percentage of the public offering price):	
Sales load (as a percentage of offering price)(1)	%
Offering expenses (as a percentage of offering price)	%(2)
Dividend reinvestment plan fees	%(3)
Total stockholder transaction expenses (as a percentage of the public offering price)	%
Annual Expenses (as a percentage of net assets attributable to common stock):(10)	
Operating expenses	5.7%(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) In the event that the securities to which this prospectus relates are sold to or through underwriters, a corresponding prospectus supplement will disclose the applicable sales load and the Example will be updated accordingly.
(2) The related prospectus supplement will disclose the public offering price, applicable offering expenses and total stockholder transaction expenses.
(3) The expenses associated with the administration of our dividend reinvestment plan are included in Operating expenses. We pay all brokerage commissions incurred with respect to open market purchases, if any, made by the administrator under the plan. For more details about the plan, see Dividend Reinvestment Plan.
(4) Operating expenses represent our 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.
(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.
(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 item is based on our assumption that our borrowings and interest costs after an offering will remain similar to those prior to such offering. The prospectus supplement related to the offering of any debt securities pursuant to this prospectus will calculate this item based on the effects of our borrowings and interest costs after the issuance of such debt securities. The amount of leverage that we employ at any particular time will depend on, among other things, our board of directors assessment of market and other factors at the time of any proposed borrowing. See Risk Factors. This percentage for the year ended December 31, 2010 was approximately 0.3%.
(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.

Table of Contents

Example

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

	1 Year	3 Years	5 Years	10 Years
You would pay the following expenses on a $1,000 common stock investment, assuming a 5% annual return	$ 155	$ 317	$ 465	$ 782

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.

Table of Contents

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 nine months ended September 30,		For the year ended December 31,				
	2011	2010	2010	2009	2008	2007	2006
Investment income:							
Interest	$ 16,410	$ 14,122	$ 54,700	$ 62,200	$ 67,283	$ 48,757	$ 26,278
Fees	2,274	1,524	4,774	12,077	8,552	5,127	3,230
Total investment income	18,684	15,646	59,474	74,277	75,835	53,884	29,508
Operating expenses:							
Interest	3,408	2,139	8,572	9,387	13,121	4,404	5,770
Loan fees	881	333	1,259	1,880	2,649	1,290	810
General and administrative	1,659	1,680	7,086	7,281	6,899	5,437	5,409
Employee Compensation:							
Compensation and benefits	3,273	2,594	10,474	10,737	11,595	9,135	5,779
Stock-based compensation	870	752	2,709	1,888	1,590	1,127	617
Total employee compensation	4,143	3,346	13,183	12,625	13,185	10,262	6,396
Total operating expenses	10,091	7,498	30,100	31,173	35,854	21,393	18,385
Net investment income before provision for income taxes and investment gains and losses	8,593	8,148	29,374	43,104	39,981	32,491	11,123
Provision for income taxes						2	643
Net investment income	8,593	8,148	29,374	43,104	39,982	32,489	10,480
Net realized gain (loss) on investments	(1,601)	(18,865)	(26,382)	(30,801)	2,643	2,791	(1,604)
Provision for Excise Tax					(203)	(139)	
Net increase (decrease) in unrealized appreciation on investments	(769)	(2,894)	1,990	1,269	(21,426)	7,268	2,508
Net realized and unrealized gain (loss)	(2,370)	(15,971)	(24,392)	(29,532)	(18,986)	9,920	904
Net increase (decrease) in net assets resulting from operations	$ 6,223	$ (7,823)	$ 4,982	$ 13,572	$ 20,995	$ 42,409	$ 11,384
Cash and stock dividends declared per common share	$ 0.67	$ 0.57	$ 0.80	$ 1.26	$ 1.32	$ 1.20	$ 0.90

Table of Contents

($ in thousands, except per share data)	As of September 30, 2011	As of December 31, 2010	2009	2008	2007	2006
Balance sheet data:						
Investments, at value	$ 576,477	$ 472,032	$ 374,669	$ 578,211	$ 525,492	$ 280,596
Cash and cash equivalents	96,309	107,014	124,828	17,242	7,856	16,404
Total assets	688,637	591,247	508,967	608,672	541,943	301,142
Total liabilities	266,587	178,716	142,452	226,214	141,206	45,729
Total net assets	422,050	412,531	366,515	382,458	400,737	255,413
Other Data:						
Total debt investments, at value	$ 513,366,685	$ 401,618	$ 325,134	$ 536,964	$ 477,643	$ 264,086
Total warrant investments, at value	27,317,545	23,690	14,450	17,883	21,646	8,441
Total equity investments, at value	35,792,528	46,724	35,085	23,364	26,203	8,069
Unfunded commitments	148,246	117,200	11,700	82,000	130,602	55,500
Net asset value per share[(1)]	$ 9.61	$ 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 eleven quarters up to and ending September 30, 2011. This information was derived from our unaudited consolidated financial statements. Results for any quarter are not necessarily indicative of results for the full year or for any future quarter.

(Amounts in thousands, except per share data)	For the Quarter End September 30, 2011	June 30, 2011	March 31, 2011
Selected Quarterly Data (unaudited):			
Total investment income	$ 18,684	$ 20,820	$ 19,151
Net investment income before provision for income taxes and investment gains and losses	8,593	10,360	9,804
Net increase (decrease) in net assets resulting from operations	6,223	24,317	(1,178)
Net increase (decrease) in net assets resulting from operations per common share (basic)	$ 0.14	$ 0.56	$ (0.03)

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

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

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

15

Table of Contents

RISK FACTORS

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

Risks Related to our Business Structure 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

Table of Contents

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 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 applicable Treasury regulations and certain private rulings issued by the Internal Revenue Service, RICs are permitted to treat certain distributions payable in up to 80% in their stock, as taxable dividends that will satisfy their annual distribution obligations for federal income tax and excise tax purposes provided that shareholders have the opportunity to elect to receive the distribution in cash. Taxable stockholders receiving such dividends will be required to include the full amount of the dividend as ordinary income (or as long-term capital gain to the extent such distribution is properly designated as a capital gain dividend) to the extent of our current and accumulated earnings and profits for United States federal income tax purposes. As a result, a U.S. stockholder may be required to pay tax with respect to such dividends in excess of any cash received. If a U.S. stockholder sells the stock it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our stock at the time of the sale. Furthermore, with respect to non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. In addition, if a significant number of our stockholders determine to sell shares of our stock in order to pay taxes owed on dividends, then such sales may put downward pressure on the trading price of our stock. We previously determined to pay a portion of our first quarter 2009 dividend in shares of newly issued common stock, and we may in the future determine to distribute taxable dividends that are payable in part in our common stock.

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

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

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

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

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

A number of entities compete with us to make the types of investments that we plan to make in prospective portfolio companies. We compete with a large number of venture capital and private equity firms, as well as with other investment funds, investment banks and other sources of financing, including traditional financial services companies such as commercial banks and finance companies. Many of our competitors are substantially larger and have considerably greater financial, technical, marketing and other resources than we do. For example, some competitors may have a lower cost of funds and/or access to funding sources that are not available to us. This may enable some competitors to make commercial loans with interest rates that are comparable to or lower than the rates that we typically offer. We may lose prospective portfolio companies if we do not match competitors pricing, terms and structure. If we do match competitors pricing, terms or structure, we may experience decreased net interest income and increased risk of credit losses. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments, establish more relationships and build their market shares. Furthermore, many potential competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a business development company or that the Code would impose on us as a RIC. If we are not able to compete effectively, our business, financial condition, and results of operations will be adversely affected. As a result of this competition, there can be no assurance that we will be able to identify and take advantage of attractive investment opportunities that we identify, or that we will be able to fully invest our available capital.

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

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

Because we borrow money, there could be increased risk in investing in our company.

Lenders have fixed dollar claims on our assets that are superior to the claims of stockholders, and we have granted, and may in the future grant, lenders a security interest in our assets in connection with borrowings. In the case of a liquidation event, those lenders would receive proceeds before our stockholders. In addition, borrowings, also known as leverage, magnify the potential for gain or loss on amounts invested and, therefore, increase the risks associated with investing in our securities. Leverage is generally considered a speculative investment technique. If the value of our assets increases, then leveraging would cause the net asset value attributable to our common stock to increase more than it otherwise would have had we not leveraged. Conversely, if the value of our assets decreases, leveraging would cause the net asset value attributable to our common stock to decline more than it otherwise would have had we not leveraged. Similarly, any increase in our revenue in excess of interest expense on our borrowed funds would cause our net income to increase more than it would without the leverage. Any decrease in our revenue would cause our net income to decline more than it would have had we not borrowed funds and could negatively affect our ability to make distributions on common stock. Our ability to service any debt that we incur will depend largely on our financial performance and will be subject to prevailing economic conditions and competitive pressures. We and, indirectly, our stockholders will bear the cost associated with our leverage activity. Our secured credit facilities with Wells Fargo Capital Finance

Table of Contents

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 September 30, 2011, there were zero amounts outstanding under our secured facilities with Wells Fargo and Union Bank and $188.75 million principal amount of indebtedness outstanding incurred by our SBIC subsidiaries. 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 the Wells Facility. 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 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.

	Assumed Return on Our Portfolio (Net of Expenses)				
	(10)%	**(5)%**	**0%**	**5%**	**10%**
Corresponding return to stockholder(1)	(33.6)%	(20.1)%	(6.6)%	6.9%	20.41%

(1) Assumes $688.6 million in total assets, $258.8 million in debt outstanding, $422.1 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 September 30, 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 September 30, 2011, portfolio investments, which are valued at fair value by the Board of Directors, were approximately 83.7% 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

Table of Contents

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 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.

Table of Contents

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

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

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

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

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.

Table of Contents

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

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

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

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

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

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

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

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

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

Any warrants that we receive in connection with our debt investments will generally be valued as part of the negotiation process with the particular portfolio company. As a result, a portion of the aggregate purchase price for the debt investments and warrants will be allocated to the warrants that we receive. This will generally result in original issue discount for tax purposes, which we must recognize as ordinary income, increasing the

Table of Contents

amount that we are required to distribute to qualify for the federal income tax benefits applicable to RICs. Because these warrants generally will not produce distributable cash for us at the same time as we are required to make distributions in respect of the related original issue discount, we would need to obtain cash from other sources or to pay a portion of our distributions using shares of newly issued common stock, consistent with Internal Revenue Service requirements, to satisfy such distribution requirements.

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

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

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

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

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

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

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

In addition, any of these factors could negatively impact our ability to achieve our investment objectives, which may cause our net asset value of our common stock to decline.

Fluctuations in interest rates may adversely affect our profitability.

A portion of our income will depend upon the difference between the rate at which we borrow funds and the interest rate on the debt securities in which we invest. Because we will borrow money to make investments, our net investment income is dependent upon the difference between the rate at which we borrow funds and the rate at which we invest these funds. Typically, we anticipate that our interest-earning investments will accrue and pay interest at both variable and fixed rates, and that our interest-bearing liabilities will accrue interest at variable rates. As a result, there can be no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income. We anticipate using a combination of equity and long-term and short-term borrowings to finance our investment activities.

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

Our realized gains are reduced by amounts paid pursuant to the warrant participation agreement.

Citigroup, a former credit facility provider to Hercules, has an equity participation right through a warrant participation agreement on the pool of loans and certain warrants formerly collateralized under its then existing credit facility (the Citigroup Facility). Pursuant to the warrant participation agreement, we granted to Citigroup a 10% participation in all warrants held as collateral. As a result, Citigroup is entitled to 10% of the realized gains on certain warrants until the realized gains paid to Citigroup pursuant to the agreement equals $3,750,000 (the Maximum Participation Limit). The obligations under the warrant participation agreement continue even after the Citigroup Facility is terminated until the Maximum Participation Limit has been reached.

During the quarter ended September 30, 2011, the Company recorded an increase on participation liability and increased its unrealized gains by a net amount of approximately $229,000 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 $727,000 at September 30, 2011 and is included in accrued liabilities and decreased the unrealized gain recognized by us at September 30, 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.

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

Borrowings under the Wells Facility will generally bear interest at a rate per annum equal to LIBOR plus 3.50%, with a floor of 5.00% and an advance rate of 50% against eligible loans. The Wells Facility is secured by loans in the borrowing base. The Wells Facility requires the monthly payment of a non-use fee of 0.3% for each payment date on or before September 1, 2011. The monthly payment of a non-use fee thereafter shall depend on the average balance that was outstanding on a scale between 0.0% and 0.75%. From September 1, 2011 through September 30, 2011, this non-use fee was 0.75%. On June 20, 2011 we paid an additional $1.1 million in structuring fees in connection with the Wells Facility which is being amortized through June 2014. There was no outstanding debt under the Wells Facility at September 30, 2011.

The Wells Facility includes various financial and operating covenants applicable to us and our subsidiaries, in addition to those applicable to Hercules Funding II, LLC. These covenants require us to maintain certain financial ratios and a minimum tangible net worth in an amount, when added to outstanding subordinated indebtedness, that is in excess of $314.0 million plus 90% of the cumulative amount of equity raised after March 31, 2011. In addition, the tangible net worth covenant will increase by 90 cents on the dollar for every dollar of equity capital subsequently raised by the Company. The Wells Facility provides for customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, bankruptcy events and change of control. We were in compliance with all covenants at September 30, 2011.

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

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

The Union Bank Facility requires various financial and operating covenants. These covenants require us to maintain certain financial ratios and a minimum tangible net worth in an amount, when added to outstanding subordinated indebtedness, that is in excess of $314.0 million plus 90% of the amount of net cash proceeds received from the sale of common stock after March 31, 2011. The Union Bank Facility will mature on November 2, 2014, approximately three years from the date of issuance, revolving through the first 24 months with a term out provision for the remaining 12 months. The Union Bank Facility requires the payment of a non-use fee of 0.50% annually. Union Bank Facility also provides for customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, bankruptcy events and change of control. We were in compliance with all covenants at September 30, 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

Table of Contents

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 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 September 30, 2011, we did not have any outstanding borrowings under either of our secured credit facilities with Wells Fargo or Union Bank and $188.75 million principal amount of indebtedness outstanding incurred by our SBIC subsidiaries. Available borrowing capacity under these facilities as of September 30, 2011 was $131.25 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 September 30, 2011, HT II s and HT III s portfolio companies accounted for approximately 31.4% and 16.0%, 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 September 30, 2011 as a result of having sufficient capital as defined under the SBA regulations. See Regulation Small Business Administration Regulations.

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

On September 27, 2006, HT II received a license to operate as a SBIC under the SBIC program and is able to borrow funds from the SBA against eligible investments and additional contributions to regulatory capital. As of September 30, 2011, HT II had the potential to borrow up to $125.0 million of SBA-guaranteed debentures under the SBIC program. With our net investment of $75.0 million in HT II as of September 30, 2011, HT II has the capacity to issue a total of $125.0 million of SBA guaranteed debentures, subject to SBA approval, of which $125.0 million is outstanding as of 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.

Our wholly-owned SBIC subsidiaries may be unable to make distributions to us that will enable us to meet or maintain RIC status, which could result in the imposition of an entity-level tax.

In order for us to continue to qualify for RIC tax treatment and to minimize corporate-level taxes, we will be required to distribute substantially all of our net ordinary income and net capital gain income, including income from certain of our subsidiaries, which includes the income from our SBIC subsidiaries. We will be partially dependent on our SBIC subsidiaries for cash distributions to enable us to meet the RIC distribution requirements. Our SBIC subsidiaries may be limited by the Small Business Investment Act of 1958, and SBA regulations governing SBICs, from making certain distributions to us that may be necessary to maintain our status as a RIC. We may have to request a waiver of the SBA s restrictions for our SBIC subsidiaries to make certain distributions to maintain our RIC status. We cannot assure you that the SBA will grant such waiver. If our SBIC subsidiaries are unable to obtain a waiver, compliance with the SBA regulations may result in loss of RIC tax treatment and a consequent imposition of an entity-level tax on us. See Regulation Small Business Administration Regulations.

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.

Table of Contents

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 September 30, 2011, approximately 28.6% of the fair value of our portfolio was composed of investments in three industries: 14.1% was composed of investments in the drug discovery industry, 10.7% was composed of investments in the specialty pharma industry and 3.8% 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 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 2011 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.

Table of Contents

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.

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

Table of Contents

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.

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.

If the assets securing the loans that we make decrease in value, then we may lack sufficient collateral to cover losses.

We believe that our portfolio companies generally will be able to repay our loans from their available capital, from future capital-raising transactions, or from cash flow from operations. However, to attempt to mitigate credit risks, we will typically take a security interest in the available assets of these portfolio companies, including the equity interests of their subsidiaries and, in some cases, the equity interests of our portfolio companies held by their stockholders. In many cases, our loans will include a period of interest-only payments. There is a risk that the collateral securing our loans may decrease in value over time, may be difficult to sell in a timely manner, may be difficult to appraise and may fluctuate in value based upon the success of the business and market conditions, including as a result of the inability of a portfolio company to raise additional capital. In some circumstances, our lien could be subordinated to claims of other creditors. Additionally, deterioration in a portfolio company s financial condition and prospects, including its inability to raise additional capital, may be accompanied by deterioration in the value of the collateral for the loan. Moreover, in the case of some of our structured debt with warrants, we may not have a first lien position on the collateral. Consequently, the fact that a loan is secured does not guarantee that we will receive principal and interest payments according to the loan s terms, or that we will be able to collect on the loan should we be forced to enforce our remedies.

In addition, because we invest in technology-related companies, a substantial portion of the assets securing our investment may be in the form of intellectual property, if any, inventory and equipment and, to a lesser extent, cash and accounts receivable. Intellectual property, if any, that is securing our loan could lose value if, among other things, the company s rights to the intellectual property are challenged or if the company s license to the intellectual property is revoked or expires. Inventory may not be adequate to secure our loan if our valuation of the inventory at the time that we made the loan was not accurate or if there is a reduction in the demand for the inventory.

Similarly, any equipment securing our loan may not provide us with the anticipated security if there are changes in technology or advances in new equipment that render the particular equipment obsolete or of limited value, or if the company fails to adequately maintain or repair the equipment. Any one or more of the preceding factors could materially impair our ability to recover principal in a foreclosure.

Economic downturns or recessions could impair the value of the collateral for our loans to our portfolio companies, increase our funding costs, limit our access to the credit and capital markets, impair the ability of a portfolio company to satisfy covenants imposed by its lenders and consequently increase the possibility of an adverse effect on our business, financial condition and results of operations.

Many of our portfolio companies are susceptible to economic recessions and may be unable to repay our loans during such periods. Therefore, our non-performing assets are likely to increase and the value of our portfolio is likely to decrease during such periods. Adverse economic conditions may also decrease the value of collateral securing some of our loans and the value of our equity investments. In particular, intellectual property owned or controlled by our portfolio companies may constitute an important portion of the value of the collateral of our loans to our portfolio companies. Adverse economic conditions may decrease the demand for our portfolio companies intellectual property and consequently its value in the event of a bankruptcy or required sale through a foreclosure proceeding. As a result, our ability to fully recover the amounts owed to us under the terms of the loans may be impaired by such events.

Economic slowdowns or recessions could lead to financial losses in our portfolio and a decrease in revenues, net income and assets. Unfavorable economic conditions also could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. A portfolio company s failure to satisfy financial or operating covenants imposed by us or other lenders could lead to defaults and, potentially, termination of the portfolio company s loans and foreclosure on its secured assets, which could trigger cross-defaults under other agreements and jeopardize the portfolio company s ability to meet its obligations under the debt securities that we hold. We may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms with a defaulting portfolio company.

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.

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.

Table of Contents

If the value of collateral underlying our loan declines or interest rates increase during the term of our loan, a portfolio company may not be able to obtain the necessary funds to repay our loan at maturity through refinancing. Decreasing collateral value and/or increasing interest rates may hinder a portfolio company s ability to refinance our loan because the underlying collateral cannot satisfy the debt service coverage requirements necessary to obtain new financing. If a borrower is unable to repay our loan at maturity, we could suffer a loss which may adversely impact our financial performance.

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

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

An investment strategy focused primarily on privately-held companies presents certain challenges, including the lack of available information about these companies, a dependence on the talents and efforts of only a few key portfolio company personnel and a greater vulnerability to economic downturns.

We invest primarily in privately-held companies. Generally, very little public information exists about these companies, and we are required to rely on the ability of our management team to obtain adequate information to evaluate the potential returns from investing in these companies. If we are unable to uncover all material information about these companies, then we may not make a fully informed investment decision, and we may not receive the expected return on our investment or lose some or all of the money invested in these companies. Also, privately-held companies frequently have less diverse product lines and a smaller market presence than do larger competitors. Privately-held companies are, thus, generally more vulnerable to economic downturns and may experience more substantial variations in operating results than do larger competitors. These factors could affect our investment returns and our results of operations and financial condition.

In addition, our success depends, in large part, upon the abilities of the key management personnel of our portfolio companies, who are responsible for the day-to-day operations of our portfolio companies. Competition for qualified personnel is intense at any stage of a company s development, and high turnover of personnel is common in technology-related companies. The loss of one or more key managers can hinder or delay a company s implementation of its business plan and harm its financial condition. Our portfolio companies may not be able to attract and retain qualified managers and personnel. Any inability to do so may negatively impact our investment returns and our results of operations and financial condition.

If our portfolio companies are unable to protect their intellectual property rights, then our business and prospects could be harmed. If our portfolio companies are required to devote significant resources to protecting their intellectual property rights, then the value of our investment could be reduced.

Our future success and competitive position depend in part upon the ability of our portfolio companies to obtain and maintain proprietary technology used in their products and services, which will often represent a significant portion of the collateral, if any, securing our investment. The portfolio companies will rely, in part, on patent, trade secret and trademark law to protect that technology, but competitors may misappropriate their intellectual property, and disputes as to ownership of intellectual property may arise. Portfolio companies may, from time to time, be required to institute litigation in order to enforce their patents, copyrights or other intellectual property rights, to protect their trade secrets, to determine the validity and scope of the proprietary rights of others or to defend against claims of infringement. Such litigation could result in substantial costs and diversion of resources. Similarly, if a portfolio company is found to infringe upon or misappropriate a third party s patent or other proprietary rights, that portfolio company could be required to pay damages to such third party, alter its own products or processes, obtain a license from the third party and/or cease activities utilizing such proprietary rights, including making or selling products utilizing such proprietary rights. Any of the foregoing events could negatively affect both the portfolio company s ability to service our debt investment and the value of any related debt and equity securities that we own, as well as any collateral securing our investment.

We may not be able to realize our entire investment on equipment-based loans in the case of default.

We may from time-to-time provide loans that will be collateralized only by equipment of the portfolio company. If the portfolio company defaults on the loan we would take possession of the underlying equipment to satisfy the outstanding debt. The residual value of the equipment at the time we would take possession may not be sufficient to satisfy the outstanding debt and we could experience a loss on the disposition of the equipment.

Our investments in foreign securities may involve significant risks in addition to the risks inherent in U.S. investments.

Our investment strategy contemplates that a portion of our investments may be in securities of foreign companies. 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. Our total investments at value in foreign companies were approximately $14.2 million or 2.5% of total assets at September 30, 2011.

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

Table of Contents

the number of companies in which we can make initial investments. In determining whether to make an additional investment our management will exercise its business judgment and apply criteria similar to those used when making the initial investment. We cannot assure you that we will have sufficient funds to make any necessary additional investments, which could adversely affect our success and result in the loss of a substantial portion or all of our investment in a portfolio company.

If our investments do not meet our performance expectations, you may not receive distributions.

We intend to make distributions on a quarterly basis to our stockholders. We may not be able to achieve operating results that will allow us to make distributions at a specific level or to increase the amount of these distributions from time to time. In addition, due to the asset coverage test applicable to us as a business development company, we may be limited in our ability to make distributions. See Regulation. Also, restrictions and provisions in any future credit facilities may limit our ability to make distributions. As a RIC, if we do not distribute a certain percentage of our income annually, we will suffer adverse tax consequences, including failure to obtain, or possible loss of, the federal income tax benefits allowable to RICs. See Certain United States Federal Income Tax Considerations Taxation as a Regulated Investment Company. We cannot assure you that you will receive distributions at a particular level or at all.

We may not have sufficient funds to make follow-on investments. Our decision not to make a follow-on investment may have a negative impact on a portfolio company in need of such an investment or may result in a missed opportunity for us.

After our initial investment in a portfolio company, we may be called upon from time to time to provide additional funds to such company or have the opportunity to increase our investment in a successful situation, for example, the exercise of a warrant to purchase common stock. Any decision we make not to make a follow-on 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.

Table of Contents

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 September 30, 2011, we received early loan repayments and pay down of working capital loans of approximately $172.2 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 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 portfolio company loans were prohibited from pledging or encumbering their intellectual property, 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.

Table of Contents

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 10.9% of the aggregate outstanding balance of our portfolio as of September 30, 2011. Payments on one or more of our loans, particularly a loan to a client in which we also hold an equity interest, may be subject to claims of equitable subordination. If we were deemed to have the ability to control or otherwise exercise influence over the business and affairs of one or more of our portfolio companies resulting in economic hardship to other creditors of that company, this control or influence may constitute grounds for equitable subordination and a court may treat one or more of our loans as if it were unsecured or common equity in the portfolio company. In that case, if the portfolio company were to liquidate, we would be entitled to repayment of our loan on a pro-rata basis with other unsecured debt or, if the effect of subordination was to place us at the level of common equity, then on an equal basis with other holders of the portfolio company s common equity only after all of its obligations relating to its debt and preferred securities had been satisfied.

Risks Related to Our Securities

Investing in our securities may involve an above average degree of risk.

The investments we make in accordance with our investment objective may result in a higher amount of risk, volatility or loss of principal than alternative investment options. Our investments in portfolio companies may be highly speculative and aggressive, and therefore, an investment in our securities may not be suitable for investors with lower risk tolerance.

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

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

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

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

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

Table of Contents

If we conduct an offering of our common stock at a price below net asset value, investors are likely to incur immediate dilution upon the closing of the offering.

We are not generally able to issue and sell our common stock at a price below net asset value per share. We may, however, sell our common stock, at a price below the current net asset value of the common stock, or sell warrants, options or rights to acquire such common stock, at a price below the current net asset value of the common stock if our board of directors determines that such sale is in the best interests of the Company and our stockholders have approved the practice of making such sales.

At our Annual Meeting of Stockholders on June 1, 2011, our stockholders approved a proposal authorizing us to sell up to 20% of our common stock at a price below the Company s net asset value per share, subject to Board approval of the offering. If we were to issue shares at a price below net asset value, such sales would result in an immediate dilution to existing common stockholders, which would include a reduction in the net asset value per share as a result of the issuance. This dilution would also include a proportionately greater decrease in a stockholder s interest in our earnings and assets and voting interest in us than the increase in our assets resulting from such issuance.

In addition, if we determined to conduct additional offerings in the future there may be even greater discounts if we determine to conduct such offerings at prices below net asset value. As a result, investors will experience further dilution and additional discounts to the price of our common stock.

Because the number of shares of common stock that could be so issued and the timing of any issuance is not currently known, the actual dilutive effect of an offering cannot be predicted. We did not sell any of our common stocks at a price below our net asset value during the quarter ended September 30, 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.

Table of Contents

Our shares may trade at discounts from net asset value or at premiums that are unsustainable over the long term.

Shares of business development companies may trade at a market price that is less than the net asset value that is attributable to those shares. Our shares have traded above and below our NAV. The possibility that our shares of common stock will trade at a discount from net asset value or at a premium that is unsustainable over the long term is separate and distinct from the risk that our net asset value will decrease. It is not possible to predict whether our shares will trade at, above or below net asset value in the future.

We may allocate the net proceeds from an offering in ways with which you may not agree.

We have significant flexibility in investing the net proceeds of an offering and may use the net proceeds from an offering in ways with which you may not agree or for purposes other than those contemplated at the time of the offering.

If we issue preferred stock, debt securities or convertible debt securities, the net asset value and market value of our common stock may become more volatile.

We cannot assure you that the issuance of preferred stock and/or debt securities would result in a higher yield or return to the holders of our common stock. The issuance of preferred stock, debt securities or convertible debt would likely cause the net asset value and market value of our common stock to become more volatile. If the dividend rate on the preferred stock, or the interest rate on the debt securities, were to approach the net rate of return on our investment portfolio, the benefit of leverage to the holders of our common stock would be reduced. If the dividend rate on the preferred stock, or the interest rate on the debt securities, were to exceed the net rate of return on our portfolio, the use of leverage would result in a lower rate of return to the holders of common stock than if we had not issued the preferred stock or debt securities. Any decline in the net asset value of our investment would be borne entirely by the holders of our common stock. Therefore, if the market value of our portfolio were to decline, the leverage would result in a greater decrease in net asset value to the holders of our common stock than if we were not leveraged through the issuance of preferred stock. This decline in net asset value would also tend to cause a greater decline in the market price for our common stock.

There is also a risk that, in the event of a sharp decline in the value of our net assets, we would be in danger of failing to maintain required asset coverage ratios which may be required by the preferred stock, debt securities, convertible debt or units or of a downgrade in the ratings of the preferred stock, debt securities, convertible debt or units or our current investment income might not be sufficient to meet the dividend requirements on the preferred stock or the interest payments on the debt securities. If we do not maintain our required asset coverage ratios, we may not be permitted to declare dividends. In order to counteract such an event, we might need to liquidate investments in order to fund redemption of some or all of the preferred stock, debt securities or convertible debt. In addition, we would pay (and the holders of our common stock would bear) all costs and expenses relating to the issuance and ongoing maintenance of the preferred stock, debt securities, convertible debt or any combination of these securities. Holders of preferred stock, debt securities or convertible debt may have different interests than holders of common stock and may at times have disproportionate influence over our affairs.

Holders of any preferred stock that we may issue will have the right to elect members of the board of directors and have class voting rights on certain matters.

The 1940 Act requires that holders of shares of preferred stock must be entitled as a class to elect two directors at all times and to elect a majority of the directors if dividends on such preferred stock are in arrears by two years or more, until such arrearage is eliminated. In addition, certain matters under the 1940 Act require the separate vote of the holders of any issued and outstanding preferred stock, including changes in fundamental investment restrictions and conversion to open-end status and, accordingly, preferred stockholders could veto any

Table of Contents

such changes. Restrictions imposed on the declarations and payment of dividends or other distributions to the holders of our common stock and preferred stock, both by the 1940 Act and by requirements imposed by rating agencies, might impair our ability to maintain our qualification as a RIC for U.S. federal income tax purposes.

Your interest in us may be diluted if you do not fully exercise your subscription rights in any rights offering. In addition, if the subscription price is less than our net asset value per share, then you will experience an immediate dilution of the aggregate net asset value of your shares.

In the event we issue subscription rights, stockholders who do not fully exercise their subscription rights should expect that they will, at the completion of a rights offering pursuant to this prospectus, own a smaller proportional interest in us than would otherwise be the case if they fully exercised their rights. We cannot state precisely the amount of any such dilution in share ownership because we do not know at this time what proportion of the shares will be purchased as a result of such rights offering.

In addition, if the subscription price is less than the net asset value per share of our common stock, then our stockholders would experience an immediate dilution of the aggregate net asset value of their shares as a result of the offering. The amount of any decrease in net asset value is not predictable because it is not known at this time what the subscription price and net asset value per share will be on the expiration date of a rights offering or what proportion of the shares will be purchased as a result of such rights offering. Such dilution could be substantial.

The trading market or market value of our publicly issued debt securities may fluctuate.

Our publicly issued debt securities may or may not have an established trading market. We cannot assure you that a trading market for our publicly issued debt securities will ever develop or be maintained if developed. In addition to our creditworthiness, many factors may materially adversely affect the trading market for, and market value of, our publicly issued debt securities. These factors include, but are not limited to, the following:

- the time remaining to the maturity of these debt securities;
- the outstanding principal amount of debt securities with terms identical to these debt securities;
- the ratings assigned by national statistical ratings agencies;
- the general economic environment;
- the supply of debt securities trading in the secondary market, if any;
- the redemption or repayment features, if any, of these debt securities;
- the level, direction and volatility of market interest rates generally; and
- market rates of interest higher or lower than rates borne by the debt securities. You should also be aware that there may be a limited number of buyers when you decide to sell your debt securities. This too may materially adversely affect the market value of the debt securities or the trading market for the debt securities.

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

If your debt securities are redeemable at our option, we may choose to redeem your debt securities at times when prevailing interest rates are lower than the interest rate paid on your debt securities. In addition, if your debt securities are subject to mandatory redemption, we may be required to redeem your debt securities also at times when prevailing interest rates are lower than the interest rate paid on your debt securities. In this circumstance, you may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as your debt securities being redeemed.

Table of Contents

Our credit ratings may not reflect all risks of an investment in our debt securities.

Our credit ratings are an assessment by third parties of our ability to pay our obligations. Consequently, real or anticipated changes in our credit ratings will generally affect the market value of our debt securities. Our credit ratings, however, may not reflect the potential impact of risks related to market conditions generally or other factors discussed above on the market value of or trading market for the publicly issued debt securities.

Investors in offerings of our common stock will likely incur immediate dilution upon the closing of such offering.

We generally expect the public offering price of any offering of shares of our common stock to be higher than the book value per share of our outstanding common stock (unless we offer shares pursuant to a rights offering or after obtaining prior approval for such issuance from our stockholders and our independent directors). Accordingly, investors purchasing shares of common stock in offerings pursuant to this prospectus may pay a price per share that exceeds the tangible book value per share after such offering.

Our stockholders will experience dilution in their ownership percentage if they opt out of our dividend reinvestment plan.

All dividends declared in cash payable to stockholders that are participants in our dividend reinvestment plan are automatically reinvested in shares of our common stock. As a result, our stockholders that opt out of our dividend reinvestment plan will experience dilution in their ownership percentage of our common stock over time.

Our stockholders may experience dilution upon the conversion of the Convertible Notes.

The Convertible Senior Notes are convertible into shares of our common stock beginning October 15, 2015, or, under certain circumstances, earlier. Upon conversion of the Convertible Notes, we have the choice to pay or deliver, as the case may be, at our election, cash, shares of our common stock or a combination of cash and shares of our common stock. The current conversion price of the Convertible Senior Notes is approximately $11.89 per share of common stock, in each case subject to adjustment in certain circumstances. If we elect to deliver shares of common stock upon a conversion at the time our tangible book value per share exceeds the conversion price in effect at such time, our stockholders may incur dilution. In addition, our stockholders will experience dilution in their ownership percentage of common stock upon our issuance of common stock in connection with the conversion of the Convertible Senior Notes and any dividends paid on our common stock will also be paid on shares issued in connection with such conversion after such issuance.

Our common stock price has been and continues to be volatile and may decrease substantially.

As with any company, the price of our common stock will fluctuate with market conditions and other factors, which include, but are not limited to, the following:

- price and volume fluctuations in the overall stock market from time to time;
- significant volatility in the market price and trading volume of securities of RICs, business development companies or other financial services companies;
- any inability to deploy or invest our capital;
- fluctuations in interest rates;
- any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;

the financial performance of specific industries in which we invest in on a recurring basis;

Table of Contents

- 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.

Table of Contents

FORWARD-LOOKING STATEMENTS

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

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

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

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

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

Table of Contents

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.

Table of Contents

USE OF PROCEEDS

We intend to use the net proceeds from selling our securities for funding investments in debt and equity securities in accordance with our investment objective and other general corporate purposes. The supplement to this prospectus relating to an offering will more fully identify the use of proceeds from such offering.

We anticipate that substantially all of the net proceeds from any offering of our securities will be used as described above within twelve months, but in no event longer than two years. Pending such uses and investments, we will invest the net proceeds primarily in cash, cash equivalents, U.S. government securities or high-quality debt securities maturing in one year or less from the time of investment. Our ability to achieve our investment objective may be limited to the extent that the net proceeds of any offering, pending full investment, are held in lower yielding short-term instruments.

Table of Contents

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			
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	$ 9.67	$ 11.36	$ 10.09	117.5%	104.3%	$ 0.220
Third quarter	$ 9.61	$ 10.75	$ 8.51	111.9%	88.6%	$ 0.220
Fourth quarter	*	$ 9.99	$ 8.20	*	*	$ 0.220
2012						
First quarter (through February 7, 2012)	*	$ 10.90	$ 9.53	*	*	

(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 February 7, 2012 was $10.61 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.

Table of Contents

Dividends

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

Date Declared	Record Date	Payment Date	Amount Per Share
October 27, 2005	November 1, 2005	November 17, 2005	$ 0.025
December 9, 2005	January 6, 2006	January 27, 2006	0.300
April 3, 2006	April 10, 2006	May 5, 2006	0.300
July 19, 2006	July 31, 2006	August 28, 2006	0.300
October 16, 2006	November 6, 2006	December 1, 2006	0.300
February 7, 2007	February 19, 2007	March 19, 2007	0.300
May 3, 2007	May 16, 2007	June 18, 2007	0.300
August 2, 2007	August 16, 2007	September 17, 2007	0.300
November 1, 2007	November 16, 2007	December 17, 2007	0.300
February 7, 2008	February 15, 2008	March 17, 2008	0.300
May 8, 2008	May 16, 2008	June 16, 2008	0.340
August 7, 2008	August 15, 2008	September 15, 2008	0.340
November 6, 2008	November 14, 2008	December 15, 2008	0.340
February 12, 2009	February 23, 2009	March 30, 2009	0.320*
May 7, 2009	May 15, 2009	June 15, 2009	0.300
August 6, 2009	August 14, 2009	September 14, 2009	0.300
October 15, 2009	October 20, 2009	November 23, 2009	0.300
December 16, 2009	December 24, 2009	December 30, 2009	0.040
February 11, 2010	February 19, 2010	March 19, 2010	0.200
May 3, 2010	May 12, 2010	June 18, 2010	0.200
August 2, 2010	August 12, 2010	September 17, 2010	0.200
November 4, 2010	November 10, 2010	December 17, 2010	0.200
March 1, 2011	March 10, 2011	March 24, 2011	0.220
May 5, 2011	May 11, 2011	June 23, 2011	0.220
August 4, 2011	August 15, 2011	September 15, 2011	0.220
November 3, 2011	November 14, 2011	November 29, 2011	0.220
			$ 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 which was paid on November 29, 2011 to shareholders of record as of November 14, 2011. This dividend was the Company s twenty-sixth consecutive quarterly dividend declaration since its initial public offering, and brings 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.

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, 2011,

approximately 97% would be from ordinary income and spill over earnings from 2010 and 3% 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 2011 distributions to stockholders will actually be.

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.

Table of Contents

RATIO OF EARNINGS TO FIXED CHARGES

For the nine months ended September 30, 2011 and the years ended December 31, 2010, 2009, 2008, 2007 and 2006, our ratio of earnings to fixed charges, computed as set forth below, were as follows:

	For the nine months ended September 30, 2011	For the year ended December 31, 2010	For the year ended December 31, 2009	For the year ended December 31, 2008	For the year ended December 31, 2007	For the year ended December 31, 2006
Earnings to Fixed Charges(1)	2.60	0.51	1.20	1.33	7.45	1.73

For purposes of computing the ratios of earnings to fixed charges, earnings represent net increase in stockholders equity resulting from operations plus (or minus) income tax expense (benefit) including excise tax expense plus fixed charges. Fixed charges include interest and credit facility fees expense and amortization of debt issuance costs.

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

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our consolidated financial statements and related notes and other financial information appearing elsewhere in this report. In addition to historical information, the following discussion and other parts of this report contain forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated by such forward-looking information due to the factors discussed under Risk Factors and Forward-Looking Statements appearing elsewhere herein.

Overview

We are a specialty finance 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.

Table of Contents

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.

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.

Table of Contents

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 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, we classify our investments by level of control. Control Investments are defined in the 1940 Act as investments in those companies that we are deemed to Control . Generally, under the 1940 Act, we are deemed to Control a company in which we have invested if we own 25% or more of the voting securities of such company or have greater than 50% representation on its board. Affiliate Investments are investments in those companies that are Affiliated Companies of us, as defined in the 1940 Act, which are not Control Investments. We are deemed to be an Affiliate of a company in which we have invested if we own 5% or more but less than 25% of the voting securities of such company. Non-Control/Non-Affiliate Investments are investments that are neither Control Investments nor Affiliate Investments.

The following table summarizes our realized and unrealized gain and loss and changes in our unrealized appreciation and depreciation on control and affiliate investments for the three and 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

Our investment in InfoLogix, Inc., a company that was a Control Investment as of December 31, 2010, was sold to Stanley Black & Decker (NYSE:SWK) in January 2011. Approximately $8.3 million of realized gains and $8.4 million of net change in unrealized depreciation was recognized on this control investment during the three-month period ended March 31, 2011.

Table of Contents

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.

58

Table of Contents

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,

Table of Contents

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.

Table of Contents

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,	
(in millions)	**2011**	**2010**	**2011**	**2010**
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.

Table of Contents

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.

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.

Table of Contents

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.

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)

Table of Contents

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,

Table of Contents

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.

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 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.

Table of Contents

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,

Table of Contents

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.

Table of Contents

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

(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.

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.

Table of Contents

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.

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

Table of Contents

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

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.

75

Table of Contents

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-sixth 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.

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 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

Table of Contents

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.

Table of Contents

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.

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.

Table of Contents

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.

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

Table of Contents

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.

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 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 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

Table of Contents

(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.

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 September 30, 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 September 30, 2011, the end of the period covered by its Quarterly Report on Form 10-Q, because of the continuing remediation efforts discussed below.

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 and in the Company s Quarterly Report on Form 10-Q for the three months ended March 31, 2011, 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 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.

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

Table of Contents

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 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.

Table of Contents

BUSINESS

We are a specialty finance company that provides debt and equity growth capital to technology-related companies at various stages of development from seed and emerging growth to expansion and established stages of development, which include select publicly listed companies and select lower middle market 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, MA, Boulder CO, and McLean, VA.

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.

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

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. 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.

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, MA, Boulder, CO and McLean, VA. We maintain a website on the Internet at www.herculestech.com. Information contained in our website is not incorporated by reference into this Prospectus, and you should not consider that information as part of this 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 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 venture-backed companies receiving financing 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 underserved, in part because of the credit market collapse in 2008 and the resulting exit of debt capital providers to technology-related companies. The venture capital market for the technology-related companies in which we invest has been active and is continuing to show signs of increased investment activity. 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 180 technology-related companies, representing over $2.6 billion in commitments from inception to 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 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.

Table of Contents

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 approximately 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.

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 18 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 14% as of September 30, 2011. As of September 30, 2011, 91.1% of our loans were at variable rates or variable rates with a floor and 8.9% 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 14% 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 September 30, 2011, we held equity interests in 39 portfolio companies.

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 September 30, 2011, our investments in lower middle market companies accounted for approximately 27.2% 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;

Table of Contents

Documentation; and

Loan and Compliance Administration.

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 29 investment professionals, is headed by our Senior Managing Directors of Technology, Clean 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 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. 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.

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, Clean 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

Table of Contents

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.

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 September 30, 2011, our investments had a weighted average investment grading of 1.96.

Table of Contents

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.

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, MA, Boulder, CO and McLean, VA.

Employees

As of September 30, 2011, we had 52 employees, including 29 investment and portfolio management professionals all of whom have extensive experience working on financing transactions for technology-related companies.

Table of Contents

PORTFOLIO COMPANIES

(dollars in thousands)

The following tables set forth certain information as of September 30, 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	0.48%		69	878
149 Sidney Street		Preferred Stock Warrants	0.12%		35	186
Cambridge, MA 02139		Preferred Stock Warrants	0.05%		39	85
		Preferred Stock	0.82%		1,341	2,473
Total Acceleron Pharmaceuticals, Inc.					1,484	3,622
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	24,269	25,019
		Common Stock Warrants	0.43%		541	378
		Common Stock Warrants	0.36%		443	308
Total Anthera Pharmaceuticals inc.					25,253	25,705
Aveo Pharmaceuticals, Inc.	Drug Discovery	Senior Debt				
75 Sidney Street 4th Floor		Matures June 2014				
Cambridge, MA 02139		Interest rate Prime + 7.15% or				
		Floor rate of 11.9%		$ 25,000	26,554	27,304
		Common Stock	0.39%		842	2,583
Total Aveo Pharmaceuticals, Inc.					27,396	29,887
Dicerna Pharmaceuticals, Inc.	Drug Discovery	Senior Debt				
480 Arsenal Street		Matures January 2015				
Bldg 1, Suite 120		Interest rate Prime + 5.75% or				
Watertown, MA 02472		Floor rate of 10.15%		$ 7,000	6,986	6,986
		Preferred Stock Warrants	0.81%		206	90
		Preferred Stock Warrants	0.07%		31	26
		Preferred Stock Warrants	0.14%		28	15
		Preferred Stock Warrants	0.60%		187	143
		Preferred Stock	0.76%		502	439
Total Dicerna Pharmaceuticals, Inc.					7,940	7,699
EpiCept Corporation	Drug Discovery	Common Stock Warrants	0.46%		4	13
777 Old Saw Mill River Road						

Tarrytown, NY 10591					
Total EpiCept Corporation				4	12
Horizon Therapeutics, Inc. 1033 Skokie Boulevard, Suite 355	Drug Discovery	Preferred Stock Warrants	0.11%	231	1
Northbrook, IL 60062					
Total Horizon Therapeutics, Inc.				231	1
Inotek Pharmaceuticals Corp. 33 Hayden Avenue, 2nd Floor	Drug Discovery	Preferred Stock	0.10%	1,500	
Lexington, MA 02421					
Total Inotek Pharmaceuticals Corp.				1,500	
Merrimack Pharmaceuticals, Inc. One Kendall Square	Drug Discovery	Preferred Stock Warrants	0.31%	155	1,115
Building 700, 2nd Floor					
Cambridge, MA 02139		Preferred Stock	0.56%	2,000	3,825
Total Merrimack Pharmaceuticals, Inc.				2,155	4,940

99

Table of Contents

Portfolio Company	Industry	Type of Investment(1)	Percentage of Class Held on a Fully Diluted Basis(8)	Principal Amount	Cost(2)	Value(3)
Paratek Pharmaceuticals, Inc. 75 Kneeland Street	Drug Discovery	Preferred Stock Warrants	0.53%		137	140
Boston, MA 02111		Preferred Stock	0.61%		1,000	1,348
Total Paratek Pharmaceuticals, Inc.					1,137	1,488
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% Preferred Stock Warrants	 0.59%	$ 9,224	7,394 480	7,546 78
Total PolyMedix, Inc.					7,874	7,624
Portola Pharmaceuticals, Inc. 270 E Grand Avenue	Drug Discovery					
South San Francisco, CA 94080		Preferred Stock Warrants	0.32%		152	285
Total Portola Pharmaceuticals, Inc.					152	285
Total Drug Discovery (19.25%)*					75,126	81,264
Affinity Videonet, Inc. 1641 California, 3rd Floor Denver, CO 80202	Communications & Networking	Preferred Stock Warrants	4.45%		102	149
Total Affinity Videonet, Inc.					102	149
E-band Communications, Corp.(6) 10095 Scripps Ranch Ct. Suite A. San Diego, CA 92131	Communications & Networking	Convertible Senior Debt Matures May 2013 Interest rate Fixed 6.00% Preferred Stock	 10.38%	 $ 356	 356 2,880	
Total E-Band Communications, Corp.					3,236	
IKANO Communications, Inc. 124 N. Charles Lindbergh Salt Lake City, UT 84111	Communications & Networking	Preferred Stock Warrants Preferred Stock Warrants	1.43% 2.18%		45 72	
Total IKANO Communications, Inc.					117	
Intelepeer, Inc.	Communications					
2855 Campus Drive, Suite 450 San Mateo, CA 94404	& Networking	Senior Debt Matures May 2013 Interest rate Prime + 8.12% or				
		Floor rate of 11.37% Senior Debt Matures May 2012		$ 6,524	6,509	6,640
		Interest rate Prime + 4.25%		$ 1,100	998	998

		Preferred Stock Warrants	0.33%		102	123
Total Intelepeer, Inc.					7,609	7,761
Neonova Holding Company 1000 Perimeter Park Drive,	Communications & Networking					
Suite K Morrisville, NC 27560		Preferred Stock Warrants Preferred Stock	1.61% 1.79%		94 250	21 197
Total Neonova Holding Company					344	218
Opsource, Inc. 5201 Great America Parkway	Communications & Networking	Preferred Stock Warrants	0.58%		0	0
Suite 120						
Santa Clara, CA 95054						
Total Opsource, Inc.					0	0
Pac-West Telecomm, Inc. 555 12th Street	Communications & Networking	Senior Debt Matures October 2014				
Suite 250		Interest rate Prime + 7.50% or				
Oakland, CA 94607		Floor rate of 12.00%		$ 4,369	4,164	4,164
		Preferred Stock Warrants	0.78%		121	
Total Pac-West Telecomm, Inc.					4,285	4,164

Table of Contents

Portfolio Company	**Industry**	**Type of Investment**(1)	**Percentage of Class Held on a Fully Diluted Basis**(8)	**Principal Amount**	**Cost**(2)	**Value**(3)
PeerApp, Inc. 375 Elliot Street, Suite 150K	Communications & Networking	Senior Debt Matures April 2013				
Newton Upper Falls, MA 02464		Interest rate Prime + 7.5% or				
		Floor rate of 11.50%		$ 2,072	2,091	2,112
		Preferred Stock Warrants	0.39%		61	91
Total PeerApp, Inc.					2,152	2,203
Peerless Network, Inc. 200 S. Wacker Drive, Suite 3100	Communications & Networking	Preferred Stock Warrants	0.43%		95	187
Chicago, IL 60606		Preferred Stock	3.21%		1,000	2,370
Total Peerless Network, Inc.					1,095	2,557
Ping Identity Corporation 1099 18th Street, Suite 2950	Communications & Networking	Preferred Stock Warrants	0.68%		52	410
Denver, CO 80202						
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
		Common Stock Warrants	1.50%		131	194
Total PointOne, Inc.					8,284	8,347
Purcell Systems, Inc. 16125 East Euclid Avenue	Communications & Networking	Preferred Stock Warrants	1.18%		123	89
Spokane, WA 99216						
Total Purcell Systems, Inc.					123	89
Seven Networks, Inc. 2100 Seaport Blvd, Suite 100	Communications & Networking	Preferred Stock Warrants	0.89%		174	
Redwood City, CA 94063						
Total Seven Networks, Inc.					174	
Stoke, Inc.(4) 5403 Betsy Ross Drive	Communications & Networking	Senior Debt Matures May 2013				
Santa Clara, CA 94043		Interest rate Prime + 7.0% or				
		Floor rate of 10.25%		$ 3,051	2,995	3,025
		Preferred Stock Warrants	0.24%		53	68
		Preferred Stock Warrants	0.11%		65	54
		Preferred Stock	0.23%		500	500

Total Stoke, Inc.					3,613	3,647
Tectura Corporation 333 Twin Dolphin Drive,	Communications & Networking	Senior Debt				
Suite 750		Matures December 2012				
Redwood City, CA 94065		Interest rate 11% Revolving Line of Credit Matures July 2011		$ 8,125	9,324	9,209
		Interest rate 11%		$ 17,207	17,332	17,332
		Preferred Stock Warrants	0.22%		51	33
Total Tectura Corporation					26,707	26,574
Total Communications & Networking (13.30%)*					57,893	56,119
Atrenta, Inc.	Software	Preferred Stock Warrants	0.77%		102	368
2077 Gateway Place, Suite 300		Preferred Stock Warrants	0.25%		34	121
San Jose, CA 95110		Preferred Stock Warrants	0.30%		95	174
		Preferred Stock	0.25%		250	375
Total Atrenta, Inc.					481	1,038
Blurb, Inc.		Preferred Stock Warrants	0.44%		25	403
580 California Street, Suite 300		Preferred Stock Warrants	0.44%		298	400
San Francisco, CA 94104						
Total Blurb, Inc.					323	803

101

Table of Contents

Portfolio Company	Industry	Type of Investment(1)	Percentage of Class Held on a Fully Diluted Basis(8)	Principal Amount	Cost(2)	Value(3)
Braxton Technologies, LLC. 770 Wooten Road, Suite 105 Colorado Springs, CO 80915	Software	Preferred Stock Warrants	0.62%		188	
Total Braxton Technologies, LLC.					188	
Bullhorn, Inc. 33-41 Farnsworth, 5th Floor Boston, MA 02210	Software	Preferred Stock Warrants	0.80%		43	188
Total Bullhorn, Inc.					43	188
Central Desktop, Inc. 100 North Lake Avenue, #205 Pasadena, CA 91101	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	1.95%		108	299
Total Central Desktop, Inc.					2,980	3,171
Clickfox, Inc. 3445 Peachtree Road, Suite 1250 Atlanta, GA 30326	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	0.83%		177	327
		Preferred Stock Warrants	0.75%		152	296
Total Clickfox, Inc.					4,791	5,176
Forescout Technologies, Inc. 10001 De Anza Blvd., Suite 220 Cupertino, CA 95014	Software	Preferred Stock Warrants	0.88%		99	47
Total Forescout Technologies, Inc.					99	47
GameLogic, Inc. 411 Waverly Oakds Road, Suite 312 Boston, MA 02452	Software	Preferred Stock Warrants	2.67%		92	
Total GameLogic, Inc.					92	
HighJump Acquisition, LLC. 6455 City West Parkway Eden Prairie, MN 55344	Software	Senior Debt Matures May 2013 Interest rate Libor + 8.75% or		$ 0	0	0

		Floor rate of 12.00%				
Total HighJump Acquisition, LLC.					0	0
HighRoads, Inc. 150 Presidential Way Woburn, MA 01801	Software	Preferred Stock Warrants	0.83%		44	7
Total HighRoads, Inc.					44	7
Kxen, Inc. 201 Mission Street Suit 1950 San Francisco, CA 94105	Software	Senior Debt Matures January 2015 Interest rate Prime + 5.08% or Floor rate of 8.33%		$ 3,000	2,938	2,938
		Preferred Stock Warrants	0.46%		47	29
Total Kxen, Inc.					2,985	2,967
RichRelevance, Inc. 275 Battery Street Suite 1150 San Francisco, CA 94111	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	0.20%		98	23
Total RichRelevance, Inc.					4,955	4,880
Rockyou, Inc. 585 Broadway Street, Suite A Redwood City, CA 94036	Software	Preferred Stock Warrants	0.08%		117	7
Total Rockyou, Inc.					117	7

102

Table of Contents

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	
SugarSync Inc. 2121 South El Camino Real #600	Software	Senior Debt Matures April 2015				
San Mateo, CA 94403		Interest rate Prime + 4.50% or				
		Floor rate of 8.25%		$ 2,000	1,946	1,946
		Preferred Stock Warrants	0.47%		78	77
Total SugarSync Inc.					2,024	2,023
Unify Corporation 1420 Rocky Ridge Drive,	Software					
Suite 380						
Roseville, CA 95661		Preferred Stock Warrants	3.69%		1,434	332
Total Unify Corporation					1,434	332
White Sky, Inc. 1825 S. Grant Street Suite 250	Software	Senior Debt Matures June 2014				
San Mateo, CA 94402		Interest rate Prime + 7.00% or				
		Floor rate of 10.25%		$ 1,500	1,443	1,443
	Software	Preferred Stock Warrants	0.44%		54	1
Total White Sky, Inc.					1,497	1,444
WildTangent, Inc. 18578 NE 67th Court, Building 5	Software	 Preferred Stock Warrants	 0.17%		 238	 11
Redmond, WA 98052						
Total WildTangent, Inc.					238	11
Total Software (5.23%)*					22,330	22,094
Luminus Devices, Inc. 1100 Technology Park Drive Billerica, MA 02821	Electronics & Computer Hardware	Preferred Stock Warrants Preferred Stock Warrants Preferred Stock Warrants	0.06% 0.01% 0.02%		183 84 334	
Total Luminus Devices, Inc.					601	
Maxvision Holding, LLC. 495 Production Avenue	Electronics & Computer	Senior Debt Matures December 2013		 $ 4,366	 4,462	 2,069
Huntsville, AL 35758	Hardware	Interest rate Prime + 8.25% or				

		Floor rate of 12.00%, PIK				
		interest 5.00%				
		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	24.06%		3,581	
Total Maxvision Holding, LLC					11,610	2,983
Shocking Technologies, Inc. 5870 Hellyer Avenue San Jose, CA 95138	Electronics & Computer Hardware	Preferred Stock Warrants	0.25%		63	57
Total Shocking Technologies, Inc.					63	57
Spatial Photonics, Inc.[8] 930 Hamlin Court Sunnyvale, CA 94086	Electronics & Computer Hardware	Preferred Stock Warrants	0.19%		130	
		Preferred Stock	0.84%		767	
Total Spatial Photonics Inc.					898	
VeriWave, Inc. 8770 SW Nimbus Avenue, Suite B Beaverton, OR 97008	Electronics & Computer Hardware	Preferred Stock Warrants	1.22%			
		Preferred Stock Warrants	0.31%			
Total VeriWave, Inc.						
Total Electronics & Computer Hardware (.72%)*					13,172	3,040

103

Table of Contents

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.	Specialty	Senior Debt				
1140 Route 22 East, Suite 304	Pharmaceuticals	Matures September 2014				
Bridgewater, NJ 08807		Interest rate Prime + 5.65% or				
		Floor rate of 10.40%		$ 10,000	10,138	10,325
		Preferred Stock Warrants	0.52%		69	722
		Common Stock	0.69%		1,093	1,825
Total Aegerion Pharmaceuticals, Inc.					11,300	12,872
Althea Technologies, Inc.	Specialty	Senior Debt				
11040 Roselle Street	Pharmaceuticals	Matures October 2013				
San Diego, CA 92121		Interest rate Prime + 7.70% or				
		Floor rate of 10.95%		$ 10,990	10,844	11,135
		Preferred Stock Warrants	3.04%		309	362
Total Althea Technologies, Inc.					11,153	11,497
Chroma Therapeutics, Ltd.[5]	Specialty	Senior Debt				
93 Milton Park	Pharmaceuticals	Matures September 2013 Interest rate Prime + 7.75% or Floor rate				
Abington, Oxon OX14 4RY		of 12.00%		$ 8,540	8,738	8,738
		Preferred Stock Warrants	0.60%		490	345
Total Chroma Therapeutics, Ltd.					9,228	9,082
Pacira Pharmaceuticals, Inc.	Specialty	Senior Debt				
5 Sylvan Way	Pharmaceuticals	Matures August 2014				
Parsippany, NJ 07054		Interest rate Prime + 6.25% or				
		Floor rate of 10.25%		$ 11,250	11,237	11,237
		Senior Debt				
		Matures August 2014				
		Interest rate Prime + 8.65% or				
		Floor rate of 12.65%		$ 15,000	14,255	14,443
		Preferred Stock Warrants	1.04%		1,086	584
Total Pacira Pharmaceuticals, Inc.					26,578	26,264
QuatRx Pharmaceuticals Company		Convertible Senior Debt				
777 East Eisenhower Pkwy		Matures March 2012		$ 1,888	1,888	1,888
Suite 100		Preferred Stock Warrants	0.51%		220	
Ann Arbor, MI 48108		Preferred Stock Warrants	0.42%		307	
		Preferred Stock	0.46%		750	
Total Quatrx Pharmaceuticals Company					3,165	1,888
Total Specialty Pharmaceuticals (14.60%)*					61,424	61,603
Annie s, Inc.	Consumer					

564 Gateway Drive	& Business	Preferred Stock Warrants	0.47%		321	96
Napa, CA 94558	Products					
Total Annie s, Inc.					321	96
IPA Holdings, LLC(4) 2775 Premiere Parkway,		Preferred Stock Warrants	2.26%		275	24
Suite 100		Common Stock	1.74%		500	260
Deluth, GA 30097						
Total IPA Holding, LLC					775	284
Market Force Information, Inc.	Consumer	Preferred Stock Warrants	0.36%		24	105
1877 Broadway Suite 200	& Business	Preferred Stock	0.68%		500	481
Boulder, CO 80302	Products					
Total Market Force Information, Inc.					524	586
TV Guide, Inc. 11 W 42nd Street,	Consumer & Business	Revolving Line of Credit Matures October 2011				
New York, NY 10036	Products	Interest rate Prime + 11.00% or				
		Floor rate of 13.00%		$ 500	479	479
Total TV Guide, Inc.					479	479

104

Table of Contents

Portfolio Company	Industry	Type of Investment(1)	Percentage of Class Held on a Fully Diluted Basis(8)	Principal Amount	Cost(2)	Value(3)
Wageworks, Inc. 1100 Park Place 4th Floor San Mateo, CA 94403	Consumer & Business Products	Preferred Stock Warrants Preferred Stock	1% 0%		252 250	2,510 390
Total Wageworks, Inc.					502	2,900
Total Consumer & Business Products (1.03%)*					2,601	4,345
Achronix Semiconductor Corporation 333 West San Carlo Street Suite 1050 San Jose, CA 95110	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	0.70%		160	152
Total Achronix Semiconductor Corporation					2,556	2,548
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	0.23%		46	3
		Preferred Stock Warrants	0.10%		51	1
		Preferred Stock Warrants	0.12%		73	2
		Preferred Stock Warrants	0.58%		458	7
		Preferred Stock	0.99%		490	983
Total iWatt, Inc.					1,118	996
Kovio Inc. 233 S. Hillview Drive Milpitas, CA 95035	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	0.12%		27	27
Total Kovio Inc.					1,240	1,240
NEXX Systems, Inc. 900 Middlesex Turnpike	Semiconductors	Preferred Stock Warrants	1.99%		297	1,330
Billerica, MA 01821-3929		Preferred Stock	0.86%		277	802
Total NEXX Systems, Inc.					574	2,132
Quartics, Inc. 15241 Laguna Canyon Road Suite 200 Irvine, CA 92618	Semiconductors	Preferred Stock Warrants	0.04%		53	
Total Quartics, Inc.					53	

Solarflare Communications, Inc. 9501 Jeronino Rd. Suite 100	Semiconductors	Preferred Stock Warrants	0.00%			
Irvine, CA 92618		Common Stock	0.00%			
Total Solarflare Communications, Inc.						
Total Semiconductors (1.64%)*					5,698	6,916
AcelRX Pharmaceuticals, Inc. 575 Chespeake Drive Redwood City, CA 94063	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	0.71%		178	102
		Common Stock Warrants	0.71%		178	102
Total AcelRX Pharmaceuticals, Inc.					10,134	9,982
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%		$ 11,770	11,699	12,121
		Preferred Stock Warrants	0.52%		645	103
Total Alexza Pharmaceuticals, Inc.					12,344	12,224

Table of Contents

Portfolio Company	Industry	Type of Investment[(1)]	Percentage of Class Held on a Fully Diluted Basis[(8)]	Principal Amount	Cost[(2)]	Value[(3)]
BIND Biosciences, Inc. 64 Sidney Street Cambridge, MA 02139	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	0.40%		188	312
Total BIND Biosciences, Inc.					4,946	5,268
Labopharm USA, Inc.[(5)] 480 Armand-Frappier Blvd. Laval, Canada H7V 4B4	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)] 3200 Lake Drive Citwest Business Campus Dublin,	Drug Delivery	Senior Debt Matures January 2015				
Ireland 2		Interest rate Prime + 9.20% or Floor rate of 12.45%		$ 5,000	4,735	3,870
		Common Stock Warrants	1.40%		214	23
Total Merrion Pharmaceuticals, Inc.					4,948	3,893
Transcept Pharmaceuticals, Inc. 1003 W. Cutting Blvd, Suite 110 Point Richmond, CA 94804	Drug Delivery	Common Stock Warrants	0.18%		36	57
		Common Stock Warrants	0.27%		51	86
		Common Stock	0.31%		500	275
Total Transcept Pharmaceuticals, Inc.					587	418
Revance Therapeutics, Inc. 2400 Bayshore Parkway Suite 100 Mountain View, CA 94043	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	0.69%		557	557
Total Revance Therapeutics, Inc.					21,814	21,814
Total Drug Delivery (15.81%)*					67,908	66,734
BARRX Medical, Inc. 540 Oakmead Parkway	Therapeutic	Senior Debt Mature December 2011				
Sunnyvale, CA 94085		Interest rate 11.00%		$ 768	1,295	1,295
		Preferred Stock Warrants	0.11%		76	110
		Preferred Stock	1.23%		1,501	2,607
Total BARRX Medical, Inc.					2,872	4,012
EKOS Corporation 22030 20th Ave. Southeast,	Therapeutic	Preferred Stock Warrants	0.39%		175	
		Preferred Stock Warrants	0.77%		153	

Suite 101 Bothell, WA 98021						
Total EKOS Corporation					328	
Gelesis, Inc.(7) 222 Berkley Street, Suite 1040	Therapeutic	Senior Debt Matures May 2012				
Boston, MA 02116		Interest rate Prime + 7.5% or				
		Floor rate of 10.75%		$ 2,771	2,820	
Total Gelesis, Inc.					2,820	
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	5,775	5,842
		Preferred Stock Warrants	1.69%		228	240
		Preferred Stock	1.22%		532	451
Total Gynesonics, Inc.					6,535	6,533

106

Table of Contents

Portfolio Company	Industry	Type of Investment(1)	Percentage of Class Held on a Fully Diluted Basis(8)	Principal Amount	Cost(2)	Value(3)
Light Science Oncology, Inc. 15405 SE 37th Street, Suite 100 Bellevue, WA 98006	Therapeutic	Preferred Stock Warrants	0.15%		99	176
Total Light Science Oncology, Inc.					99	176
Novasys Medical, Inc. 39684 Eureka Drive Newark, CA 94560	Therapeutic	Preferred Stock Warrants	0.19%		71	
		Preferred Stock Warrants	0.05%		54	1
		Preferred Stock	1.86%		1,000	1,001
Total Novasys Medical, Inc.					1,125	1,001
Oraya Therapeutics, Inc. 8000 Jarvis Avenue Menlo Park, CA 94560	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	0.64%		232	232
Total Oraya Therapeutics, Inc.					7,549	7,549
Pacific Child & Family Associates, LLC 216 N. Eighth Street Santa Paula, CA 93060	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
Cozi Group, Inc. 506 Second Avenue, Suite 710 Seattle, WA 98104	Internet Consumer & Business Services	Preferred Stock Warrants	0.81%		147	
		Preferred Stock	0.58%		177	48
Total Cozi Group, Inc.					324	48
Invoke Solutions, Inc. 375 Totten Pond Road, Suite	Internet Consumer & Business Services	Preferred Stock Warrants	1.48%		56	
		Preferred Stock Warrants	0.33%		26	

400 Waltham, MA 02451						
Total Invoke Solutions, Inc.					82	
InXpo, Inc. 770 N Halsted Street, Suite 6s	Internet Consumer & Business Services	Senior Debt Matures March 2014				
Chicago, IL 60642		Interest rate Prime + 7.5% or				
		Floor rate of 10.75%		$ 3,500	3,403	3,403
		Preferred Stock Warrants	0.62%		98	82
Total InXpo, Inc.					3,501	3,484
Prism Education Group, Inc. 233 Needham Street Newton,	Internet Consumer & Business Services	Preferred Stock Warrants	1.00%		43	109
MA 02464						
Total Prism Education Group, Inc.					43	109
RazorGator Interactive Group, Inc.	Internet Consumer &	Preferred Stock Warrants	0.90%		13	
11150 Santa Monica Blvd.	Business Services	Preferred Stock Warrants	0.11%		28	
Suite 500 Los Angeles,		Preferred Stock Warrants	1.97%		1,183	
CA 90025		Preferred Stock	1.20%		1,000	
Total RazorGator Interactive Group, Inc.					2,224	

Table of Contents

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) 12667 Alcosta Blvd., Suite 200 San Ramon, CA 94583	Internet Consumer & Business Services	Senior Debt Matures June 2015 Interest rate Prime + 6.87% or Floor rate of 10.12%		$ 13,000	12,862	12,862
		Preferred Stock Warrants	1.10%		320	206
Total Reply! Inc.					13,182	13,068
ScriptSave (Medical Security Card Company, LLC) 4911 E. Broadway, Suite 200 Tucson, AZ 85711	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. 500 Treat Avenue Suite 200 San Francisco, CA 94110	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	0.19%		188	187
Total Trulia, Inc.					9,901	9,900
Vaultlogix, Inc. 75 Sylvan Street Danvers, MA 01923	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	0.09%		106	

36 Jonspin Road Wilmington, MA 01887		Common Stock Warrants	0.01%		48	
Total Lilliputian Systems, Inc.					154	
Total Energy (0.00%)*					154	
Box.net, Inc. 1895 El Camino Real Palo Alto, CA 94306	Information Services	Senior Debt Matures March 2015 Interest rate Prime + 3.75% or Floor rate of 7.50%		$ 4,808	4,686	4,686
		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	0.38%		73	1,998
		Preferred Stock Warrants	0.28%		117	1,352
		Preferred Stock Warrants	0.09%		194	191
		Preferred Stock	0.55%		500	3,137
		Preferred Stock	0.40%		1,500	2,270
Total Box.net, Inc.					8,672	15,270

108

Table of Contents

Portfolio Company	Industry	Type of Investment(1)	Percentage of Class Held on a Fully Diluted Basis(8)	Principal Amount	Cost(2)	Value(3)
Buzznet, Inc. 6464 Sunset Blvd., Suite 650	Information Services	Preferred Stock Warrants	0.01%		9	
Los Angeles, CA 90028		Preferred Stock	0.12%		250	34
Total Buzznet, Inc.					259	34
Cha Cha Search, Inc. 14550 Clay Terrace Blvd. Suite 130 Carmel, IN 46032	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	0.24%		58	10
Total Cha Cha Search, Inc.					2,974	2,926
XL Education Corp. 185 Madison Avenue, 5th Floor New York, NY 10016	Information Services	Common Stock	0.01%		880	880
Total XL Education Corp.					880	880
hi5 Networks, Inc. 55 Second St., Suite 300	Information Services	Preferred Stock Warrants	0.10%		213	
San Francisco, CA 94105		Preferred Stock	0.71%		250	741
Total hi5 Networks, Inc.					463	741
Jab Wireless, Inc. 5350 S. Roslyn St., Suite 306 Greenwood Village, CO 80111	Information Services	Senior Debt Matures August 2016				
		Interest rate Prime + 6.25% or Floor rate of 6.75%		$ 18,121	17,858	17,858
		Preferred Stock Warrants	0.78%		265	281
Total Jab Wireless, Inc.					18,123	18,139
Solutionary, Inc. 9420 Underwood Avenue	Information Services	Preferred Stock Warrants	0.60%		94	
		Preferred Stock Warrants	0.02%		2	
		Preferred Stock	0.26%		250	42
3rd Floor Omaha, NE 68114						
Total Solutionary, Inc.					346	42
Intelligent Beauty, Inc. 2301 Rosecrans Ave., Suite 4100 Manhattan Beach, CA 90245	Information Services	Preferred Stock Warrants	0.35%		230	90
Total Intelligent Beauty, Inc.					230	90
Good Technologies, Inc. 101 Redwood Shores Parkway Suite 400	Information Services	Common Stock				
Redwood Shores,						
CA 94065			0.17%		603	95

Total Good Technologies, Inc.				603	95
Coveroo, Inc. 333 Bryant Street	Information Services	Preferred Stock Warrants			
San Francisco, CA 94107			0.08%	0	
Total Coveroo, Inc.				0	
Zeta Interactive Corporation 99 Park Ave, 23rd Floor	Information Services	Preferred Stock Warrants Preferred Stock	1.19%	172	110
New York, NY 10016			0.96%	501	485
Total Zeta Interactive Corporation				673	595
Total Information Services (9.20%)				33,223	38,812
Novadaq Technologies, Inc.[(5)] 2585 Skymark Ave., Suite 306 Mississauga, Ontario L4W 4L5	Diagnostic	Common Stock	0.56%	1,415	808
Total Novadaq Technologies, Inc.				1,415	808

109

Table of Contents

Portfolio Company	Industry	Type of Investment[1]	Percentage of Class Held on a Fully Diluted Basis[8]	Principal Amount	Cost[2]	Value[3]
Optiscan Biomedical, Corp. 1105 Atlantic Ave., Suite 101 Alameda, CA 94501	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	2.43%		1,069	668
		Preferred Stock	3.18%		3,655	2,251
Total Optiscan Biomedical, Corp.					15,517	14,081
Total Diagnostic (3.53%)*					16,932	14,889
deCODE genetics ehf. Sturlugata 8 IS-101 Reykjavik Reykjavik, Iceland	Biotechnology Tools	Senior Debt Matures September 2014 Interest rate Prime + 10.25% or Floor rate of 13.50%, PIK interest 2.00%		$ 5,000	4,740	4,740
		Preferred Stock Warrants	1.36%		305	358
Total deCODE genetics ehf.					5,045	5,098
Kamada, LTD. Science Park, Kiryat Weizmann, Ness Ziona, Israel, 76327	Biotechnology Tools	Common Stock	0.26%		427	398
Total Kamada, LTD.					427	398
Labcyte, Inc. 1190 Borregas Avenue Sunnyvale, CA 94089	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	0.67%		192	190
		Common Stock Warrants	0.02%		5	5
Total Labcyte, Inc.					2,971	3,044
NeurogesX, Inc. 981F Industrial Road San Carlos, CA 94070	Biotechnology Tools	Senior Debt Matures February 2015 Interest rate Prime + 6.25% or Floor rate of 9.50%		$ 15,000	14,433	14,433
		Preferred Stock Warrants	2.67%		503	132
Total NeurogesX, Inc.					14,936	14,565
NuGEN Technologies, Inc. 821 Industrial Road, Unit A San Carlos, CA 94070	Biotechnology Tools	Preferred Stock Warrants	1.00%		45	203
		Preferred Stock Warrants	0.15%		33	15
		Preferred Stock	0.92%		500	473
Total NuGEN Technologies, Inc.					578	691
Total Biotechnology Tools (5.64%)*					23,957	23,796
Entrigue Surgical, Inc. 12672 Silicon Drive Suite 150 San Antonio, TX 78249	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	0.55%		87	87
Total Entrigue Surgical, Inc.					2,950	2,950

Transmedics, Inc. [4] 200 Minuteman Road, Suite 302 Andover, MA 01810	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	0.31%		225	
		Preferred Stock	0.43%		1,169	
Total Transmedics, Inc.					10,509	4,733
Total Surgical Devices (1.82%)*					13,459	7,683
Glam Media, Inc. 8000 Marina Blvd., Suite 130 Brisbane, CA 94005	Media/Content/Info	Preferred Stock Warrants	0.22%		482	138
Total Glam Media, Inc.					482	138

110

Table of Contents

Portfolio Company	Industry	Type of Investment[1]	Percentage of Class Held on a Fully Diluted Basis[8]	Principal Amount	Cost[2]	Value[3]
Everyday Health, Inc. (Waterfront Media, Inc.) 45 Main Street, Suite 800 Brooklyn, NY 11201		Preferred Stock Warrants	0.27%		60	364
		Preferred Stock	0.36%		1,000	945
Total Everyday Health					1,060	1,309
Women s Marketing, Inc. 1221 Post Road East Suite 201 Westport, CT 06880	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
BrightSource Energy, Inc. 1999 Harrison Street Suite 500 Oakland, CA 94612	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	0.12%		675	623
Total BrightSource Energy, Inc.					25,313	25,261
Calera, Inc. 14600 Winchester Boulevard Los Gatos, CA 95032	Clean Tech	Preferred Stock Warrants	2.08%		513	660
Total Calera, Inc.					513	660
EcoMotors, Inc. 17000 Federal Dr., Suite 200 Allen Park, MI 48101	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	0.54%		154	451
		Common Stock Warrants	0.54%		154	451
Total EcoMotors, Inc.					5,568	6,323
Enphase Energy, Inc. 201 1st Street Suite 111 Petaluma, CA 94952	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	0.12%		102	17

Total Enphase Energy, Inc.					4,237	4,152
GreatPoint Energy, Inc. 222 Third Street Suite 2163 Cambridge, MA 02142	Clean Tech	Preferred Stock Warrants	0.13%		548	203
Total GreatPoint Energy, Inc.					548	203
NanoSolar, Inc. 2440 Embarcadero Way Palo Alto, CA 94303	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	0.03%		355	355
Total NanoSolar, Inc.					9,870	9,870

111

Table of Contents

Portfolio Company	Industry	Type of Investment(1)	Percentage of Class Held on a Fully Diluted Basis(8)	Principal Amount	Cost(2)	Value(3)
Propel Biofuels, Inc. 2317 Broadway Street Redwood City, CA 94063	Clean Tech	Senior Debt Matures September 2013 Interest rate 11.0%		$ 1,540	1,562	1,570
		Preferred Stock Warrants	1.52%		211	195
Total Propel Biofuels, Inc.					1,773	1,765
Scientific Conservation, Inc. 2107 Dwight Way #120 Berkely, CA 94704	Clean Tech	Senior Debt Matures October 2014 Interest rate 6.25%		$ 202	196	196
		Preferred Stock Warrants	0.02%		8	2
Total Scientific Conservation, Inc.					204	198
Solexel, Inc. 1530 McCarthy Blvd. Milpitas, CA 95035	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	0.09%		335	11
		Preferred Stock Warrants	0.06%		259	71
		Preferred Stock Warrants	0.05%		142	142
		Preferred Stock Warrants	0.14%		426	427
Total Solexel, Inc.					11,788	11,278
Trilliant, Inc. 1100 Island Drive Redwood City, CA 94065	Clean Tech	Preferred Stock Warrants	0.07%		89	46
		Preferred Stock Warrants	0.06%		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.

112

Table of Contents

SENIOR SECURITIES

Information about our senior securities is shown in the following table for the periods as of December 31, 2010, 2009, 2008, 2007, 2006, 2005 and 2004. The information for the periods ended December 31, 2009, 2008, 2007, 2006, 2005 and 2004 has been derived from our audited financial statements for these periods, which have been audited by Ernst & Young LLP, our former independent registered public accounting firm. The information for the period ended December 31, 2010 has been derived from our audited financial statement for fiscal 2010, which have been audited by PricewaterhouseCoopers LLP, our independent registered public accounting firm. See Management s Discussion and Analysis of Financial Condition and Results of Operations Borrowings and Note 13 to the Notes to the Consolidated Financial Statements for updated senior securities information.

Class and Year	Total Amount Outstanding Exclusive of Treasury Securities(1)	Asset Coverage per Unit(2)	Average Market Value per Unit(3)
Bridge Loan Credit Facility with Alcmene Funding L.L.C			
December 31, 2004			N/A
December 31, 2005	$ 25,000,000	$ 2,505	N/A
December 31, 2006			N/A
December 31, 2007			N/A
December 31, 2008			N/A
December 31, 2009			N/A
December 31, 2010			N/A
September 30, 2011 (unaudited)			N/A
Securitized Credit Facility with Wells Fargo Capital Finance			
December 31, 2004			N/A
December 31, 2005	$ 51,000,000	$ 2,505	N/A
December 31, 2006	$ 41,000,000	$ 7,230	N/A
December 31, 2007	$ 79,200,000	$ 6,755	N/A
December 31, 2008	$ 89,582,000	$ 6,689	N/A
December 31, 2009(6)			N/A
December 31, 2010(6)			N/A
September 30, 2011(6) (unaudited)			N/A
Securitized Credit Facility with Union Bank, NA			
December 31, 2004			N/A
December 31, 2005			N/A
December 31, 2006			N/A
December 31, 2007			N/A
December 31, 2008			N/A
December 31, 2009			N/A
December 31, 2010(6)			N/A
September 30, 2011 (unaudited)(6)			N/A
Small Business Administration Debentures (HT II)(4)			
Debentures(4)			
December 31, 2004			N/A
December 31, 2005			N/A
December 31, 2006			N/A
December 31, 2007	$ 55,050,000	$ 9,718	N/A
December 31, 2008	$ 127,200,000	$ 4,711	N/A
December 31, 2009	$ 130,600,000	$ 3,806	N/A
December 31, 2010	$ 150,000,000	$ 3,942	N/A
September 30, 2011 (unaudited)	$ 125,000,000	$ 4,595	N/A
Small Business Administration Debentures (HT III)(5)			
December 31, 2004			N/A
December 31, 2005			N/A
December 31, 2006			N/A
December 31, 2007			N/A
December 31, 2008			N/A
December 31, 2009			N/A
December 31, 2010	$ 20,000,000	$ 29,564	N/A
September 30, 2011 (unaudited)	$ 38,750,000	$ 14,823	N/A

Senior Convertible Notes			
September 30, 2012 (Unaudited)	$ 70,082,000	$ 9,826	875

113

Table of Contents

(1) Total amount of each class of senior securities outstanding at the end of the period presented, rounded to nearest thousand.
(2) The asset coverage ratio for a class of senior securities representing indebtedness is calculated as our consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by senior securities representing indebtedness. This asset coverage ratio is multiplied by $1,000 to determine the Asset Coverage per Unit.
(3) Not applicable because senior securities are not registered for public trading.
(4) Issued by HT II, one of our SBIC subsidiaries, to the SBA. These categories of senior securities were not subject to the asset coverage requirements of the 1940 Act.
(5) Issued by HT III, one of our SBIC subsidiaries, to the SBA. These categories of senior securities were not subject to the asset coverage requirements of the 1940 Act.
(6) The Company s Wells Facility and Union Bank Facility had no borrowings outstanding during the periods noted above.

Table of Contents

MANAGEMENT

Our business and affairs are managed under the direction of our Board of Directors. Our Board of Directors elects our officers who serve at the discretion of the Board of Directors. Our Board of Directors currently consists of four members, one who is an interested person of Hercules Technology Growth Capital as defined in Section 2(a)(19) of the 1940 Act and three who are not interested persons and who we refer to as our independent directors.

Directors, Executive Officers and Key Employees

Our executive officers, directors and key employees and their positions are set forth below. The address for each executive officer, director and key employee is c/o Hercules Technology Growth Capital, Inc., 400 Hamilton Avenue, Suite 310, Palo Alto, California 94301.

Name	Age	Positions
Interested Director:		
Manuel A. Henriquez[(1)]	48	Chairman of the Board of Directors, President and Chief Executive Officer
Independent Directors:		
Robert P. Badavas[(2)(3)(4)(5)]	59	Director
Joseph W. Chow[(2)(3)(4)(5)]	59	Director
Allyn C. Woodward, Jr.[(2)(3)(4)(5)]	71	Director
Executive Officers:		
Jessica Baron	37	Vice President of Finance and Interim Chief Financial Officer
Scott Bluestein	33	Chief Credit Officer
Todd Jaquez-Fissori	41	Senior Managing Director, Technology Group Head and Clean Technology Group Head
Scott Harvey	57	Secretary and Chief Legal Officer
Parag I. Shah	40	Senior Managing Director and Life Sciences Group Head

(1) Mr. Henriquez is an interested person, as defined in section 2(a)(19) of the 1940 Act, of the Company due to his position as an executive officer of the Company.
(2) Member of the Audit Committee.
(3) Member of the Valuation Committee.
(4) Member of the Compensation Committee.
(5) Member of the Nominating and Corporate Governance Committee.

Set forth below is information regarding our current directors, including each director s (i) name and age; (ii) a brief description of their recent business experience, including present occupations and employment during at least the past five years; (iii) directorships, if any, that each director holds and has held during the past five years; and (iv) the year in which each person became a director of the Company. As the information that follows indicates, the nominee and each continuing director brings strong and unique experience, qualifications, attributes, and skills to the Board. This provides the Board, collectively, with competence, experience, and perspective in a variety of areas, including: (i) corporate governance and Board service; (ii) executive management, finance, and accounting; (iii) venture capital financing with a technology-related focus; (iv) business acumen; and (v) an ability to exercise sound judgment.

Moreover, the nominating and corporate governance committee believes that it is important to seek a broad diversity of experience, professions, skills, geographic representation and backgrounds. The nominating and corporate governance committee does not assign specific weights to particular criteria and no particular criterion is necessarily applicable to all prospective nominees. We believe that the backgrounds and qualifications of the directors, considered as a group, should provide a significant composite mix of experience, knowledge and abilities that will allow the Board to fulfill its responsibilities. Our Board does not have a specific diversity policy, but considers diversity of race, religion, national origin, gender, sexual orientation, disability, cultural background and professional experiences in evaluating candidates for Board membership.

Interested Director

Manuel A. Henriquez is a co-founder of the Company and has been our Chairman and CEO since December 2003 and our President since April 2005. Prior to co-founding the Company, Mr. Henriquez was a Partner at VantagePoint Venture Partners, a $2.5 billion multi-stage technology venture fund, from August 2000 through July 2003. Prior to VantagePoint Venture Partners, Mr. Henriquez was the President and Chief Investment Officer of Comdisco Ventures, a division of Comdisco, Inc., a leading technology and financial services company, from November 1999 to March 2000. Prior to that, from March 1997 to November 1999, Mr. Henriquez was a Managing Director of Comdisco Ventures. Mr. Henriquez was a senior member of the investment team at Comdisco Ventures that originated over $2.0 billion of equipment lease, debt and equity transactions from 1997 to 2000. Mr. Henriquez serves on the board of directors of one of the Company s portfolio companies, E-Band Communications Corporation, supplier of ultra high capacity of wireless solutions. Also, Mr. Henriquez serves on the board of directors of Charles Armstrong School, an independent elementary and middle school that serves students with language-based learning differences. Mr. Henriquez received a B.S. in Business Administration from Northeastern University.

Through his broad experience as an officer and director of several private and public companies, in addition to skills acquired with firms engaged in investment banking, banking and financial services, Mr. Henriquez brings to the Company a unique business expertise and knowledge of financing technology related companies as well as extensive financial and risk assessment abilities. Mr. Henriquez possesses a vast array of knowledge in venture capital financing which assists us in the markets in which we compete. Mr. Henriquez s years of experience as our Chairman and CEO since co-founding the Company demonstrates his leadership skills that are valuable in his role as our Chairman and CEO.

Independent Directors

Each of the following directors is independent under the Nasdaq Stock Market rules and are not interested directors as defined in Section 2(a)(19) of the 1940 Act.

Robert P. Badavas has served as a director since March 2006. Mr. Badavas is a private investor and, since his retirement from TAC Worldwide, a multi-national workforce management and business services company, has served as President of Petros Ventures, Inc., a management and advisory services company. Mr. Badavas served as President and Chief Executive Officer of TAC Worldwide from December 2005 through October 2009, and was Executive Vice President and Chief Financial Officer of TAC Worldwide from November 2003 to December 2005. Prior to joining TAC Worldwide, Mr. Badavas was Partner and Chief Operating Officer of Atlas Venture, an international venture capital firm, from September 2001 to September 2003. Mr. Badavas also serves on the board of directors and is chairman of the audit committee of both Airvana, Inc. (NASDAQ: AIRV), a provider of mobile broadband network infrastructure products, and Constant Contact, Inc. (NASDAQ: CTCT), a provider of on demand email marketing, event marketing and online survey solutions for small organizations. In addition, Mr. Badavas serves on the board of directors of The Learning Center for the Deaf in Framingham, MA, Hellenic College/Holy Cross School of Theology in Brookline, MA and Bentley University in Waltham, MA. In addition to being a certified public accountant with nine years of experience at PriceWaterhouseCoopers, an independent registered public accounting firm, and the chief financial officer of a publicly traded company, Mr. Badavas has completed a program that studied strategies to make corporate boards more effective at the Harvard Business School. Mr. Badavas is active in board of director organizations and regularly attends professional seminars addressing issues of current import to boards of directors. Mr. Badavas is a graduate of Bentley University with a BS in Accounting and Finance.

Table of Contents

Through his prior experience as a director, chief executive officer, chief operating officer and chief financial officer, Mr. Badavas brings business expertise, finance and audit skills to his Board service with the Company. Mr. Badavas expertise, experience and skills closely align with our operations, and his prior investment experience with a venture capital firm facilitates an in-depth understanding of our investment business. Mr. Badavas expertise and experience also qualify him to serve as Chairman of our audit committee and our audit committee financial expert.

Joseph W. Chow has served as a director since February 2004. Mr. Chow retired in March 2011 as Executive Vice President at State Street Corporation (NYSE: STT), a leading global provider of asset servicing and investment management services to institutional investors, where he was responsible for the development of business strategies for emerging economies. He served on the company s Asia Pacific and European Executive Boards, as a board director of State Street s Technology Center in China, and chaired State Street s Corporate Environmental Sustainability Committee. Previously, having retired from State Street in 2003 and returned in 2004, he assumed the role of Executive Vice President and chief risk and corporate administration officer responsible for Enterprise Risk Management, Compliance, Regulatory Affairs, Basel Capital Accord Implementation, and Community Affairs; he was a member of the Operating Group, the company s most senior 11-member strategy and policy management committee. Prior to 2003, Mr. Chow was State Street s Executive Vice President and head of credit and risk policy responsible for corporate-wide risk management, focusing on credit, market, operational, fiduciary, and compliance risks. He chaired the company s Major Risk Committee, Fiduciary Review Committee, and Securities Finance Risk Management Committee and served as a member of the Asset Liability Management Committee and Financial Policy Committee. Before joining State Street, Mr. Chow worked at Bank of Boston in various international and corporate banking roles from 1981 to 1990 and specialized in the financing of emerging-stage high technology companies. Mr. Chow is a director of the Hong Kong Association of Massachusetts and served on the board of directors of China Universal Asset Management, Inc. in Shanghai, the Greater Boston Chamber of Commerce, and the Asian Community Development Corporation, a not-for-profit community development corporation focused on building affordable housing in Boston. Mr. Chow is a graduate of Brandeis University with a B.A. in Economics. He also received a Master in City Planning from the Massachusetts Institute of Technology and an M.S. in Management (Finance) from the MIT Sloan School of Management.

Through his experience as a senior executive of a major financial institution, Mr. Chow brings business expertise, finance and risk assessment skills to his Board service with the Company. Mr. Chow s experience and skills closely align with our business, and his lending and credit experience facilitates an in-depth understanding of risk associated with the structuring of investments in technology related companies. Mr. Chow s risk management expertise and credit related experience also qualify him to serve as Chairman of our Valuation Committee.

Allyn C. Woodward, Jr. has served as a director since February 2004. Mr. Woodward was Vice Chairman of Adams Harkness Financial Group (AHFG-formerly Adams, Harkness & Hill) from April 2001 until January 2006 when AHFG was sold to Canaccord, Inc., an independent investment dealer. He previously served as President of AHFG from 1995 to 2001. AHFG was an independent institutional research, brokerage and investment banking firm headquartered in Boston, MA. Prior to joining AHFG, Mr. Woodward worked for Silicon Valley Bank from April 1990 to April 1995, initially as Executive Vice President and Co-founder of the Wellesley, MA office and more recently as Senior Executive Vice President and Chief Operating Officer of the parent bank in California. Silicon Valley Bank is a commercial bank, headquartered in Santa Clara, CA whose principal lending focus is directed toward the technology, healthcare and venture capital industries. Prior to joining Silicon Valley Bank, Mr. Woodward was Senior Vice President and Group Manager of the Technology group at Bank of New England, Boston, MA where he was employed from 1963-1990. Mr. Woodward is currently the Chairman of the Board of Directors and a member of the Compensation Committee of Lecroy Corporation (NASDAQ: LCRY), a leading provider of oscilloscopes, protocol analyzers and related test and measurement solutions. He is also a former Director of Viewlogic and Cayenne Software, Inc. Mr. Woodward serves on the boards of three private companies and is on the boards of advisors of five venture capital funds. Mr. Woodward holds a Masters Professional Director Certification from the American College of

Table of Contents

Corporate Directors, a public company director education and credentialing organization, and is a member of the National Association of Corporate Directors. Mr. Woodward is on the Board of Overseers and a member of the Finance Committee of Newton Wellesley Hospital, a 250 bed hospital located in Newton, MA. Mr. Woodward is on the Board of Overseers and the Investment Committee and the Finance Committee of Babson College in Babson Park, MA. Mr. Woodward graduated from Babson College with a degree in finance and accounting. He also graduated from the Stonier Graduate School of Banking at Rutgers University.

Mr. Woodward s executive and board experience brings extensive business, finance and investment expertise to his Board service with the Company. His experiences with financial services, bank and technology related companies provide a unique perspective on matters involving business, finance and technology. Mr. Woodward s many board related experiences makes him skilled in leading committees requiring substantive expertise. He is uniquely qualified to lead in the continued development of our Board s policies regarding compensation and governance best practices by serving as Chairman of our Compensation Committee and Nominating and Corporate Governance Committee and by serving as our Lead Independent Director.

Non-director Executive Officers

Jessica Baron joined our Company in October 2006 as Corporate Controller and was promoted to Vice President of Finance in October 2010. Effective June 1, 2011, our Board appointed Ms. Baron as Vice President of Finance and Interim Chief Financial Officer. During her tenure at Hercules, Ms. Baron has been involved in financial reporting, financial process and systems design and implementation. Prior to joining Hercules, she was served in strategic finance roles at Cisco Systems, Inc. from 2004 to 2006 and at Levi Strauss and Company from 2002 to 2004. Ms Baron also served as a finance and accounting manager at Dominion Ventures and Dominion Capital Management from 2000 to 2002. She also was at PricewaterhouseCoopers LLP in supervisory roles in both its consulting and business assurance divisions from 1997 to 2000. Ms. Baron earned a Bachelor of Arts degree in Human Biology and a Master of Arts degree in Sociology from Stanford University and a Master of Business Administration degree with an emphasis in Finance from the University of California, Berkeley, Haas School of Business. She is a Certified Public Accountant in the state of California.

Scott Bluestein joined our Company in November 2010 as Chief Credit Officer. Mr. Bluestein previously served as founder and partner of Century Tree Capital Management from February 2009 until June 2010. Prior to that, he was managing director at Laurus-Valens Capital Management, a New York based investment firm specializing in providing financing to small and micro cap growth oriented businesses through a combination of secured debt and equity securities, including new investments, portfolio management, and restructurings from June 2003 until February 2010. Previously, Mr. Bluestein worked at UBS Investment Bank, where he was a member of their Financial Institutions Coverage Group focused on the Financial Technology space. Mr. Bluestein received his Bachelor of Business Administration from Emory University.

Todd Jaquez-Fissori joined our Company in November 2009 as Managing Director and was promoted by our Board to the position of Clean Technology Group Head in May 2011 and Technology Group Head in October 2011. Before joining Hercules Technology in 2009, Mr. Jaquez-Fissori served as a director at TriplePoint Capital from February 2008 to December 2008 and was the general partner in charge of clean technology investing at Siemens Venture Capital from March 2004 to February 2008. Prior to working at Siemens Venture Capital, Mr. Jaquez-Fissori served as a principal at Boulder Ventures from March 2000 to March 2004 and as an analyst at Mayfield from May 1996 to September 1998. Mr. Jaquez-Fissori received a B.A. from Penn State University and an M.B.A. from the University of Pennsylvania Wharton School of Business.

Scott Harvey is a co-founder of our Company and has been our Chief Legal Officer and Secretary since December 2003. Mr. Harvey has been our Chief Compliance Officer since February 2005. Mr. Harvey has over 24 years of legal and business experience with leveraged finance and financing public and private technology-related companies. Since July 2002, and prior to co-founding the Company, Mr. Harvey was in a diversified private law practice. Previously, Mr. Harvey was Deputy General Counsel of Comdisco, Inc., a leading technology and

Table of Contents

financial services company, from January 1997 to July 2002. From 1991 to 1997, Mr. Harvey served as Vice President of Marketing, Administration & Alliances with Comdisco, Inc. and was Corporate Counsel from 1983 to 1991. Mr. Harvey received a B.S. in Agricultural Economics from the University of Missouri, a J.D. and LLM in taxation from The John Marshall Law School and an M.B.A. from Illinois Institute of Technology.

Parag I. Shah joined our Company in November 2004 as Managing Director of Life Sciences and was promoted to Senior Managing Director in June 2006. During March 2008 Mr. Shah was promoted by our Board to the position of Life Science Group Head. Prior to joining Hercules, Mr. Shah served as Managing Director for Biogenesys Capital from April 2004 to November 2004. From April 2000 to April 2004, Mr. Shah was employed by Imperial Bank, where he served as a Senior Vice President in Imperial Bank s Life Sciences Group, beginning in October 2000, which was acquired by Comerica Bank in early 2001. Prior to working at Comerica Bank, Mr. Shah was an Assistant Vice President at Bank Boston from January 1997 to March 2000. Bank Boston was acquired by Fleet Bank in 1999. Mr. Shah completed his Masters degrees in Technology, Management and Policy as well as his Bachelor s degree in Molecular Biology at the Massachusetts Institute of Technology (MIT). During his tenure at MIT, Mr. Shah conducted research at the Whitehead Institute for Biomedical Research and was chosen to serve on the Whitehead Institute s Board of Associates in 2003.

Board of Directors

The number of directors is currently fixed at four directors.

Our Board of Directors is divided into three classes. Class I directors hold office for a term expiring at the annual meeting of stockholders to be held in 2011, Class II directors hold office for a term expiring at the annual meeting of stockholders to be held in 2012 and Class III directors hold office for a term expiring at the annual meeting of stockholders to be held in 2013. Each director holds office for the term to which he or she is elected and until his or her successor is duly elected and qualifies. Mr. Woodward s term expires in 2012, Mr. Henriquez s term expires in 2013 and Messrs. Badavas and Chow s terms expire in 2014. At each annual meeting of our stockholders, the successors to the class of directors whose terms expire at such meeting will be elected to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election and until their successors are duly elected and qualify.

Compensation of Directors

The Compensation Committee has the authority from the Board for the appointment, compensation and oversight of the Company s outside compensation consultant. The Compensation Committee generally engages a compensation consultant every other year to assist the Compensation Committee with its responsibilities related to the Company s director compensation program. In 2010, the Compensation Committee engaged Pearl Meyer & Partners, LLC (Pearl Meyer), an independent compensation consultant, to provide summary compensation information regarding the compensation to be awarded to the Company s directors for the fiscal year ended December 31, 2010 (the 2010 Report). In the 2010 Report, Pearl Meyer made certain recommendations regarding the mix of cash and equity compensation to be offered to the Company s directors, as well as the types of long-term incentives to be granted to the Company s directors. The Compensation Committee reviewed the 2010 Report when evaluating the director compensation program for the fiscal year ended December 31, 2010. In connection with the retention, the Compensation Committee determined that Pearl Meyer had the necessary experience, skill and independence to advise the Committee. Pearl Meyer does not provide services to the Company other than under its engagement by the Compensation Committee related to compensation matters. For more information about the compensation information provided by Pearl Meyer, see Executive Compensation Compensation Discussion and Analysis below.

Table of Contents

The following table discloses the cash, equity awards and other compensation earned, paid or awarded, as the case may be, to each of our directors during the fiscal year ended December 31, 2010.

Name	Fees Earned or Paid in Cash ($)(1)	Stock Awards ($)	Option Awards ($)	All Other Compensation ($)(3)	Total ($)
Robert P. Badavas	$ 160,000			$ 2,221	$ 162,221
Joseph W. Chow	$ 160,000			$ 2,221	$ 162,221
Allyn C. Woodward, Jr.	$ 175,000			$ 3,777	$ 178,777
Manuel A. Henriquez(2)					

(1) Mr. Badavas, Mr. Chow and Mr. Woodward earned $125,000, $125,000 and $140,000, respectively, and elected to receive an additional retainer fee as 3,493 shares of our common stock in lieu of cash. The total value of the shares issued to Mr. Badavas, Mr. Chow and Mr. Woodward for services in fiscal 2010 was $35,000 each.

(2) As an employee director, Mr. Henriquez does not receive any compensation for his service as a director. The compensation Mr. Henriquez receives as Chief Executive Officer of the Company is disclosed in the Summary Compensation Table as set forth herein.

(3) Represents dividends paid on unvested restricted stock awards during 2010.

As compensation for serving on our Board, each of our independent directors receives an annual fee of $50,000 and the chairperson of each committee receives an additional $15,000 annual fee. Each independent director also receives $2,000 for each Board or committee meeting they attend, whether in person or telephonically. In 2010, we granted each independent director an additional retainer of $35,000, which was distributed as shares of common stock in lieu of cash. Employee directors and non-independent directors do not receive compensation for serving on the Board. In addition, we reimburse our directors for their reasonable out-of-pocket expenses incurred in attending Board meetings.

Directors do not receive any perquisites or other personal benefits from the Company.

Under current SEC rules and regulations applicable to business development companies (BDC), a BDC may not grant options or restricted stock to non-employee directors unless it receives exemptive relief from the SEC. The Company filed an exemptive relief request with the SEC to allow options and restricted stock to be issued to its non-employee directors, which was approved on October 10, 2007. On June 22, 2010, the Company received approval from the SEC regarding its exemptive relief request permitting its employees to exercise their stock options and restricted stock and pay any related income taxes using a cashless exercise program.

On June 21, 2007, the stockholders approved amendments to the 2004 Equity Incentive Plan and the 2006 Non-Employee Director Plan allowing for the grant of restricted stock. The 2004 Equity Incentive Plan and 2006 Non-Employee Director Plan limit the combined maximum amount of restricted stock that may be issued under both of the 2004 Equity Incentive Plan and 2006 Non- Employee Director Plan to 10% of the outstanding shares of the Company s common stock on the effective date of the 2004 Equity Incentive Plan and 2006 Non-Employee Director Plan plus 10% of the number of shares of common stock issued or delivered by the Company during the terms of the 2004 Equity Incentive Plan and 2006 Non-Employee Director Plan. See the Notes to Consolidated Financial Statements for the year ended December 31, 2010 for more information.

Stock Ownership Guidelines

The Company implemented stock ownership guidelines which are outlined in the Company s Corporate Governance Guidelines. The Company has implemented stock ownership guidelines because it believes that material stock ownership by directors plays a role in effectively aligning the interests of directors with those of our stockholders and strongly motivates the building of long-term stockholder value. Pursuant to the Company s stock ownership guidelines, each director is required to beneficially own at least three times the individual s annual retainer fee in Company stock, based on market value, within three years of joining the Company. The Board may make exceptions to this requirement based on particular circumstances. Each director has exceeded his respective guideline as of December 31, 2010.

Table of Contents

CORPORATE GOVERNANCE

Our business, property and affairs are managed under the direction of our Board. Members of our Board are kept informed of our business through discussions with our Chairman and Chief Executive Officer, our Chief Financial Officer, our Chief Credit Officer, our Chief Legal Officer, and other officers and employees, and by reviewing materials provided to them and participating in meetings of the Board and its committees.

Corporate Governance Changes in Fiscal Year 2010 and for Fiscal Year 2011

Because our Board is committed to strong and effective corporate governance, it regularly monitors our corporate governance policies and practices to ensure we meet or exceed the requirements of applicable laws, regulations and rules, and the Nasdaq s listing standards. During fiscal year 2010 and for fiscal year 2011, our Board made the following changes to our corporate governance policies and practices:

- adopting and implementing Corporate Governance Guidelines which address, among other topics: (i) Board responsibilities, composition, leadership, compensation and performance, (ii) management s responsibilities; and (iii) the Board s relationship to senior management.;
- recommending an annual vote on executive compensation be held annually; and
- adopting and implementing a succession plan for our Chief Executive Officer; and
- implementing stock ownership guidelines for management and directors.

The changes made to our corporate governance policies and practices build upon our solid corporate governance structure, which is exemplified by:

- using a Lead Independent Director whose duties and responsibilities are set forth in our Corporate Governance Guidelines;
- adopting committee charters, which clearly establish the roles and responsibilities of each of the committees;
- establishing Board committees that are comprised of and chaired solely by independent directors;
- scheduling regular executive session meetings of non-employee and independent directors;
- implementing a strong risk management program with specific responsibilities assigned to management, the Board, and the Board s committees;
- adopting our clear code of ethics;
- limiting the use of perquisites for directors and executive officers; and

engaging an independent compensation consultant by the Compensation Committee.

Board Leadership Structure

Chairman and Chief Executive Officer

The Board currently combines the role of Chairman of the Board with the role of Chief Executive Officer, coupled with a Lead Independent Director position to further strengthen the governance structure. The Board believes this provides an efficient and effective leadership model for the Company. Combining the Chairman and Chief Executive Officer roles fosters clear accountability, effective decision-making, and alignment on corporate strategy. Since our inception in 2005, Mr. Henriquez has served as both Chairman of the Board and Chief Executive Officer.

Table of Contents

No single leadership model is right for all companies at all times. The Board recognizes that depending on the circumstances, other leadership models, such as a separate independent chairman of the board, might be appropriate. Accordingly, the Board periodically reviews its leadership structure.

Moreover, the Board believes that its governance practices provide adequate safeguards against any potential risks that might be associated with having a combined Chairman and Chief Executive Officer. Specifically:

- three of the four current directors of the Company are independent directors;
- all of the members of the Audit Committee, Compensation Committee, Nominating and Corporate Governance Committee and Valuation Committee are independent directors;
- the Board and its committees regularly conduct scheduled meetings in executive session, out of the presence of Mr. Henriquez and other members of management;
- the Board and its committees regularly conduct meetings which specifically include Mr. Henriquez;
- the Board and its committees remain in close contact with, and receive reports on various aspects of the Company s management and enterprise risk directly from the Company s senior management and independent auditors; and
- the Board and its committees interact with employees of the Company outside the ranks of senior management.

Lead Independent Director

The Board has instituted the Lead Independent Director position to provide an additional measure of balance, ensure the Board s independence, and enhance its ability to fulfill its management oversight responsibilities. Allyn C. Woodward, Jr., the Chairman of the Compensation Committee and the Nominating and Corporate Governance Committee, currently serves as the Lead Independent Director. The Lead Independent Director:

- presides over all meetings of the directors at which the Chairman is not present, including executive sessions of the independent directors;
- has the authority to call meetings of the independent directors;
- frequently consults with the Chairman and Chief Executive Officer about strategic policies;
- provides the Chairman and Chief Executive Officer with input regarding Board meetings;
- serves as a liaison between the Chairman and Chief Executive Officer and the independent directors; and

otherwise assumes such responsibilities as may be assigned to him by the independent directors.

Having a combined Chairman and Chief Executive Officer, coupled with a substantial majority of independent, experienced directors, including a Lead Independent Director with specified responsibilities on behalf of the independent directors, provides the right leadership structure for the Company and is best for the Company and its stockholders at this time.

Board Oversight of Risk

While risk management is primarily the responsibility of the Company s management team, the Board is responsible for the overall supervision of the Company s risk management activities. The Board s oversight of the material risks faced by our Company occurs at both the full Board level and at the committee level.

The Board s Audit Committee has oversight responsibility not only for financial reporting with respect to the Company s major financial exposures and the steps management has taken to monitor and control such exposures, but also for the effectiveness of management s enterprise risk management process that monitors and

Table of Contents

manages key business risks facing the Company. In addition to the Audit Committee, the other committees of the Board consider the risks within their areas of responsibility. For example, the Compensation Committee considers the risks that may be implicated by our executive compensation program.

Management provides regular updates throughout the year to the Board regarding the management of the risks they oversee at each regular meeting of the Board. Also, the Board receives presentations throughout the year from various department and business group heads that include discussion of significant risks as necessary. Additionally, through dedicated sessions focusing entirely on corporate strategy, the full Board reviews in detail the Company s short and long-term strategies, including consideration of significant risks facing the Company and their potential impact.

Director Independence

The Nasdaq Market s listing standards and Section 2(a)(19) of the 1940 Act require that a majority of our Board and every member of the Audit, Compensation, and Nominating and Corporate Governance Committees are independent. Under the Nasadq Market s listing standards and our Corporate Governance Guidelines, no director will be considered to be independent unless and until our Board affirmatively determines that such director has no direct or indirect material relationship with the Company or our management. Our Board reviews the independence of its members annually.

In determining that Messrs. Badavas, Chow and Woodward are independent, the Board, through the Nominating and Corporate Governance Committee, considered the financial services, commercial, family and other relationships between each director and his or her immediate family members or affiliated entities, on the one hand, and Hercules and its subsidiaries, on the other hand.

Committees of the Board

The Board has established an Audit Committee, a Valuation Committee, a Compensation Committee, and a Nominating and Corporate Governance Committee. A brief description of each committee is included in this Proxy Statement and the charters of the Audit, Compensation, and Nominating and Corporate Governance Committees are available on the Investor Relations section of the Company s website at http://investor.htgc.com/governance.cfm

The table below provides current membership (M) and chairmanship (C) information for each standing Board committee.

Name	Audit	Valuation	Compensation	Nominating and Corporate Governance
Robert P. Badavas	C	M	M	M
Joseph W. Chow	M	C	M	M
Allyn C. Woodward, Jr.	M	M	C	C
Manuel A. Henriquez				

During 2010, the Board held seventeen Board meetings, eighteen committee meetings and acted by written consent. All of the directors attended at least 94% of the Board meetings and all of the respective committee meetings on which they serve. Each director makes a diligent effort to attend all Board and committee meetings, as well as the Annual Meeting of Stockholders. Each of the directors attended the Company s 2010 Annual Meeting of Stockholders in person.

Audit Committee. Our Board has established an Audit Committee. The Audit Committee is comprised of Messrs. Badavas, Chow and Woodward, each of whom is an independent director and satisfies the independence

Table of Contents

requirements for purposes of the rules promulgated by the Nasdaq Stock Market and the requirements to be a non-interested director as defined in Section 2(a)(19) of the 1940 Act. Mr. Badavas currently serves as Chairman of the Audit Committee and is an audit committee financial expert as defined by applicable SEC rules. The Audit Committee is responsible for approving our independent accountants, reviewing with our independent accountants the plans and results of the audit engagement, approving professional services provided by our independent accountants, reviewing the independence of our independent accountants and reviewing the adequacy of our internal accounting controls. During the last fiscal year, the Audit Committee held eight meetings and acted by written consent.

The Audit Committee provides assistance to our Board in various matters, including, among other things, fulfilling its responsibilities with respect to the following:

- evaluating the appointment, compensation and retention of any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company and its subsidiaries, including resolution of disagreements between management and the independent auditor regarding financial reporting;
- pre-approving any independent auditor s engagement to render audit and/or permissible non-audit services (including the fees charged and proposed to be charged by the independent auditors).
- receiving formal written statements, at least annually, from the independent auditor regarding the auditor s independence, including a delineation of all relationships between the auditor and the Company;
- at least annually, obtaining and reviewing a report from the independent auditor detailing: (i) the firm s internal quality-control procedures; (ii) any material issues raised by the independent auditor s internal quality control review, peer review; or (iii) any governmental or other professional inquiry performed within the past five years and any remedial actions implemented by the firm;
- obtaining from the independent auditors annually a formal written statement of the fees billed in the last fiscal year for each of the designated categories of services rendered by the independent auditors:
- monitoring the rotation of the lead (or coordinating) audit partner (or other employees of the independent auditor if required by SEC rules and regulations) having primary responsibility for the audit and the concurring (or reviewing) audit partner;
- considering the effect on the Company of:
  - any changes in accounting principles or practices proposed by management or the independent auditors;
  - any changes in service providers, such as the accountants, that could impact the Company s internal control over financial reporting; and
  - any changes in schedules (such as fiscal or tax year-end changes) or structures or transactions that required special accounting activities, services or resources

evaluating the efficiency and appropriateness of the services provided by the independent auditors, including any significant difficulties with the audit or any restrictions on the scope of their activities or access to required records, data and information;

interacting with the independent auditors, including reviewing and, where necessary, resolving any problems or difficulties the independent auditors may have encountered in connection with the annual audit or otherwise, any management letters provided to the Committee and the Company s responses;

reviewing with the independent auditors the effect of regulatory and accounting initiatives, as well as off balance sheet structures, on the financial statements of the Company;

reviewing with independent auditor the overall scope and plans for audits;

meeting with the Company s independent auditors at least four times during each fiscal year, including private meetings, and review written materials prepared by the independent auditors, as appropriate;

reviewing and discussing with management and independent auditor the Company s system of internal controls (including any significant deficiencies in the design or operation of those controls which could adversely affect the Company s ability to record, process, summarize and report financial data), its financial and critical accounting practices, and policies relating to risk assessment and management;

receiving and reviewing reports of the independent auditor discussing: (i) all critical accounting policies and practices to be used in the firm s audit of the Company s financial statements, (ii) all alternative treatments of financial information within generally accepted accounting principles (GAAP) that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor, and (iii) other material written communications between the independent auditor and management, such as any management letter or schedule of unadjusted differences;

discussing with management and the independent auditor any changes in the Company s critical accounting policies and the effects of alternative GAAP methods, off-balance sheet structures and regulatory and accounting initiatives;

reviewing and discussing with management and independent auditor the Company s annual and quarterly financial statements;

reviewing the Company s earnings press releases, as well as the nature of financial information provided to analysts and rating agencies;

reviewing material pending legal proceedings involving the Company and other contingent liabilities;

periodically, meeting separately with management (or other personnel responsible for the internal audit function) and with independent auditors to discuss results of examinations of the Company s internal controls and procedures;

discussing with the independent auditors the matters required to be communicated to the Audit Committee in accordance with Statement on Auditing Standards No. 61;

establishing procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submissions by employees, consultants or contractors of concerns regarding questionable accounting or accounting matters; and

reviewing with the independent auditor any significant audit problems or difficulties and management s response.

Valuation Committee. Our Board has established a Valuation Committee. The Valuation Committee is comprised of Messrs. Badavas, Chow and Woodward, each of whom is an independent director and satisfies the independence requirements for purposes of the rules promulgated by the Nasdaq Stock Market and the requirements to be a non-interested director as defined in Section 2(a)(19) of the 1940 Act. Mr. Chow currently serves as Chairman of the Valuation Committee. The Valuation Committee is responsible for reviewing and recommending to the full Board the fair value of debt and equity securities in accordance with established valuation procedures. The Valuation Committee may utilize the services of an independent valuation firm in determining the fair value of these securities. During the last fiscal year, the Valuation Committee held six meetings.

The Valuation Committee provides assistance to our Board in various matters, including, among other things, fulfilling its responsibilities with respect to the following:

determining the fair value of the Company s portfolio debt and equity securities and other assets in accordance with the 1940 Act and the valuation policies and procedures adopted by the Board, as

125

amended from time to time, in order to recommend the portfolio valuation to the full Board for approval; and

retaining, terminating and determining the compensation for an independent valuation firm and any legal, accounting or other expert or experts to assist in: (i) reviewing the Company s valuation processes applicable to non-publicly traded companies; (ii) reviewing fair market value calculations as requested from time to time with respect to select companies; and (iii) carrying out the Valuation Committee s duties and responsibilities.

Compensation Committee. Our Board has established a Compensation Committee. The Compensation Committee is comprised of Messrs. Badavas, Chow and Woodward, each of whom is an independent director and satisfies the independence requirements for purposes of the rules promulgated by the Nasdaq Stock Market and the requirements to be a non-interested director as defined in Section 2(a)(19) of the 1940 Act. Mr. Woodward currently serves as Chairman of the Compensation Committee. The Compensation Committee determines compensation for our executive officers, in addition to administering the 2004 Equity Incentive Plan and 2006 Non-Employee Director Plan. During the last fiscal year, the Compensation Committee held three meetings.

The Compensation Committee provides assistance to our Board in various matters, including, among other things, fulfilling its responsibilities with respect to the following:

assisting the Board in developing and evaluating potential candidates for executive positions (including the Chief Executive Officer) and overseeing the development of executive succession plans;

annually, reviewing and approving corporate goals and objectives relevant to the Chief Executive Officer and other executive officer s total compensation, evaluating the Chief Executive Officer s and other executive officers performance to ensure that it is designed to achieve the objectives of rewarding the Company s executive officers appropriately for their contributions to corporate growth and profitability and, together with the Company s Chief Executive Officer, evaluating and approving the compensation of the Company s other executive officers;

annually, determining and approving the compensation paid to the Company s Chief Executive Officer;

annually, reviewing the corporation s compensation practices and the relationship among risk, risk management and compensation in light of the corporation s objectives, including its safety and soundness and the avoidance of practices that would encourage excessive risk;

periodically, reviewing the Company s incentive compensation plans and perquisites, if any, to ensure such plans are consistent with the Company s goals and objectives and appropriately aligning executive officers interests with those of the Company s stockholders, make recommendations to the Board regarding the adoption of new employee incentive compensation plans and equity-based plans, and administer the Company s existing incentive compensation plans and equity-based plans, including reviewing and approving stock option and restricted stock grants;

periodically, reviewing diversity programs;

periodically, evaluating the compensation of directors, including compensation for service on Board Committees, and making recommendations regarding adjustments to such compensation;

producing a Committee report on executive compensation for inclusion in the Company s annual report on Form 10-K or proxy statement for the annual meeting of stockholders in accordance with Item 402 of Regulation S-K;

annually reviewing and discussing with Company management the executive compensation disclosure to be included in the Company s annual report on Form 10-K or the Company s proxy statement for the annual meeting of stockholders, including the Compensation Discussion and Analysis (CD&A)

- required by Item 402 of Regulation S-K, and subsequent to such review determine whether to recommend to the Board that such disclosure be included;

- periodically, reviewing and assessing the adequacy of the Compensation Committee charter and submitting any changes to the Board for approval;

- reviewing such other matters as the Board or the Committee shall deem appropriate; and

- determining funding necessary for ordinary administrative expenses that are necessary or appropriate in carrying out the committee s duties.

Nominating and Corporate Governance Committee. Our Board has established a Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee is comprised of Messrs. Badavas, Chow and Woodward, each of whom is an independent director and satisfies the independence requirements for purposes of the rules promulgated by the Nasdaq Stock Market and the requirements to be a non-interested director as defined in Section 2(a)(19) of the 1940 Act. Mr. Woodward currently serves as Chairman of the Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee will nominate to the Board for consideration candidates for election as directors to the Board. During the last fiscal year, the Nominating and Corporate Governance Committee held one meeting.

The Nominating and Corporate Governance Committee provides assistance to our Board in various matters, including, among other things, fulfilling its responsibilities with respect to the following:

- identifying individuals qualified to become Board members, consistent with criteria approved by the Board, receiving nominations for such qualified individuals, selecting, or recommending that the Board select, the director nominees for the next annual meeting of stockholders, taking into account each candidate s ability, judgment and experience and the overall diversity and composition of the Board;

- recommending to the Board candidates for election to the Board and evaluate the Board in accordance with criteria set forth below or determined as provided below;

- monitoring Board composition and recommend candidates as necessary to ensure that the number of independent directors serving on the Board satisfies the Nasdaq Global Select Market and SEC requirements;

- developing and periodically evaluating initial orientation guidelines and continuing education guidelines for each member of the Board and each member of each committee thereof regarding his or her responsibilities as a director generally and as a member of any applicable committee of the Board;

- establishing a policy under which stockholders of the Company may recommend a candidate to the Nominating and Corporate Governance Committee for consideration for nomination as a director;

- recommending to the Board qualified individuals to serve as committee members on the various Board committees;

articulating to each director what is expected of their tenure on the Board, including directors basic duties and responsibilities with respect to attendance at Board meetings and advance review of meeting materials;

developing and periodically evaluating orientation guidelines and continuing education guidelines for each member of the Board and each member of each committee thereof regarding his or her responsibilities as a director generally and as a member of any applicable committee of the Board;

reviewing the Company s practices and policies with respect to directors, including the size of the Board, the ratio of employee directors to non-employee directors, the meeting frequency of the Board and the structure of Board meetings and make recommendations to the Board with respect thereto;

overseeing the maintenance and presentation to the Board of management s plans for succession to senior management positions in the Company;

Table of Contents

- monitoring and making recommendations to the Board on matters of Company policies and practices relating to corporate governance;

- in concert with the Board, reviewing the Company s policies with respect to significant issues of corporate public responsibility, including contributions;

- considering and reporting to the Board any questions of possible conflicts of interest of Board members; and

- reviewing stockholder proposals regarding corporate governance and making recommendations to the Board.

The Nominating and Corporate Governance Committee will consider qualified director nominees recommended by stockholders when such recommendations are submitted in accordance with the Company s bylaws and any other applicable law, rule or regulation regarding director nominations. When submitting a nomination to the Company for consideration, a stockholder must provide certain information that would be required under applicable SEC rules, including the following minimum information for each director nominee: full name, age, and address; class, series and number of shares of stock of the Company beneficially owned by the nominee, if any; the date such shares were acquired and the investment intent of such acquisition; whether such stockholder believes the individual is an interested person of the Company, as defined in the 1940 Act; and all other information required to be disclosed in solicitations of proxies for election of directors in an election contest or is otherwise required.

In evaluating director nominees, the Nominating and Corporate Governance Committee considers the following factors:

- the appropriate size and the diversity of the Company s Board;

- whether or not the nominee is an interested person of the Company as defined in Section 2(a)(19) of the 1940 Act;

- the needs of the Company with respect to the particular talents and experience of its directors;

- the knowledge, skills and experience of nominees in light of prevailing business conditions and the knowledge, skills and experience already possessed by other members of the Board;

- experience with accounting rules and practices;

- the desire to balance the considerable benefit of continuity with the periodic injection of the fresh perspective provided by new members; and

- all applicable laws, rules, regulations, and listing standards.

The Nominating and Corporate Governance Committee identifies nominees by first evaluating the current members of the Board willing to continue in service. Current members of the Board with skills and experience that are relevant to the Company s business and who are willing to continue in service are considered for re-nomination, balancing the value of continuity of service by existing members of the Board with that of obtaining a new perspective. If any member of the Board does not wish to continue in service or if the Nominating and Corporate Governance Committee or the Board decides not to re-nominate a member for re-election, or if the Nominating and Corporate Governance Committee recommends to expand the size of the Board, the Nominating and Corporate Governance Committee identifies the desired skills and experience of a new nominee in light of the criteria above. Current members of the Nominating and Corporate Governance Committee and the Board provide suggestions as to individuals meeting the criteria of the Nominating and Corporate Governance Committee. Consultants may also be engaged to assist in identifying qualified individuals.

Communication with the Board

We believe that communications between our Board, our stockholders and other interested parties are an important part of our corporate governance process. Stockholders with questions about the Company are encouraged to contact Hercules Technology Growth Capital, Inc. s Investor Relations department at (650) 289-3060. However, if stockholders believe that their questions have not been addressed, they may communicate with the Company s Board by sending their communications to Hercules Technology Growth Capital, Inc., c/o Scott Harvey, Secretary and Chief Legal Officer, 400 Hamilton Avenue, Suite 310, Palo Alto, California 94301. All stockholder communications received in this manner will be delivered to one or more members of the Board.

All communications involving accounting, internal accounting controls and auditing matters, possible violations of, or non-compliance with, applicable legal and regulatory requirements or the Codes, or retaliatory acts against anyone who makes such a complaint or assists in the investigation of such a complaint, will be referred to our Chief Legal Officer. The communication will be forwarded to the chair of the Audit Committee if the Chief Legal Officer determines that the matter has been submitted in conformity with our whistleblower procedures or otherwise determines that the communication should be so directed.

The acceptance and forwarding of a communication to any director does not imply that the director owes or assumes any fiduciary duty to the person submitting the communication, all such duties being only as prescribed by applicable law.

Code of Ethics

Our code of ethics, which is signed by directors and executive officers of the Company, requires that directors and executive officers avoid any conflict, or the appearance of a conflict, between an individual s personal interests and the interests of the Company. Pursuant to the code of ethics which is available on our website at http://investor.htgc.com/governance.cfm, each director and executive officer must disclose any conflicts of interest, or actions or relationships that might give rise to a conflict, to the Audit Committee. Certain actions or relationships that might give rise to a conflict of interest are reviewed and approved by the Board.

Compensation Committee Interlocks and Insider Participation

All members of the Compensation Committee are independent directors and none of the members are present or past employees of the Company. No member of the Compensation Committee: (i) has had any relationship with the Company requiring disclosure under Item 404 of Regulation S-K under the Securities Exchange Act of 1934; or (ii) is an executive officer of another entity, at which one of our executive officers serves on the Board.

Executive Compensation

Compensation Discussion and Analysis

Overview of the Compensation Program

This section describes the compensation programs for our Chairman, Chief Executive Officer and Chief Financial Officer in fiscal year 2010 as well as each of our three most highly compensated executive officers employed at the end of fiscal year 2010, all of whom we refer to collectively as our named executive officers, or NEOs. Our named executive officers for fiscal year 2010 are:

Chairman and Chief Executive Officer, Manuel A. Henriquez;

Table of Contents

Former Chief Financial Officer, David M. Lund;

Secretary and Chief Legal Officer, Scott Harvey;

Former Senior Managing Director and Technology Group Head, Samir Bhaumik; and

Senior Managing Director and Life Science Group Head, Parag I. Shah.

Executive Summary

Our compensation programs are intended to align our NEOs interests with those of our stockholders by rewarding performance that meets or exceeds the goals the Compensation Committee establishes. In line with our compensation philosophy described below, the total compensation received by our NEOs will vary based on individual and corporate performance in light of our annual and long-term performance goals. Our NEOs total compensation is comprised of a mix of annual base salary, annual cash bonus based on corporate objectives and executive performance factors and long-term equity incentive and retention awards in the form of stock option and/or restricted stock awards.

We delivered strong investment portfolio growth and improved credit quality for fiscal year 2010 as seen in the year over year comparison set forth below.

	Fiscal Year 2010 (in thousands)	Fiscal Year 2009 (in thousands)	Change %
Investments	$ 472.0	$ 374.7	26.0%
Total Assets	$ 591.2	$ 509.0	16.1%
Total Net Assets	$ 412.5	$ 366.5	12.6%

In 2010, we delivered the following portfolio highlights:

achieved a record year for new commitments of approximately $523.0 million, up 189% for 2009;

funded approximately $322.0 million in investments, up 237% compared with 2009;

grew total investment assets 26.0% year over year to approximately $472.0 million as of December 31, 2010, compared to $375.0 million as of December 31, 2009; and

improved the credit quality of our total portfolio. On a scale of 1-5, 1 being the highest credit quality, we finished 2010 with an average credit rating of 2.21 as compared to 2.71 at the end of 2009.

Please see Management s Discussion and Analysis of Financial Conditions and Results of Operations for a more detailed description of our fiscal year 2010 results.

Compensation Philosophy

The compensation and benefit programs of the Company adopted by our Compensation Committee are designed with the goal of providing compensation that is fair, reasonable and competitive and are intended to help us align the compensation paid to our NEOs with both our short-term and long-term objectives. The Compensation Committee reviews various metrics when determining compensation for the executive officers. The Compensation Committee does not use specific metrics for the compensation of our Chief Executive Officer in accordance with the 1940 Act. The key elements of our compensation philosophy include:

- designing compensation programs that enable us to attract and retain the best talent in the industries in which we compete;
- using long-term equity retention and incentive awards to align employee and stockholder interests;

Table of Contents

aligning executive compensation packages with the Company s performance; and

ensuring that our compensation program complies with the requirements of the 1940 Act.

We have designed compensation programs based on the following:

Achievement of Corporate Objectives and Executive Performance Factors We believe that the best way to align compensation with the interests of our stockholders is to link executive compensation with individual performance and contribution along with the achievements of certain corporate objectives. The Compensation Committee determines executive compensation consistent with the achievement of certain corporate objectives and executive performance factors that have been established to achieve short-term and long-term objectives of the Company.

Discretionary Annual Bonus Pool Over the course of the year, the Compensation Committee, together with input from our Chief Executive Officer, develops a range of amounts likely to be available for the discretionary annual cash bonus pool. The range for this bonus pool is dependent upon the Company s current financial outlook and executive performance contributing to achieving our corporate objectives, does not utilize specified targets and is subject to the sole discretion of the Compensation Committee. This range is further refined during our third and fourth fiscal quarters into a specified pool to be used for discretionary annual cash bonuses for our NEOs. If executive performance exceeds expectation and performance goals established during the year, compensation levels for the NEOs may exceed the specified pool amount at the discretion of our Compensation Committee. If executive performance falls below expectations, compensation levels may fall below the specified pool amount.

Competitiveness and Market Alignment Our compensation and benefits programs are designed to be competitive with those provided by companies with whom we compete for investment professionals and to be sufficient to attract and retain the best talent for top performers within the industries in which we compete. We compete for talent with venture capital funds, private equity firms, mezzanine lenders, hedge funds and other specialty finance companies including certain specialized commercial banks. Thus, we believe that our employee compensation benefit plans should be designed to be competitive in the businesses in which we compete sufficient to attract and retain talent. Our benefit programs, which include general health and welfare benefits, consisting of life, long-term and short-term disability, health, dental, vision insurance benefits and the opportunity to participate in our defined contribution 401(k) plan, are designed to provide competitive benefits and are not based on performance. As part of its annual review process, the Compensation Committee reviews the competitiveness of the Company s current compensation levels of its NEOs relative to that of our comparative group companies identified herein with a third-party compensation consultant.

Alignment with Requirements of the 1940 Act Our compensation program must align with the requirements of the 1940 Act, which imposes certain limitations on the structure of a BDC s compensation program. For example, the 1940 Act prohibits a BDC from maintaining an incentive stock option award plan and a profit sharing arrangement simultaneously. As a result, if a BDC has an incentive stock option award plan, such as we do, it is prohibited from using specific performance measurements commonly utilized by non-BDC companies as a form of compensation or a profit sharing arrangement, such as a carried interest formula, a common form of compensation in the private equity industry. These limitations and other similar restrictions imposed by the 1940 Act limit the compensation arrangements that we can utilize in order to attract and retain our NEOs.

Components of Total Compensation

The Compensation Committee determined that the compensation packages for 2010 for our NEOs should consist of the following three key components:

annual base salary;

Table of Contents

- annual cash bonus based on corporate objectives and executive performance factors; and

- long-term equity incentive and retention awards in the form of stock option and/or restricted stock awards.

Annual Base Salary

The annual base salary is designed to provide a minimum, fixed level of cash compensation to our NEOs in order to attract and retain experienced executive officers who can drive the achievement of our goals and objectives. While our NEOs initial base salaries are determined by an assessment of competitive market levels for comparable experience and responsibilities, the performance factors used in determining changes in base salary include individual performance, changes in role and/or responsibility and changes in the market environment.

Annual Cash Bonus

The annual cash bonus is designed to reward our NEOs that have achieved certain corporate objectives and executive performance factors. The amount of the annual cash bonus is determined by the Compensation Committee on a discretionary basis and is dependent on the achievement of certain executive performance factors, as described herein under the heading Assessment of Corporate Performance during the year. The Compensation Committee established these performance factors because it believes they are related to our achievement of both short-term and long-term corporate objectives and the creation of stockholder value.

Long-Term Equity Incentive and Retention Awards

The Compensation Committee s principal goals in awarding incentive stock options and/or restricted stock are to retain executive officers as well as align each NEO s interests with our success and the long-term financial interests of its stockholders by linking a portion of the NEO s compensation with the performance of the Company and the value delivered to stockholders. The Compensation Committee evaluates a number of criteria, including the past service of each NEO, the present and potential performance contributions of such NEO to our success, years of service, position, and such other factors as the Compensation Committee believes to be relevant in connection with accomplishing the purposes of the long-term goals of the Company. The Compensation Committee neither assigns a formula, nor assigns specific weights to any of these factors when making its determination of the NEOs long-term incentive awards. The Compensation Committee awards incentive stock options and/or restricted stock on a subjective basis, and such awards depend in each case on the performance of the NEO under consideration, and in the case of new hires, on their potential performance.

Option awards under the 2004 Equity Incentive Plan are generally awarded upon initial employment and on an annual basis thereafter. Options generally vest, subject to continued employment, one-third after one year of the date of grant and ratably over the succeeding 24 months. Options are granted as incentive stock options, within the meaning of Section 422 of the Internal Revenue Code, to the extent permitted, with the remainder granted as nonqualified stock options.

In May 2007, we received SEC exemptive relief, and our stockholders approved amendments to the 2004 Equity Incentive Plan and 2006 Non-Employee Director Plan, permitting us to grant restricted stock awards. Restricted stock awards granted under the 2004 Equity Incentive Plan were previously awarded annually and vest subject to continued employment one fourth each year over a four year period beginning with the first anniversary of such grant. In 2009 and 2010, restricted stock awards vest subject to continued employment one-fourth on the one year anniversary of the date of grant and ratably over the succeeding 36 months.

The 2004 Equity Incentive Plan and 2006 Non-Employee Director Plan limit the combined maximum amount of restricted stock that may be issued under both of the 2004 Equity Incentive Plan and 2006 Non-Employee Director Plan to 10% of the outstanding shares of our stock on the effective date of the 2004

Equity Incentive Plan and 2006 Non-Employee Director Plan plus 10% of the number of shares of stock issued or delivered by our Company during the terms of the 2004 Equity Incentive Plan and 2006 Non-Employee Director Plan. The approved amendments further specify that no one person will be granted awards of restricted stock relating to more than 25% of the shares available for issuance under the 2004 Equity Incentive Plan. Further, the amount of voting securities that would result from the exercise of all our outstanding warrants, options and rights, together with any restricted stock issued pursuant to the 2004 Equity Incentive Plan and 2006 Non-Employee Director Plan, at the time of issuance will not exceed 25% of our outstanding voting securities, except that if the amount of voting securities that would result from such exercise of all of our outstanding warrants, options and rights issued to our directors and executive officers, together with any restricted stock issued pursuant to the 2004 Equity Incentive Plan and 2006 Non-Employee Director Plan, would exceed 15% of our 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 2004 Equity Incentive Plan and 2006 Non-Employee Director Plan, at the time of issuance will not exceed 20% of our outstanding voting securities. Eligibility includes all of our NEOs. Each grant of restricted stock under the 2004 Equity Incentive Plan to our NEOs will contain such terms and conditions, including consideration and vesting, as our Board deems appropriate and as allowed for within the provisions of the 2004 Equity Incentive Plan. We believe that by having two forms of long term equity incentive rewards we are able to reward stockholder value creation in different ways. Stock options have exercise prices equal to the market price of our common stock on the date of the grant and reward employees only if our stock price increases. Restricted stock, although affected by both stock price increases and decreases, maintains value during periods of market volatility.

Benefits and Perquisites

Our NEOs receive the same benefits and perquisites as other full-time employees. Our benefit program is designed to provide competitive benefits and is not based on performance. Other than the benefits described below, our NEOs do not receive any other benefits, including retirement benefits, or perquisites from the Company. Our NEOs and other full-time employees receive general health and welfare benefits, which consist of life, long-term and short-term disability, health, dental, vision insurance benefits and the opportunity to participate in our defined contribution 401(k) plan. During 2010, our 401(k) plan provided for a match of contributions by the Company for up to $6,500 per full-time employee.

Tax and Accounting Implications

Stock-Based Compensation. We account for stock-based compensation, including options and shares of restricted stock granted pursuant to our 2004 Equity Incentive Plan and 2006 Non-Employee Director Plan in accordance with the requirements of FASB ASC Topic 718. Under the FASB ASC Topic 718, we estimate the fair value of our option awards at the date of grant using the Black-Scholes-Merton option-pricing model, which requires the use of certain subjective assumptions. The most significant of these assumptions are our estimates on the expected term, volatility and forfeiture rates of the awards. Forfeitures are not estimated due to our limited history but are reversed in the period in which forfeiture occurs. As required under the accounting rules, we review our valuation assumptions at each grant date and, as a result, are likely to change our valuation assumptions used to value stock-based awards granted in future periods. We estimate the fair value of our restricted stock awards based on grant date market closing price.

Deductibility of Executive Compensation. When analyzing both total compensation and individual elements of compensation paid to our NEOs, the Compensation Committee considers the income tax consequences to the Company of its compensation policies and procedures. In particular, the Compensation Committee considers Section 162(m) of the Internal Revenue Code, which limits the deductibility of non-performance-based compensation paid to certain of the NEOs to $1,000,000 per affected NEO. The Compensation Committee intends to balance its objective of providing compensation to our NEOs that is fair, reasonable, and competitive with the Company s capability to take an immediate compensation expense deduction. The Board believes that the best interests of the Company and its stockholders are served by executive compensation programs that encourage and promote the Company s principal compensation philosophy, enhancement of stockholder value, and permit the Compensation Committee to exercise discretion in the design and implementation of compensation packages. Accordingly, the Company may from time to time pay compensation to its NEOs that may not be fully tax deductible, including certain bonuses and restricted stock. Stock options granted under our stock plan are intended to qualify as performance-based compensation under Section 162(m) and are generally fully deductible. We will continue to review the Company s executive compensation plans periodically to determine what changes, if any, should be made as a result of the limitation on deductibility.

Establishing Compensation Levels

Role of the Compensation Committee

The Compensation Committee is comprised entirely of independent directors who are also non-employee directors as defined in Rule 16b-3 under the Securities Exchange Act of 1934, independent directors as defined by the Nasdaq Stock Market rules, and are not interested persons of our Company, as defined by Section 2(a)(19) of the 1940 Act. The Compensation Committee currently consists of Messrs. Woodward, Badavas and Chow.

The Compensation Committee operates pursuant to a charter that sets forth the mission of the Compensation Committee and its specific goals and responsibilities. A key component of the Compensation Committee s goals and responsibilities is to evaluate and make recommendations to the Board regarding the compensation of the NEOs of the Company, and to review their performance relative to their compensation to assure that they are compensated effectively in a manner consistent with the compensation philosophy discussed above. In addition, the Compensation Committee evaluates and makes recommendations to the Board regarding the compensation of the directors for their services. Annually, the Compensation Committee:

(i) reviews and approves corporate goals and objectives relevant to the NEOs total compensation, evaluates the Chief Executive Officer s performance to ensure that the compensation program is designed to achieve the objective of rewarding our Chief Executive Officer appropriately for his contributions to corporate performance;

(ii) reviews the Chief Executive Officer s evaluation of the other NEOs performance to ensure that the compensation program is designed to achieve the objectives of rewarding our other NEOs appropriately for their contributions to corporate performance;

(iii) determines and approves the compensation paid to the Company s Chief Executive Officer; and

(iv) together with our Chief Executive Officer s input, reviews and approves the compensation of the other NEOs.

Periodically, the Compensation Committee reviews our incentive compensation plans and perquisites, if any, to ensure that such plans are consistent with our goals and corporate objectives and appropriately align our NEOs interests with those of the Company s stockholders and makes recommendations to the Board regarding adoption of new employee incentive compensation plans and equity-based plans. The Compensation Committee administers our stock incentive arrangements with our NEOs. The Compensation Committee may not delegate its responsibilities discussed above.

Role of Management

The key member of management involved in the compensation process is our Chief Executive Officer, Manuel A. Henriquez. Mr. Henriquez identifies and proposes certain corporate and executive performance factors that have been established to achieve short-term and long-term corporate objectives that are used by the Compensation Committee to determine total compensation. Over the course of the year, our Chief Executive Officer provides inputs to the Compensation Committee with his recommendations for the funding level for our discretionary annual cash bonus pool as it applies to our NEOs. These recommendations are based upon his evaluation of our current financial outlook and the performance of our NEOs, including their contributions to achieving our short-term and long-term corporate objectives as they relate to each NEO s specific roles and responsibilities within our Company. Mr. Henriquez s recommendations are presented to the Compensation Committee for their review and approval, but he is not a member of the Compensation Committee and is not involved in the deliberations of the Compensation Committee.

The Compensation Committee makes all decisions with respect to compensation of all of our NEOs, including the allocation between long-term and current compensation, subject to review by the full Board. Our Compensation Committee meets outside of the presence of our Chief Executive Officer when reviewing and determining his compensation.

Role of the Compensation Consultant

The Compensation Committee has the authority from the Board for the appointment, compensation and oversight of the Company s outside compensation consultant. The Compensation Committee generally engages a compensation consultant every other year to assist the Compensation Committee with its responsibilities related to the Company s executive compensation programs. In 2010, the Compensation Committee engaged Pearl Meyer, an independent compensation consultant, to provide summary compensation information regarding the compensation to be awarded to the Company s executive officers for the fiscal year ended December 31, 2010 (the 2010 Report). Pearl Meyer also assisted the Company with the definition of its executive compensation strategy, provided market benchmark information, supported the design of incentive compensation plans and provided regulatory and governance guidance. In connection with the retention, the Compensation Committee determined that Pearl Meyer had the necessary experience, skill and independence to advise the Committee. Pearl Meyer does not provide services to the Company other than under its engagement by the Compensation Committee related to compensation matters. Pearl Meyer received approximately $21,000 for the 2010 Report and its related services and does not provide any other services to the Company.

The Compensation Committee reviewed the 2010 Report when evaluating the Company s executive compensation program for the fiscal year ended December 31, 2010. Given the Company s complex business requiring investment professionals with specialized knowledge and experience, coupled with the fact that many of the Company s direct competitors for such talent are venture capital funds, venture debt funds or private equity firms, mezzanine lenders, hedge funds and other specialty finance companies, including certain specialized commercial banks, specific compensation information with respect to the Company s direct competitors typically is not publicly available. The compensation consultant, together with inputs from the Chief Executive Officer and the Compensation Committee, developed a list of comparative group companies, primarily other BDCs, based on market size, industries, geographic regions and other factors to be used for compensation and financial analyses. The compensation consultant incorporated data from the comparative group companies as well as supplemental data from broader market survey sources that focused on the venture capital and private equity industries as part of its analysis. Through this process, the Compensation Committee benchmarks the Company s compensation for NEOs, including the CEO, to competitive market data. The Compensation Committee considered the 2010 Report and the referenced surveys and the comparative group companies as one factor in determining compensation for our NEOs.

The comparative group utilized by Pearl Meyer in its 2010 Report included ten internally managed companies, six of which are BDCs. The Compensation Committee primarily looked to the comparative group companies to perform compensation comparisons. Comparative group companies included the following:

American Capital, Ltd.	Triangle Capital Corporation
Main Street Capital Corporation	Harris & Harris Group, Inc.
SVB Financial Group	Redwood Trust, Inc.
Bridge Capital Holdings	Kohlberg Capital Corporation
MCG Capital Corporation	Safeguard Scientifics Inc.

Many of our direct competitors for talent are private partnerships without external financial reporting requirements. As a result, specific compensation with respect to most competitors typically is not publicly available. The Compensation Committee utilized the information contained in and the recommendations provided by Pearl Meyer in the 2010 Report when evaluating the Company s executive compensation program for the fiscal year ended December 31, 2010.

Company Compensation Policies

The Compensation Committee reviews performance factors which relate to achieving corporate objectives when approving the compensation provided to our NEOs. Compensation levels for NEOs are determined based on their performance and the achievement of certain corporate objectives and executive performance factors that have been established to achieve our short-term and long-term corporate objectives. In approving the individual compensation for the Company s NEOs, the Compensation Committee considers the total compensation to be awarded to each NEO and exercises discretion in approving the portion allocated to the various performance factors of total compensation. We believe that the focus on total compensation provides the ability to align compensation decisions with short-term and long-term needs of the business. This approach also allows for the flexibility needed to recognize differences in performance by providing differentiated compensation plans to the NEOs. In determining the 2010 compensation packages for the Company s NEOs, the Compensation Committee considered certain attributes, specifically the demonstrated skill level, including special or unique knowledge, cumulative experience, level of responsibility, decision making authority, and caliber of overall performance. Based on these considerations, the Compensation Committee approved what it believed to be the appropriate short-term cash and long-term equity compensation for each of our NEOs.

Short-term cash is designed and awarded in an amount appropriate to compensate for annual performance relating to short-term goals that NEOs should be rewarded for in the year performed. Long-term equity incentives are intended to reward for long-term objectives in a manner that ties NEOs compensation to the continued success of the Company.

Use of Comparative Compensation Data

The Compensation Committee considers comparative data in approving our NEOs compensation. However, comparative data is not a determinative factor in setting compensation. The Compensation Committee annually reviews comparative compensation data, including reports provided by our outside compensation consultant. Comparative compensation data reviewed by the Compensation Committee also includes certain of the Company s NEO s salary history, scope of responsibilities and promotion history, and other factors deemed relevant by the Compensation Committee as discussed below. The Compensation Committee uses the comparative compensation data to obtain an overview of all elements of actual and potential future compensation for its NEOs so that the Compensation Committee may analyze individual elements of compensation as well as the aggregate total amount of actual and projected compensation for each NEO. The use of comparative compensation data also enables the Compensation Committee to consider total compensation for all NEOs together with the attributes discussed above when considering internal pay equity among each of the Company s NEOs.

Upon review, the Compensation Committee determined that 2010 annual compensation amounts and awards for our NEOs were within a reasonable range with the compensation amounts and awards of our listed comparative group companies, including the CEO who was in the 75th percentile, and were appropriately aligned with the Compensation Committee s expectations.

Internal Pay Equity Analysis

Our compensation program is designed with the goal of providing compensation to our NEOs that is fair, reasonable, and competitive. To achieve this goal, we believe it is important to compare compensation paid to each NEO not only with compensation in our comparative group companies, as discussed above, but also with compensation paid to each of our other NEOs. Such an internal comparison is important to ensure that compensation is equitable among our NEOs.

Table of Contents

As part of the Compensation Committee review, we made a comparison of our Chief Executive Officer s total compensation paid for the three-year period ending December 31, 2010 against that paid to our other NEOs during the same years. Upon review, the Compensation Committee determined that the Chief Executive Officer s compensation relative to that of the other NEOs was justified relative to the compensation paid to our other NEOs because of his level and scope of responsibilities, expertise and performance history, and other factors deemed relevant by the Compensation Committee as compared to the other NEOs. The Compensation Committee also reviewed the mix of the individual elements of compensation paid to the NEOs for the three-year period. In the course of its review, the Compensation Committee also considered the individual performance of each NEO and any changes in responsibilities of the NEO. Based on its review, the Compensation Committee determined that our Chief Executive Officer s total compensation comprised of base salary, annual cash bonus and long-term equity incentive and retention awards was properly aligned in comparison to total compensation paid to the other NEOs.

Benchmarking

We do not specifically benchmark the compensation of our NEOs against that paid by other companies with publicly traded securities. This is because we believe that our primary competitors in both our business and for recruiting executives are venture capital funds, private equity firms, mezzanine lenders, hedge funds and other specialty finance companies, including certain specialized commercial banks. Many of these entities do not publicly report the compensation of their executive officers nor do they typically report publicly information on their corporate performance. While various salary surveys, such as those noted above and from other private sources may become available to us with regard to these private equity firms, we believe that without accurate, publicly disclosed information on these private entities that would serve as benchmarks, it is inappropriate for us to set formal benchmarking procedures.

Assessment of Corporate Performance

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 U.S. 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.

We considered 2010 to be a year for rebuilding our investment portfolio, as compared to 2009 when we were more heavily focused on credit management given the unprecedented disruption in the global capital markets. We achieved several strategic and corporate objectives in 2010, such as growing our investment portfolio, adding to our borrowing capacity, increasing liquidity through a capital raise, and strengthening our management and investment professional teams, amongst other objectives. In reviewing and approving the 2010 discretionary annual cash bonuses for the NEOs, the Compensation Committee considered the relative achievement of these strategic and corporate objectives, executive performance factors and individual performance of each of our NEOs, as critical to achieving our short-term and long-term corporate objectives. Listed below are the most significant performance factors for 2010 taken into account:

- total investment income;

Table of Contents

- total net investment income;
- realized and unrealized gains and losses;
- yield to maturity and effective yield of the investment portfolio;
- overall credit performance of the total investment portfolio;
- building liquidity;
- operating efficiency performance;
- growth of the overall investment portfolio;
- adding resources and expanding the organizations at all levels, including adding and retaining our NEOs within the organization as the organization continues to grow;
- improving and innovating the Company s information systems;
- maintaining appropriate dividend distributions to stockholders;
- raising additional debt capital;
- raising additional equity;
- return on average assets; and
- return on average equity.

We delivered improved portfolio and investment growth for fiscal year 2010 as seen in the year over year comparison set forth below. Please see Management s Discussion and Analysis of Financial Conditions and Results of Operations for a more detailed description of our fiscal year 2010 results.

	Fiscal Year 2010 (in thousands)	Fiscal Year 2009 (in thousands)	Change %
Investments	$ 472.0	$ 374.7	26.0%

Total Assets	$	591.2	$	509.0	16.1%
Total Net Assets	$	412.5	$	366.5	12.6%

In 2010, we delivered the following portfolio and financial highlights:

- achieved a record year for new commitments of approximately $523.0 million, up 189% for 2009;
- funded approximately $322.0 million in investments, up 237% compared with 2009;
- grew total investment assets 26.0% year over year to approximately $472.0 million as of December 31, 2010, compared to $375.0 million as of December 31, 2009;
- improved the credit quality of our total portfolio. On a scale of 1-5, 1 being the highest credit quality, we finished 2010 with an average credit rating of 2.21 as compared to 2.71 at the end of 2009;
- received approximately $196.1 million of principal repayments, including $114.5 million of early principal repayments, $26.0 million in working capital pay-downs, and $55.6 million in scheduled principal repayments;
- ended 2010 with total unfunded debt commitments of approximately $117.0 million;
- generated net investment income of approximately $29.4 million, or $0.80 per share on 36.2 million basic shares outstanding;

recorded DNOI of approximately $32.1 million, or $0.89 per share on 36.2 million basic weighted shares;

finished 2010 in a strong liquidity position with approximately $232.0 million in available liquidity, including $107.0 million in cash, $55.0 million in SBA commitments, and $70.0 million in credit facilities;

entered into a $20.0 million credit facility with Union Bank;

obtained a second license to operate a Small Business Investment Company, allowing access to an additional $75.0 million of capital;

repurchased approximately 402,833 shares of common stock at an accretive price to book value 3.7 million at the time of repurchase;

completed an accretive capital raise resulting in gross proceeds of approximately $71.9 million; and

distributed $0.80 per share of dividends to stockholders, 100% from earnings and profits. Total return to stockholders during 2010 was approximately 7.70%.

Stock Ownership Guidelines

The Company implemented stock ownership guidelines which are outlined in the Company s Corporate Governance Guidelines. The Company has implemented stock ownership guidelines because it believes that material stock ownership by executives plays a role in effectively aligning the interests of these employees with those of our stockholders and strongly motivates executives to build long-term stockholder value. Pursuant to the Company s stock ownership guidelines, each member of senior management is required to beneficially own at least two times the individual s annual salary in Company stock, based on market value, within three years of joining the Company. The Board may make exceptions to this requirement based on particular circumstances. Each NEO has exceeded his respective guideline as of December 31, 2010.

Determination of 2010 Annual Base Salaries of Our NEOs

NEO compensation is determined based on the achievement of specific corporate and individual performance objectives discussed above. In determining the amount of each NEO s base salary, the Compensation Committee considers the scope of their responsibilities, taking into account available competitive market compensation paid by other companies for similar positions as discussed above. The Compensation Committee considered the Chief Executive Officer s experience, performance, and contribution to our overall corporate performance when determining his base salary for 2010. Base salaries for our other NEOs were also set by the Compensation Committee, together with the Chief Executive Officer s input, based upon each NEO s individual experience and contribution to the overall performance of our Company.

Base salaries for the NEOs are intended to be competitive with the compensation paid to executives with comparable qualifications, experience and responsibilities in the same or similar businesses of comparable size. In order to attract and retain the outstanding levels of executives that we need, the Compensation Committee reviews the Company s base salaries relative to those offered by other comparative group companies, venture capital funds and private equity firms, mezzanine lenders, hedge funds, and other specialty finance companies, including certain specialized commercial banks. Variation relative to the salaries of the listed comparative group companies and venture capital funds, private equity firms, mezzanine lenders, hedge funds and other specialty finance companies, including certain specialized commercial banks is made in the judgment of management and/or the Compensation Committee, as appropriate, based on the value of the NEO s experience, performance, change in role or responsibility or specific skill set. Upon review, the Compensation Committee determines whether adjustments to certain NEO s salaries are necessary to realign salaries with the market for a given position, to recognize NEO s assumption of significant additional responsibilities and related performance increases, or to achieve an appropriate compensation level due to promotion or other internal equity matters. The

Compensation Committee makes all decisions with respect to the base salary compensation of the Chief Executive Officer and together with the Company s Chief Executive Officer evaluates and approves the Company s other NEOs salary compensation. Our Compensation Committee meets outside of the presence of our Chief Executive Officer when reviewing and determining his base salary compensation.

The following is a table of the annual base salaries for our NEOs as set during the preceding two years:

	Fiscal Year 2010 Base Salary[1]	Fiscal Year 2009 Base Salary
Manuel A. Henriquez	$ 700,000	$ 700,000
David M. Lund[2]	$ 250,000	$ 250,000
Scott Harvey	$ 210,000	$ 210,000
Samir Bhaumik[3]	$ 270,000	$ 270,000
Parag I. Shah	$ 315,000	$ 315,000

(1) Effective April 1, 2011, the base salaries for our Chief Executive Officer and the NEOs were increased by 5% and 7%, respectively.
(2) 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.
(3) On October 4, 2011, the Company 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 Jaquez-Fissori, the Company s Cleantech Group Head, as Technology Group Head of the Company.

Determination of 2010 Annual Cash Bonus for Our NEOs

Over the course of the year the Compensation Committee, together with input from our Chief Executive Officer, developed a specific bonus pool for the 2010 operating year to be available for our discretionary annual cash bonus program. The amount determined to be available for this bonus program was at the discretion of the Compensation Committee, and was dependent upon many factors as outlined previously, including, but not limited to, our current financial performance and performance related contributions of our NEOs in achieving our performance objectives.

The annual cash bonus is at risk discretionary compensation that is designed to motivate our NEOs to achieve financial and non-financial goals that are consistent with the Company s 2010 operating plan. At risk discretionary compensation means that it is up to the Compensation Committee to determine whether any cash bonus amount will be awarded to any of our NEOs. In approving the amount of a NEO s variable compensation the annual cash bonus the Compensation Committee reviews the Chief Executive Officer s evaluation of the performance of each NEO and considers each NEO s performance in light of the factors identified above. Within those guidelines, the Compensation Committee considers the overall funding available for such cash bonus awards, the performance of NEOs and the desired mix between the various components of total compensation. Discretion is exercised in determining the overall total compensation to be awarded to the NEOs. As a result, the amounts delivered in the form of an annual cash bonus are designed to work together in conjunction with base salary to deliver an appropriate total cash compensation level to the NEOs.

We believe that the discretionary design of our variable cash compensation program supports our overall compensation objectives by allowing for significant differentiation of cash compensation based on executive performance and by providing the flexibility necessary to ensure that overall compensation packages for our NEOs are competitive relative to our market.

We typically determine and award cash bonuses for our NEOs during the first quarter of the following year. In evaluating the performance of our NEOs to arrive at their 2010 cash bonus awards, the Compensation Committee considered the performance factor achievements against our corporate objectives as discussed above under Assessment of Corporate Performance. The Compensation Committee also reviewed the Chief Executive Officer s evaluation of the NEOs performance achievements. When an NEO s performance exceeds

Table of Contents

expectations and performance goals established during the year, actual cash bonus compensation for the NEO may exceed the specified bonus pool amount at the discretion of our Compensation Committee.

After due deliberation, the Compensation Committee awarded Messrs. Henriquez, Lund, Harvey, Bhaumik and Shah the following annual cash bonuses relating to their performance during the year ending December 31, 2010:

	2010 Annual Cash Bonus
Manuel A. Henriquez	$ 925,000
David M. Lund(1)	
Scott Harvey	$ 50,000
Samir Bhaumik(2)	$ 125,000
Parag I. Shah	$ 210,000

(1) 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.
(2) On October 4, 2011, the Company 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 Jaquez-Fissori, the Company s Cleantech Group Head, as Technology Group Head of the Company.

Long-term Equity Retention and Incentive Awards

Our principal objective in awarding stock option and/or restricted stock awards to eligible NEOs is to retain and align each NEO s interests with our success and the financial interests of our stockholders by linking a portion of such NEO s compensation with the Company s long-term goals. We continue to believe that the use of stock and stock-based awards offers the best approach to achieving our retention and long-term performance goals. Our equity program is designed to encourage NEOs to work with a long-term view of the Company s performance and to reinforce their long-term affiliation with the Company by imposing vesting schedules over several years of employment. The Compensation Committee awards stock option and/or restricted stock awards on a discretionary basis and such awards depend in each case on the performance of the NEOs under consideration, and in the case of new hires, their potential performance. Stock option awards are priced at the closing price of the stock on the date the Compensation Committee meets and the grant is issued.

Determination of 2009 and 2010 Long-term Equity Incentive Awards for Our NEOs

The Compensation Committee reviewed the performance of our NEOs following the end of our 2009 fiscal year relative to the long-term equity incentive and retention awards program the Compensation Committee administers. As a result of these deliberations, in March 2010, the Compensation Committee awarded the following long-term equity incentive and retention awards, in the form of restricted stock to our NEOs related to their 2009 year s performance as set forth in the table below. The value of the restricted stock was determined to be the Company s closing price on March 16, 2010 or March 24, 2010, the date of the grant. Each restricted stock award vests 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. No stock options were awarded to our NEOs for the 2009 fiscal year.

	Grant Date	2010 Restricted Stock Awards	Fair Value of Restricted Stock Awards
Manuel A. Henriquez	03/24/2010	225,000	$ 2,362,500
David M. Lund(1)	03/16/2010	5,000	$ 51,350
Scott Harvey	03/16/2010	10,000	$ 102,700
Samir Bhaumik(2)	03/16/2010	60,000	$ 616,200
Parag I. Shah	03/16/2010	105,000	$ 1,078,350
Parag I. Shah	03/24/2010	25,000	$ 262,500

(1) 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.

(2) On October 4, 2011, the Company 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 Jaquez-Fissori, the Company s Cleantech Group Head, as Technology Group Head of the Company.

The Compensation Committee reviewed the performance of our NEOs following the end of our 2010 fiscal year relative to the long-term equity incentive and retention awards program the Compensation Committee administers. As a result of these deliberations, the Compensation Committee awarded the following long-term equity incentive and retention awards, in the form of restricted stock to our NEOs related to their 2010 year s performance as set forth in the table below. The value of the restricted stock for Messrs. Henriquez, Lund, Harvey, Bhaumik and Shah was determined to be the Company s closing price on March 30, 2011, the date of their grants. Each restricted stock award vests 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. No stock options were awarded to our NEOs for the 2010 fiscal year.

	Grant Date	2011 Restricted Stock Awards	Fair Value of Restricted Stock Awards
Manuel A. Henriquez	03/30/2011	125,000	$ 1,395,000
David M. Lund(1)			
Scott Harvey	03/30/2011	4,000	$ 44,640
Samir Bhaumik(2)	03/30/2011	45,000	$ 502,200
Parag I. Shah	03/30/2011	62,500	$ 697,500

(1) 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.

(2) On October 4, 2011, the Company 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 Jaquez-Fissori, the Company s Cleantech Group Head, as Technology Group Head of the Company.

Potential Payments Upon Termination or Change of Control

No NEO or employee of the Company has a written employment or severance agreement.

Upon specified covered transactions (as defined in the 2004 Equity Incentive Plan), in which there is an acquiring or surviving entity, the Board may provide for the assumption of some or all outstanding awards, or for the grant of new awards in substitution, by the acquirer or survivor or an affiliate of the acquirer or survivor, in each case on such terms and subject to such conditions as the Board determines. In the absence of such an assumption or if there is no substitution, except as otherwise provided in the award, each award will become fully exercisable prior to the covered transaction on a basis that gives the holder of the award a reasonable opportunity, as determined by the Board, to participate as a stockholder in the covered transaction following exercise, and the award will terminate upon consummation of the covered transaction. A covered transaction includes the following: (i) a merger or other transaction in which the Company is not the surviving corporation or which results in the acquisition of all or substantially all of the Company s then outstanding common stock by a single person or entity or by a group of persons and/or entities; (ii) a sale of substantially all of the Company s assets; (iii) a dissolution or liquidation of the Company; or (iv) a change in a majority of the Board s composition unless approved by a majority of the directors continuing in office.

Table of Contents

Risk Assessment of the Compensation Programs

The Board believes that risks arising from our compensation policies and practices for our employees are not reasonably likely to have a material adverse effect on the Company. We have designed our compensation programs, including our incentive compensation plans, with specific features to address potential risks while rewarding employees for achieving long-term financial and strategic objectives through prudent business judgment and appropriate risk taking. The Compensation Discussion and Analysis section describes generally our compensation policies and practices that are applicable for executive and management employees. The Company uses common variable compensation designs across all employees of the Company with a significant focus on individual performance and contribution along with achievement of certain corporate objectives as generally described in this Proxy Statement.

In view of the current economic and financial environment, the Compensation Committee and our Board reviewed our compensation programs to assess whether any aspect of the programs would encourage any of our employees to take any unnecessary or inappropriate risks that could threaten the value of the Company. The Compensation Committee has designed our compensation programs to reward our employees for achieving annual profitability and long-term increase in stockholder value.

The Board recognizes that the pursuit of corporate objectives possibly leads to behaviors that could weaken the link between pay and performance, and, therefore, the correlation between the compensation delivered to employees and the return realized by stockholders. Accordingly, the Compensation Committee has designed our executive compensation program to mitigate these possibilities and to ensure that our compensation practices and decisions are consistent with our risk profile. These features include the following:

- the financial performance objectives of our annual cash incentive program that are the budgeted objectives that are reviewed and approved by the Board;
- bonus payouts that are not based solely on corporate performance objectives, but also require achievement of individual performance objectives;
- the financial opportunity in our long-term incentive program that is best realized through long-term appreciation of our stock price, which mitigates excessive short-term risk-taking;
- annual cash bonuses that are paid in one installment after the end of the fiscal year to which the bonus payout relates; and
- final decision making by the Compensation Committee and the Board on all awards.

Additionally, the Compensation Committee considered an assessment of compensation-related risks for all of our employees. Based on this assessment, the Compensation Committee concluded that our compensation programs do not create risks that are reasonably likely to have a material adverse effect on the Company. In making this evaluation, the Compensation Committee reviewed the key design elements of our compensation programs in relation to industry best practices, as well as the means by which any potential risks may be mitigated, such as through our internal controls and oversight by management and the Board. In addition, management completed an inventory of incentive programs below the executive level and reviewed the design of these incentives and concluded that such incentive programs do not encourage excessive risk-taking.

Table of Contents

Executive Compensation Tables

Summary Compensation Table

The following table provides information concerning the compensation of the Company s Chairman and Chief Executive Officer, Chief Financial Officer and the three other most highly compensated executive officers for fiscal 2010, 2009 and 2008.

Name and Principal Position	Year	Salary ($)(1)	Bonus ($)(2)	Stock Awards ($)(3)	Option Awards ($)(4)	All Other Compensation ($)(5)	Total ($)
Manuel A. Henriquez	2010	$ 700,000	$ 925,000	$ 2,362,500		$ 226,812	$ 4,214,312
Chairman & Chief Executive	2009	$ 700,000	$ 1,350,000	$ 421,000	$ 96,025	$ 132,500	$ 2,699,525
Officer	2008	$ 700,000	$ 1,175,000	$ 686,250	$ 232,137	$ 60,375	$ 2,853,762
David M. Lund(6)	2010	$ 250,000		$ 51,350		$ 31,700	$ 333,050
Former Chief Financial Officer	2009	$ 250,000	$ 85,000	$ 105,250	$ 24,966	$ 38,000	$ 503,216
	2008	$ 250,000	$ 170,000	$ 195,200	$ 33,162	$ 19,320	$ 667,682
Scott Harvey	2010	$ 210,000	$ 50,000	$ 102,700		$ 31,250	$ 393,950
Secretary and Chief Legal	2009	$ 210,000	$ 75,000	$ 84,200	$ 7,682	$ 31,700	$ 408,582
Officer	2008	$ 210,000	$ 125,000	$ 183,000	$ 13,928	$ 18,300	$ 550,228
Samir Bhaumik(7)	2010	$ 270,000	$ 125,000	$ 616,200		$ 72,500	$ 1,083,700
Former Senior Managing Director	2009	$ 270,000	$ 165,000	$ 126,300	$ 24,966	$ 44,300	$ 630,566
	2008	$ 270,000	$ 160,000	$ 312,070	$ 71,287	$ 28,500	$ 841,857
Parag I. Shah	2010	$ 315,000	$ 210,000	$ 1,340,850		$ 130,450	$ 1,996,300
Senior Managing Director	2009	$ 315,000	$ 340,000	$ 189,450	$ 96,025	$ 63,200	$ 1,003,675
	2008	$ 315,000	$ 340,000	$ 491,650	$ 201,845	$ 43,120	$ 1,391,615

(1) Salary column amounts represent base salary compensation received by each NEO for the listed fiscal year.

(2) Bonus column amounts represent the annual cash bonus earned during the fiscal year and awarded and paid out during the first quarter of the following fiscal year.

(3) The amounts reflect the aggregate grant date fair value of stock awards made to our NEOs during the applicable year computed in accordance with FASB ASC Topic 718. The grant date fair value of each restricted stock is measured based on the closing price of our common stock on the date of grant.

(4) The amount reflects the aggregate grant date fair value of option awards made to our NEOs during the applicable year computed in accordance with FASB ASC Topic 718. The fair value of each option grant is estimated based on the fair market value on the date of grant and using the Black-Scholes-Merton option pricing model.

(5) Represents matching contributions of $6,500 in 2010 and 2009 and a matching contribution of $3,000 in 2008 to each NEO to its 401(k) plan. Dividends to Messrs. Henriquez, Lund, Harvey, Bhaumik and Shah in the amount of $220,312, $25,200, $24,750, $66,000 and $123,950, respectively, were paid on unvested restricted stock awards during 2010. Dividends on unvested restricted stock awards paid to Messrs. Henriquez, Lund, Harvey, Bhaumik and Shah were $126,000, $31,500, $25,200, $37,800 and $56,700, respectively, during 2009. Dividends on unvested restricted stock awards paid to Messrs. Henriquez, Lund, Harvey, Bhaumik and Shah were $57,375, $16,320, $15,300, $25,500 and $40,120, respectively, during 2008. NEOs did not receive any other perquisites or personal benefits from the Company.

(6) 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.

(7) On October 4, 2011, the Company 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 Jaquez-Fissori, the Company s Cleantech Group Head, as Technology Group Head of the Company.

Table of Contents

Grants of Plan Based Awards

The following table sets forth certain information with respect to the restricted stock awards granted during the fiscal year ended December 31, 2010 to each of our NEOs. No stock options were awarded to our NEOs during the fiscal year ended December 31, 2010.

Name and Principal Position	Grant Date	All Other Stock Awards: Number of Shares of Stock or Units[1]	All Other Option Awards: Number of Securities Underlying Options	Exercise or Base Price of Restricted Stock Awards	Grant Date Fair Value of Stock and Option Awards[2]
Manuel A. Henriquez *Chairman and Chief Executive Officer*	03/24/2010	225,000		$ 10.50	$ 2,362,500
David M. Lund[3] *Former Chief Financial Officer*	03/16/2010	5,000		$ 10.27	$ 51,350
Scott Harvey *Secretary and Chief Legal Officer*	03/16/2010	10,000		$ 10.27	$ 102,700
Samir Bhaumik[4] *Former Senior Managing Director*	03/16/2010	60,000		$ 10.27	$ 616,200
Parag I. Shah *Senior Managing Director*	03/16/2010 03/24/2010	105,000 25,000		$ 10.27 $ 10.50	$ 1,078,350 $ 262,500

(1) Restricted stock awards vest 25% one year after the date of grant and ratably over the succeeding 36 months. When payable, dividends are paid on a current basis on the unvested shares.

(2) The amounts reflect the aggregate grant date fair value of restricted stock awards made to our NEOs during 2010 computed in accordance with FASB ASC Topic 718.

(3) 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.

(4) On October 4, 2011, the Company 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 Jaquez-Fissori, the Company s Cleantech Group Head, as Technology Group Head of the Company.

Table of Contents

Outstanding Equity Awards at Fiscal Year End

The following table shows outstanding stock option awards classified as exercisable and unexercisable and stock awards as of December 31, 2010 for each of the named executive officers:

	Option Awards				Stock Awards	
Name and Principal Position	**Number of Securities Underlying Unexercised Options Exercisable**	**Number of Securities Underlying Unexercised Options Unexercisable[(1)]**	**Option Exercise Price ($)**	**Option Expiration Date**	**Number of Shares or Units of Stock That Have Not Vested**	**Market Value of Shares or Units of Stock That Have Not Vested[(5)]**
Manuel A. Henriquez	125,000		$ 15.00	06/23/11		
Chairman and Chief Executive Officer	605,000		$ 13.00	06/17/12		
	97,400		$ 12.14	06/16/13		
	450,000		$ 14.02	01/25/14		
	236,787	13,929[(2)]	$ 12.20	02/25/15		
	20,834	104,167[(4)]	$ 4.21	03/17/16		
					28,125	$ 291,375
					56,251	$ 582,760
					225,000	$ 2,331,000
David M. Lund[(6)]	40,000		$ 13.00	07/15/12		
Former Chief Financial Officer	45,000		$ 12.14	06/16/13		
	35,000		$ 14.02	01/25/14		
	33,827	1,990[(2)]	$ 12.20	02/25/15		
	37,917	27,083[(4)]	$ 4.21	03/17/16		
					8,000	$ 82,880
					14,063	$ 145,692
					5,000	$ 51,800
Scott Harvey	12,821		$ 15.00	06/23/11		
Chief Legal Officer	141,000		$ 13.00	06/17/12		
	30,000		$ 12.14	06/16/13		
	30,000		$ 14.02	01/25/14		
	14,208	835[(2)]	$ 12.20	02/25/15		
	2,775	8,325[(4)]	$ 4.21	03/17/16		
					7,500	$ 77,700
					11,250	$ 116,550
					10,000	$ 103,600
Samir Bhaumik[(7)]	6,000		$ 15.00	12/13/11		
Former Senior Managing Director	38,000		$ 13.00	06/17/12		
	93,900		$ 12.14	06/16/13		
	12,000		$ 14.02	01/25/14		
	67,654	3,979[(2)]	$ 12.20	02/25/15		
	4,668	1,332[(3)]	$ 10.49	08/15/15		
	3,611	27,073[(4)]	$ 4.21	03/17/16		